

Large Bank

PUBLIC DISCLOSURE

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

March 15, 1998

**First National Bank
Charter Number - 6776
106 South Lafayette Street
Shelby, North Carolina 28151**

by

Office of the Comptroller of the Currency
Southeastern 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 supervisor 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 (FNB) prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of March 15, 1999. The agency evaluates performance in assessment area(s), as they are delineated by the institution. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix to 12 C.F.R. Part 25.

Institution's CRA Rating: First National Bank is rated as having a **"Satisfactory Record of Meeting Community Credit Needs"**

The following table indicates the performance level of FNB, with respect to the lending, investment, and service tests.

Performance Levels	FNB Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory	X		X
Low satisfactory		X	
Needs to improve			
Substantial noncompliance			

* Note: The lending test is weighted more heavily than the investment and service tests in the overall rating.

Description of the Institution

As of December 31, 1998, FNB had \$404,578 thousand in assets. Through the same date, FNB reported a net income of \$7,004 thousand while its tier one capital totaled \$60,036 thousand. The bank's loan portfolio on 12/31/98 totaled \$140 Million. The loan portfolio is well diversified among various loan types with approximately half of the portfolio consumer purpose and half commercial purpose. The approximate

percentage breakdown of the loan portfolio is as follows: Loans secured by 1-4 family residential properties - 30%, Construction and Development loans - 6%, Other Real Estate Loans - 15%, Commercial Loans - 29% and Consumer Loans 20%. There are no known legal or financial impediments that limit FNB's ability to help meet the credit needs of its assessment area (AA). The bank can help meet these credit needs consistent with its size, financial condition and product offerings.

The data used in this evaluation was small business and small farm loans for 1997 and 1998. In addition, although the bank is not subject to the Home Mortgage Disclosure Act, we were able to use home purchase, refinance and home improvement loans for 1997 and 1998. As previously stated, the bank's loan portfolio is about evenly divided between commercial and consumer purpose loans. As such, we gave equal weight to the bank's lending record for small business and small farm loans with the home purchase, refinance and home improvement lending. FNB's last CRA Public Evaluation dated 5-31-96 rendered an overall rating of **Satisfactory Record of Meeting Community Credit Needs.**

FNB has eight offices located throughout Cleveland County. Six of the offices are full service offices, while the East Branch Office and the North Branch Office are available for walk-up and drive-thru only. All of the branch offices have ATM's, while the bank also has an ATM at Cleveland Regional Medical Center.

Description of the Assessment Area

FNB's assessment area consists of all of Cleveland County. Per the 1990 census, Cleveland County had a population of 84,714. There are sixteen census tracts in Cleveland County. A breakdown of the census tracts by income level is as follows:

Income Level	Census Tracts
Middle	9501.98, 9502, 9505, 9506, 9509, 9510, 9511, 9512, 9515, 9516
Upper	9503.98, 9504, 9507, 9508, 9513, 9514

As shown, there are no low or moderate-income census tracts in Cleveland County. 1990 Census Data also indicates that 15.57% and 15.21% of the families in Cleveland County are low or moderate-income respectively. For a full breakdown of families according to income, refer to **Table 3.**

The AA's economy is a widely diversified economy. Manufacturing employment comprises 35% of total employment with concentrations in textile and equipment manufacturing. Other significant categories of employment include retail trade, services and government. Cleveland County's unemployment rate as of November 1998 was 5.3%.

Approximately 68% of the housing stock within the AA is owner occupied. Only 6% of housing is vacant. The median housing price is \$54 thousand with an average age of 30 years. Also, as of 1990 Cleveland County's rental units had an average monthly rent of \$325. Mobile homes constitute 16% of housing units. The percentage of residents below the poverty level is 13%.

Conclusions about Performance Tests

As detailed in this evaluation, the rating for the bank is **Satisfactory**. The performance test ratings are **High Satisfactory** for the Lending and Service tests and **Low Satisfactory** for the Investment tests. Key factors supporting these ratings include:

- < FNB's lending performance for home purchase, refinance and home improvement loans was excellent in relation to the level of low and moderate-income residents in the AA.
- < A substantial majority of the bank's loans both in dollars and numbers are originated within the AA. In addition, although there are no low or moderate-income census tracts within the AA, lending patterns reveal no significant gaps in penetration throughout Cleveland County.
- < FNB's small business lending is weighted heavily in loans less than \$100 thousand. Also, they have an adequate level of loans to businesses with less than \$1 Million in revenues.
- < FNB makes limited use of flexible lending criteria both through low down payment loans, and very small loans it makes to low and moderate income borrowers.
- < FNB's community development investments are adequate given the limited opportunities available in the AA.
- < The bank's distribution of offices/ATMs in Cleveland County is good. Bank studies indicate that the ATM's and the bank's phone banking are reaching all income levels within the AA. Also, Community development services in the AA are adequate.
- < The bank's low cost checking account has been very successful in reaching low and moderate-income residents within the AA.

