



**Office of the Comptroller of the Currency
Administrator of National Banks**

Large Bank Supervision
National Bank Examiners Office
Two First Union Center, T-2
301 South Tryon Street
Charlotte, North Carolina 28288-0100
Telephone: (704) 383-7100

PUBLIC DISCLOSURE

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

May 31, 1997

First Union National Bank of North Carolina

**Two First Union Center
301 South Tryon Street
Charlotte, North Carolina 28288**

Charter Number 15650

<p>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.</p>

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **First Union National Bank of North Carolina, Charlotte, North Carolina**, prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency.

The evaluation represents the OCC's current assessment and rating of the institution's CRA performance based on an examination conducted as of **May 31, 1997**. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act (CRA) of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DESCRIPTION OF CONTENTS

The balance of this document contains information presented in four sections. The sections are: **Performance Context, Summary of Institution's Performance, Discussion of Institution's Performance** and **Additional Information**.

The **Performance Context** section provides data about the bank, its direct and indirect (through affiliates) lending structure, and its delineated communities. The **Summary of Institution's Performance** presents the bank's rating and performance highlights which are further discussed relative to the 12 assessment factors grouped under five performance categories (refer to **General Information**).

Performance Context

- Bank Profile
- Community Profile

Summary of Institution's Performance

- Institution's Rating
- Performance Highlights

Discussion of Institution's Performance

- Ascertainment of Community Credit Needs
- Marketing and Types of Credit Offered and Extended
- Geographic Distribution and Record of Opening and Closing Offices
- Discrimination and Other Illegal Credit Practices
- Community Development

Additional Information - Corporate and Local CRA Programs

PERFORMANCE CONTEXT

Bank Profile

First Union National Bank of North Carolina (FUNB-NC) is a subsidiary of **First Union Corporation (First Union)**, the sixth largest bank holding company in the United States, with assets of **\$140 billion** as of year-end 1996. It is headquartered in Charlotte, North Carolina and owns ten national banks in Florida, South Carolina, North Carolina, Tennessee, Georgia, Washington, D.C., Virginia, Maryland and Pennsylvania. With assets of \$32.4 billion as of December 31, 1996, **FUNB-NC** is the second largest banking organization in the state of North Carolina.

Lending by affiliates also helps FUNB-NC identify and address community credit needs. For the First Union subsidiary banks, residential mortgage lending is largely consolidated at **First Union Mortgage Corporation (FUMC)**. FUMC processes mortgage loan applications and subsequently sells originations to First Union national bank affiliates or the secondary market. Another subsidiary of the holding company, **First Union Home Equity Bank, N.A.**, provides home equity financing in 35 states, including this bank's markets.

Notes:

LMI denotes low-and moderate-income (LMI). This means an individual or borrower income that is less than 80% of the area median income or, in the case of a geography, a median family income that is less than 80% of the respective MSA.

The **population statistics and income information** reflects data obtained from the 1990 Census and the United States Department of Housing and Urban Development (HUD).

Evaluation Period - The bank's previous CRA Performance Evaluation is dated April 11, 1994. This Performance Evaluation reflects the bank's performance assessed since the previous evaluation through May 31, 1997, based primarily upon data for 1995 and 1996.

Community Profile

The state of North Carolina has a total population of 6,628,637 comprised of 1,824,465 families which reflect the following income distribution: low-income 20%; moderate-income 18%; middle-income 24%; and, upper-income 39%. There is a total of 2,517,098 households with 351,770 or 14% below the poverty level. Owner-occupied housing units aggregate 60% of the housing stock. The population of counties where the bank has branches totals 5,833,050 or 88% of the state’s population. The following table illustrates major markets in the bank’s delineated community.