No violations of the substantive provisions of the antidiscrimination laws and regulations were identified. We sampled automobile purchase applications received during the fourth quarter of 1997. We compared loan decisions made by gender. Also, First National's policies, procedures, and training programs are satisfactory.

We contacted two community groups to determine the credit needs in the community. These groups consisted of a local community development corporation involved in providing low and moderate-income housing and an organization which promotes small business development in Cleveland County. Ascertained needs included small business loans, pools for small business loans, business incubator loans, and affordable housing loans with more flexible criteria. Financial services education was also cited as a need.

Lending Test

Lending Activity

FNB has made a sufficient amount of small business, small farm, home improvement and home purchase and refinance loans during the assessment period. During 1997, FNB originated 570 loans to small businesses totaling \$28,731 thousand. During 1998, they originated 500 loans totaling \$24,798 thousand. For small farm loans, FNB's lending in 1997 and 1998 was 28 loans totaling \$895 thousand and 35 loans totaling \$1,251M respectively. We did not perform any further analysis on the small farm lending since the level of lending was minimal and the need and impact on the community was also minimal. As shown in **Table 5** of the appendix, FNB's lending levels for 1997 represented 44% of the number of loans and 45% of the dollar of loans originated in the AA by financial institutions over \$250 million. FNB is the dominant small business lender in Cleveland County. Also, this market share reflects favorably compared to the banks deposit share of 25%. In addition, **Table 6** shows that 90% of the bank's small business loans were loans of less than \$100 thousand.

As previously stated, the bank is not subject to the Home Mortgage Disclosure Act. The bank has chosen to meet the home purchase and refinance need primarily through secondary market lending. However, the bank has made a significant amount of home purchase and refinance loans that do not meet secondary market criteria. FNB originated home purchase and refinance loans in the following amounts: 1997 - 48 loans totaling \$3,089 thousand and; 1998 - 86 loans totaling \$5,659 thousand. Finally, in 1997 and 1998 the bank originated 77 home improvement loans totaling \$349 thousand.

Assessment Area Concentration

Table 1 indicates that a substantial majority of the bank's small business and small farm loans made during 1997 and 1998 were made within the assessment area. We only used the small business and small farm data for this portion of the analysis as the census tract data for home purchase, refinance and home improvement loans was incomplete.

Table - 1 Ratio of Loans Inside the Bank's Assessment Area							
# of Loans Inside Assessment Area				\$ of Loans Insider Assessment Area (000's)			
1997		1998		1997		1998	
Number	Percent	Number	Percent	Number	Percent	Number	Percent
598	95.83%	535	94.86%	29,626	90.98%	26,049	86.36%

Source: Small Business Data Collection Register

Geographic Distribution of Loans

FNB is making loans in all of the geographies in its AA. Although there are no low or moderate-income census tracts in Cleveland County, an analysis of small business and small farm loans indicates that the bank is lending in all parts of its AA. In addition, a management study of loans of under \$1,000 originated during 1997 and 1998 indicated that the bank is lending in all parts of Cleveland County.

Loan Distribution by Borrower Income

FNB is originating an adequate number of loans to businesses with revenues less than \$1 Million. As shown in **Table 6** in the appendix, 90% of the businesses in Cleveland County have revenues less than \$1 Million. The table also shows that 58.8% of FNB's loans during 1997 and 1998 were to these businesses.

FNB's distribution of home improvement loans originated in 1997 and 1998 to low and moderate-income borrowers is excellent. Table 2 below demonstrates that FNB is originating a significantly greater number of loans in terms of numbers and dollars to moderate-income residents than their proportion of the population.

Income Level	Table - 2 Home Improvement Loans Originated During 1997 and 1998 by Income Level		
	AA Family Composition %	# Loans Originated %	\$ Loans Originated %
Low Income	15.57%	14.29%	9.12%
Moderate Income	15.21%	29.87%	21.19%
Middle Income	22.68%	20.78%	21.74%
Upper Income	46.54%	35.06%	47.95%
Total	100.00%	100.00%	100.00%

Source: Internal Bank Reports

FNB's distribution of home purchase and refinance loans originated during 1997 and 1998 is also excellent. **Table 3** details how FNB originated a significantly greater number of loans in terms of numbers and dollars to

low and moderate-income residents than their proportion of the population.

Income Level	Table - 3 Home Purchase and Refinance Loans Originated				
	AA Family Composition	1997 Loans Originated		1998 Loans Originated	
		#	\$	#	\$
Low Income	15.57%	16.67%	5.60%	3.49%	2.07%
Moderate Income	15.21%	20.83%	14.40%	18.60%	16.66%
Middle Income	22.68%	8.33%	9.65%	16.28%	16.90%
Upper Income	46.54%	54.17%	70.35%	61.63%	64.37%
Total	100.00%	100.00%	100.00	100.00%	100.00%

Source: Internal Bank Reports

Community Development Lending and Flexible Lending Criteria

The bank originated three community development loans during 1997 and 1998 that were not counted as part of the small business lending activity. The total original amount of these loans was \$1,320 thousand. Although the bank does not have a formal affordable mortgage program, it occasionally originates high loan-to-value home loans without private mortgage insurance. In addition to these loans, the bank does not have a minimum loan amount that it will consider. Bank management performed a study of consumer loans under \$1,000 by number that the bank made in 1997 and 1998 by income level. **Table 4** demonstrates that loans at this level provide strong support to the credit needs of the low and moderate-income sections of the community.

Table - 4 Loan of under \$1,000 Originated in 1997 and 1998 by Income Level		
Borrower Income Level	Number of Loans	Percent of Total Loans
Low Income	99	64.3%
Moderate Income	36	23.4%
Middle Income	12	7.8%

Upper Income	7	4.5%
Total	154	100.00%

Investment Test

The bank has an adequate level of investments. None of the investments were in the form of deposits, equity or securities. We identified \$56,800 in qualified donations that were targeted to low or moderate-income individuals. Significant donations included:

- \$25,000 to Gardner Webb University for scholarships for low or moderate-income students.
- \$10,000 to Cleveland Vocational Industries to aid in providing jobs to mentally and physically handicapped individuals who are also economically disadvantaged.
- \$2,000 to the Cleveland County Business Development Center which is a non-profit organization which promotes small businesses and economic revitalization in Cleveland County.

Services Test

The bank’s branches and ATM’s are located throughout Cleveland County and provide good access to all of the community. Offices are located in the following census tracts: 9502, 9508, 9510, 9511, 9515 and 9516. The bank has not closed any offices since its opening, and opened its Highland Office on December 23, 1996.

Bank Management performed a study of ATM activity for all of 1998 and the first ten weeks of 1999. In order to perform an analysis by income level, the study identified customers with ATM activity who also had loan with the bank. This represented 20% of the activity for this period. The data revealed that 9.5%, 25.7%, and 64.8% were to low, moderate, and middle/upper income borrowers respectively. This demonstrates that the bank’s ATM’s serve all income segments of the community. Also, the activity was evaluated by census tract which demonstrated that the bank is generating activity from all geographic segments of its AA.

In addition to branches and ATM’s, the bank also services its community through phone banking. Management also conducted a study of phone banking usage over the same time period as the ATM study stated above. This study identified customers with a loan who also used phone banking. The study represented 37% of the activity for this time period. The data revealed that 7.3%, 22.1%, and 70.6% of the activity was to low, moderate, and middle/upper income customers respectively. This study also demonstrates that the bank is providing other vehicles to service all income segments of its community. The census tract study for this product revealed that the bank is receiving activity from all geographic segments of Cleveland County.

In addition, FNB also offers a low cost checking account known as First Value Checking. A survey of local banks revealed that it is the lowest cost checking account available in Cleveland County. A total of 940 First Value checking accounts have been opened. This represents 7.1% of the total individual checking accounts

at the bank. Bank management sampled 24 of these accounts that also had loans at the bank. The sample revealed that 25% and 46% of these accounts were held by low or moderate-income customers respectively.