Delineated Communities Within Metropolitan Statistical Areas (MSAs) and Non-MSA Counties	MSA Population	1996 HUD MSA Median Family Income	% LMI Families
Charlotte MSA: Cabarrus, Gaston, Mecklenburg, Rowan, York (SC)	1,162,093	\$45,400	36%
Greensboro MSA: Davidson, Forsyth, Alamance, Guilford, Randolph, Yadkin, and portions of Stokes and Davie	1,050,304	\$42,200	37%
Raleigh MSA: Durham, Orange, Wake, Chatham, Johnston	855,545	\$50,700	37%
Asheville MSA: Buncombe	191,774	\$37,800	37%
Fayetteville MSA: Cumberland	274,566	\$33,800	39%
Goldsboro MSA: Wayne	104,666	\$34,700	38%
Greenville MSA: Pitt	107,924	\$38,700	41%
Hickory MSA: Burke, Caldwell, Catawba	292,409	\$38,700	36%
Wilmington MSA: New Hanover	120,284	\$38,800	35%
Rocky Mount MSA: Edgecombe and Nash	100,708	\$36,200	39%
Non-MSA: 39 counties	1,572,777	\$33,500	38%

There are only two MSAs (Jacksonville and Norfolk, Virginia) in the state where the bank does not have a branch. The state has a total of 1,482 census tracts with 341 or 23% low- and moderate-income tracts. This compares to FUNB-NC which has 1,218 census tracts in its delineated communities of which 348 or 29% are low- and moderate-income tracts. The following comments briefly discuss the larger markets in which FUNB-NC operates.

Charlotte

The Charlotte MSA is a multi-state MSA. It consists of six counties in North Carolina and York County in South Carolina and has a total population of 1,162,093 comprising 319,242 families. The MSA median family income is \$45,400 with the following distribution: low-income - 19%; moderate-income - 18%; middle-income - 25%; and, upper-income - 38%. There is a total of 440,458 households with 44,930 or 10% below the poverty level.

The MSA consists of 264 census tracts with 15 low-income, 59 moderate-income, 137 middle-income, 47 upper-income and five unpopulated. The bank's delineation covers almost the entire MSA (88% of the population).

Greensboro

The Greensboro MSA has a population of 1,050,304 comprising 295,366 families. Median family income is \$42,200 with the following distribution: low-income - 19%; moderate-income - 18%; middle-income - 25%; and, upper income - 38%. There is a total of 414,989 households with 46,109 or 11% below the poverty level.

The MSA consists of 260 census tracts with 10 low-income, 49 moderate-income, 146 middle-income, 54 upper income and one unpopulated. The bank's delineation covers almost the entire MSA (93% of the population).

Economic conditions in the MSA are stable - unemployment has dropped steadily over the past few years and amounted to 3.08% at year-end 1994. Median housing value is \$64,900 with the median year built being 1968.

Raleigh

The Raleigh MSA has a population of 855,545 comprising 223,149 families. The MSA median family income is \$50,700 with the following distribution: low-income - 19%; moderate-income - 18%; middle-income - 25%; and, upper income - 38%. There is a total of 334,696 households with 38,089 or 11% below the poverty level.

The MSA consists of 198 census tracts with 16 low-income, 48 moderate-income, 77 middle-income, 49 upper income and eight unpopulated. The bank's delineation covers almost the entire MSA (93% of the population).

Economic conditions are favorable in the MSA. It is anchored by the state's three largest universities which have received national recognition for their research and educational excellence. The city of Raleigh is also the state capital. Major industries in the MSA include the services sector, retail sales sector, non-durable goods manufacturing sector, and state and local

government sector.

The economic boom experienced by the area has placed severe pressure on housing affordability. Housing values and housing costs have outstripped income gains. Student demand for rental housing has also exceeded the supply with competition putting the cost out of reach for many low- and moderate-income residents. Median housing value is \$80,450 and the median year built is 1973.

Asheville

The MSA has a total population of 191,774 consisting of 54,380 families. The MSA median family income is \$37,800 with the following breakdown: low-income - 19%; moderate-income - 18%; middle-income - 25%; and, upper income - 38%. There is a total of 77,268 households, with 10,379 or 13% below the poverty level.

The MSA consists of 47 census tracts with one low-income, 13 moderate-income, 25 middle-income, six upper income and two unpopulated. The bank has delineated the entire MSA as its community. The median housing value is \$55,700 with a median year built of 1966. Sixty-four per cent of the housing stock is owner occupied and 29% of the housing stock are rental units. Vacant units total 9%.

Fayetteville

The MSA has a total population of 274,566 consisting of 70,801 families. The MSA median family income is \$33,800 with the following breakdown: low-income - 19%; moderate-income - 20%; middle-income - 22%; and, upper income - 39%. There is a total of 91,823 households with 12,944 or 14% below the poverty level.