Finally, the bank offers government check cashing to non-customers. They charge a fee of \$3.00 per check. A survey of the other financial institutions in Cleveland County revealed that they are the lowest cost provider of this service. In addition, some of the financial institutions did not provide this service to non-customers.

In addition to the above services, the bank also has an adequate level of community development services. Examples of these services are bank employees:

- Serving as a director/financial advisor on the Cleveland County Community Development Corporation which helps to provide affordable housing to Cleveland County residents.
- Serving as director and participant in fund raising activities for the Cleveland County Coalition on the Homeless, Inc.
- Serving on the selection committee and active in fund raising efforts for the Joseph B. Freeman Education fund that provides college scholarships for low or moderate-income students.
- Serving as treasurer and active in fund raising efforts for Habitat for Humanity.

APPENDIX A: SCOPE OF EXAMINATION

A Community Reinvestment Act (CRA) examination commenced on March 15, 1999. The objective of the examination, which was performed onsite, was to assess the bank's record of serving the credit needs of the entire assessment area, including low and moderate income areas and to assign an overall rating to the bank. Performance was evaluated under the newly revised CRA regulation.

The data in this evaluation includes: Small business and small farm loans originated during 1997 and 1998; a home purchase, refinance and home improvement loans for 1997 and 1998. We sampled the data for all of these loan categories and found them to be accurate with the exception of the census tract portion of the data for home purchase, refinance and home improvement loans. We did not verify the accuracy of the data for consumer loans originated under \$1,000 in 1997 and 1998.

APPENDIX B - DEFINITION OF TERMS

The following are definitions of terms used throughout this public evaluation. The definitions are not the strict legal definitions contained in 12 C.F.R. 25.12, but rather a synopsis of their meaning.

Assessment Area (AA) - This area is defined by bank management. It is the geographic boundary where the bank's Community Reinvestment Act (CRA) activities are evaluated.

Automated Teller Machine (ATM) - A machine offering limited banking services including dispensing cash, accepting deposits or loan payments and transferring funds between accounts.

Community Development - The primary purpose of the loan, investment or service is for (1) affordable housing for low or moderate income individuals; (2) community services targeted to low or moderate income individuals; (3) activities that promote economic development by financing small businesses and farms; and (4) activities that revitalize or stabilize low or moderate income areas.

Geography - A census tract(CT) or block numbering area.

HMDA loan - A residential real estate loan (home purchase, home improvement, refinance or multi-family).

Low, Moderate, Middle and Upper Income Areas - A low income area is one in which the median family income is less than 50% of the area median income, moderate income is 50% to 79% of the area family median income, middle income is 80% to 119% of the area median family income and upper income is 120% or more of the area median income.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties including large population centers and nearby communities that have a high degree of interaction.

Qualified Investment - A lawful investment, deposit, membership share or grant that has community development as its primary purpose.

Small Business Loan - A commercial loan (as defined by Call Report Instructions) with an original loan amount of \$1 million or less.

Small Farm Loan - A farm loan (as defined by Call Report Instructions) with an original loan amount of \$500,000 or less.

APPENDIX C: ADDITIONAL TABLES

Table 5

% Total Bank Deposits in AA	1997 Small Business/Small Farm Loan Volume						% Total Reported Bank Lns. In AA
	Small Business		Small Farm		Total Reported Loans		
	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	
25%	572	28,749	26	877	1,355	65,443	44%

Table 6. Borrower Distribution of Small Business Loan Originations

Borrower Distribution: SMALL BUSINESS			Evaluation Period: January 1, 1997 to December 31, 1998								
MSA/Assessment Area:	Businesses with Revenues of \$1 million or less			Loans by Original Amount Regardless of Business Size			Market Share****		Total Small Business Loans		
	% of Businesses*	% BANK Loans**	% Market Loans***	\$100,000 or Less	> \$100,000 to \$250,000	> \$250,000 to \$1,000,000	All	Rev \$1 million or less	#	% of Total	Avg Loan Size
Full-Scope:											
Cleveland County	90.67%	58.78%	60.53%	89.66%	5.69%	4.65%	44.13%	38.29%	29,626	45.27	64

(*) As a percentage of businesses with known revenues.

(**) As a percentage of loans with revenue information available. No information was available for 15% of loans originated by BANK.

(***) The market consists of all other Small Business reporters in BANK's assessment area and is based on 1997 Aggregate Small Business Data only.

(****) Based on 1997 Aggregate Small Business Data only.