The MSA consists of 49 census tracts with three low-income, 10 moderate-income, 28 middle-income, eight upper income and zero unpopulated. The bank has delineated the entire MSA as its community. The median housing value is \$58,100 with a median year built of 1973. Only 53% of the housing stock is owner occupied. Rental units constitute 42% of the housing stock. Vacant units comprise 6% of housing stock.

Hickory

The MSA has a total population of 292,409 consisting of 84,742 families. The MSA median family income is \$38,700 with the following breakdown: low-income - 17%; moderate-income - 19%; middle-income - 28%; and, upper income - 36%. There is a total of 112,506 households with 12,015 or 10% below the poverty level.

The MSA consists of 52 census tracts with zero low-income, five moderate-income, 44 middle-income, three upper income and zero unpopulated. The bank's community delineation encompasses the entire MSA. The median housing value is \$53,350 with a median year built of 1970. Sixty-nine per cent of the housing stock is owner occupied and vacant housing units amount to 7%.

SUMMARY OF INSTITUTION'S PERFORMANCE

Institution's Rating:

Based on the findings presented below, this institution is rated: **“outstanding record of meeting community credit needs.”**

Performance Highlights:

- ◆ The bank has effectively determined the credit needs of its community. The Board and senior management, of the parent holding company and the bank, are actively involved in CRA planning and management.
- ◆ FUNB-NC has developed loan programs to meet community credit needs pertaining to affordable housing, affordable credit for life’s necessities, and small business lending. The bank is also an active participant in government-sponsored loan programs.
- ◆ The FUNB-NC geographic distribution of loan originations is reasonable.
- ◆ The bank has several effective programs to help ensure fair treatment of credit applicants. In our review, we found no evidence of any discrimination or other illegal credit practice.
- ◆ FUNB-NC participates in various community development programs and other programs which focus on meeting community banking needs.
- ◆ Actively participates in community development programs for urban and rural areas. Involved in 78 projects that generate \$31 million in loans plus \$16 million in unused credit lines and commitments.
 - CICNC - \$3 million lines of credit for housing development
 - 53 rental properties throughout 26 communities
 - Affordable housing FHLB - elderly - apartment complex
 - \$5 million Charlotte/Mecklenburg Housing Partnership
 - Small business success program \$1 million loan pool, \$125 thousand commitment

DISCUSSION OF INSTITUTION'S PERFORMANCE

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

- ◆ **FUNB-NC has effectively determined the credit needs in North Carolina and has responded pro-actively to these needs.**
- ◆ **Existing lending products have been modified and service oriented programs have been instituted.**

Bank directors, officers, and employees at all levels have had ongoing, meaningful contacts with a large range of groups and individuals in order to ascertain community credit needs. The bank uses a wide array of techniques targeted to low- and moderate-income individuals in its ascertainment process including:

- A formal, documented officer call program which includes generation of needs assessment data. Representatives of FUNB-NC targeted individuals representing low- and moderate-income neighborhoods. They met with civic, religious, small business, minority, commercial and real estate development, and neighborhood and fair housing representatives.
- Periodic and regular seminars covering such areas as basic banking; home buying; and, financial planning.
- A statewide community needs assessment survey conducted in the third quarter of 1995. The survey was mailed to key community organizations in all FUNB-NC markets in the state. This survey was used by local management to develop 1996 CRA action plans for each local community.
- During the first quarter of 1996, the bank produced and distributed a CRA newsletter to over 350 non-profit organizations within the state. Included in the newsletter was a questionnaire soliciting feedback on the bank's CRA activities.

These ascertainment efforts identified affordable housing loans as the primary credit need within its delineated community. Non-credit needs were identified as consumer credit education and small business technical assistance.

Community credit needs which we verified during our examination were very similar throughout

all of the bank's communities. They consisted of affordable housing, community revitalization, small business lending and credit education and counseling. These needs were developed through a combination of prior regulatory activities including community contacts, HUD consolidated plans, community profiles generated by the Federal Reserve, and other economic and demographic data.

FUNB-NC periodically gathers and analyzes the geographic distribution of its loans. This analysis forms the basis for the establishment of individual CRA plans for each delineated community. These plans include performance goals for major types of ascertainment efforts, i.e., number of community contacts and seminars.

Assessment Factor C - The extent of participation by the institution's Board of Directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

- ◆ **CRA is an integral part of the Board's planning process and banking philosophy. The Board and senior management, at both the bank and holding company level, are actively involved in the bank's CRA program.**

They have established a formal program that includes identifying a strong support group of individuals and committees responsible for monitoring CRA activities. They have been very involved in outside committees and organizations that aid the needy. They remain well informed through their membership in various committees. Additionally, reporting mechanisms in the bank provide the Board and senior management with adequate information to evaluate and manage the bank's CRA program.

Local CRA Advisory Boards have played an instrumental part in keeping Board members and senior management aware of the bank's CRA activities.

The Board and management have been proactive and responsive in addressing community credit needs with special products and services. Loan products that were developed in response to community credit needs include:

- Affordable mortgage products.
- Small business Visa to allow small business owners to access short term unsecured credit.
- Secured credit cards.

The bank also escalated its educational outreach and has been involved in the improvement of educational curricula.

The Board and senior management actively supports CRA training for all personnel and ensures all CRA regulatory requirements are met.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

- ◆ **The bank has implemented several marketing and advertising programs. These programs inform all segments of the bank's delineated community of available loan products, including those developed to meet identified credit needs.**

FUNB-NC has developed a state level community reinvestment marketing plan targeted at improving the bank's overall participation and effectiveness in low- and moderate-income communities. Seven per cent of the state marketing budget has been allocated to low- and moderate-income advertising. The marketing plan was developed in conjunction with the corporate marketing plan and emphasizes the use of minority media. Another key component is the use of market penetration reports and audience profiles when developing marketing strategies.

FUNB-NC advertises specific credit products through local newspapers, direct mail campaigns, magazines, radio, billboards and telemarketing. As an example of a direct mail campaign, in September of 1995 the bank mailed 144,000 pre-approved loan applications to individuals located in low- and moderate-income census tracts. Other products advertised include affordable mortgages, home improvement loans, home equity lines of credit, automobile loans, credit cards and small business loans. Complete marketing and advertising records are maintained and reviewed for compliance with applicable laws and regulations.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

- ◆ **FUNB-NC has demonstrated a willingness to address the community credit needs within its delineated communities. The bank offers a wide range of products and services to meet those identified needs.**

The bank offers a wide range of products and services designed to help meet the identified credit needs of its delineated communities. These efforts have resulted in a reasonable number of loans for residential home purchase, home improvement, small business, and small farm.

Home mortgage originations detailed in the table below include home purchase, mortgage refinance, and home improvement loans. Mortgage totals were combined as a comprehensive break-down of the bank's mortgage lending data was unavailable. These mortgage totals also include originations from all First Union affiliates including First Union Mortgage Company and

First Union Home Equity Bank. In addition, small business and small farm loans detailed below are defined as loans to these borrowers with total revenues under \$3 million. Consumer loan totals include vehicle lending, revolving credit, home equity, and other secured and unsecured loans. The volumes of these lending activities are detailed below:

Loan Originations		
Loan Type	#	\$ (000's)
Home Mortgage	17,428	\$1,234,737
Small Business *	5,129	244,443
Small Farm	61	4,577
Total	22,618	\$1,483,757
Consumer	94,446	\$1,017,654

* 1996 data for businesses with gross annual revenues of \$1 million or less.

Mortgage related originations increased significantly in dollar volume from 1995 (\$287 million/6,343 loans) to 1996 (\$948 million/11,085 loans). Strategic decisions regarding loan pricing and funding during 1995 which caused the volume to decline during the year. The bank's mortgage lending performance during 1996 rose, in part, due to a more favorable interest rate environment for this institution.

In addition to the traditional mortgage and consumer products offered by the bank, FUNB-NC also offers special products designed to assist low- and moderate-income individuals with home purchases and other financial needs.

Affordable Mortgage Loan Products:

Affordable Home Mortgage Loan - This specialized product offers flexible terms to low- and moderate-income home buyers.

- This product offers up to 97% financing for the purchase of a home.
- The down payment can be provided through the use of borrowed funds, sweat equity, or a gift from a relative.
- Mortgage insurance is not required, neither are reserves after the loan closing.
- Seller contributions are allowed by parties such as the builder, developer, real estate agent, and the seller which may be used to pay closing costs and permanent interest rate buy downs.

Neighborhood Development Mortgage - FUNB-NC developed this product to encourage economic development and stability within low- and moderate-income census tracts.

- This product provides up to 95% financing for low- and moderate-income borrowers who purchase a home inside a low- and moderate-income census tract.
- A 5% down payment is required, with a minimum of 3% to be provided from the borrower's own funds. The remaining 2% may come from quantifiable sweat equity, gift from a relative, or borrowings.
- This product is priced 1% below market interest rates.

Community Partnership Mortgage - This product was developed by FUNB-NC to foster relationships with new and existing non-profit community organizations. As part of this program, borrowers are required to obtain home buyer's counseling from non-profit community organizations who have partnered with FUNB-NC.

- This product provides up to 100% financing for low- and moderate-income home buyers.
- Borrowers need only \$500 and one month's reserves at closing. Mortgage insurance is not required.
- More liberal debt-to-income ratios are allowed, such as a 31% housing ratio.

Consumer Loan Products:

Special Home Improvement - This product allows low- and moderate-income borrowers to improve the condition of their home via flexible financing options.

- Loan advances for unsecured credit begin at \$3,000. The bank also offers this product on a secured basis starting at \$1,500 with advances up to 90% of tax value or 80% of the home's appraised value.
- FUNB-NC will provide incentive rebates to customers who make timely payments.

Secured MasterCard - This product functions as a line of credit secured by a FUNB-NC savings account equal to the requested credit limit. This product is designed for low- and moderate-income individuals who are attempting to gain/rebuild unsecured credit opportunities.

- Line balances can range from \$400 to \$15,000 with payments equal to 3% of the new statement balance.
- No application or processing fees are charged.
- Line increases may occur with additional deposits of \$100. FUNB-NC regularly reviews these accounts for credit limit increases without requiring additional deposits.

Visa Business Card - FUNB-NC established this revolving product to help meet cash management needs of small businesses.

- The product offers flexible billing and payment options
- Free quarterly management information and summary reports.
- Offers a feature which allows customers to separate personal expenses from business related expenses.

In addition to these consumer products, FUNB-NC has offered other products designated for low- and moderate-income individuals during the assessment period. Two of those include the Special Instant Cash Reserve and the Special First Advance products which were replaced with the secured MasterCard product.

FUNB-NC customers can obtain descriptions of some of these special credit products in the brochures titled “Special Banking Services” and “Home Mortgages” which are maintained at all branch locations. In addition, a comprehensive overview of many other services provided by FUNB-NC, including deposit products, financial planning, and 24 hour banking are detailed in “The Guide to First Union Banking Services”.

Assessment Factor J - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

◆ **FUNB-NC actively participates in a wide variety of government-sponsored loan programs, including loans for housing, small business, and educational needs.**

In addition to the FUNB-NC conventional products and services, the bank provides its customers with specialized government lending programs to help meet community credit needs. These programs include financial assistance through the Veterans Administration (VA), Federal Housing Authority (FHA), Housing and Urban Development (HUD), Small Business Administration (SBA), and various government sponsored student loan programs. The next table shows FUNB-NC originations of these loan types from January 1, 1995 through October 31, 1996.

Government Loan Originations		
Loan Type	#	\$ (000's)
FHA	287	\$20,973
VA	335	30,959
FNMA Agency 97	1	85
Qualla Housing (HUD)	14	593
FmHA Small Business	1	700
Subtotal Mortgage	638	\$53,310
SBA	9	6,956
Total	647	\$60,266

FUNB-NC began offering loans to small businesses on a corporate level through a centralized Small Business Banking Division (SBBD) during the second quarter of 1995. This division targets businesses with annual revenues of \$5 million or less with loan requests from \$250 thousand to \$350 thousand. It is designed to provide prompt and efficient service by telephone with a 24 hour response time. Management believes that the success of this division and its ability to meet customer needs is the primary reason for the low number of SBA guaranteed loans.

The Agency Fannie 97 is a mortgage product available under the Fannie Mae Community Lending Program. This product has a low down payment requirement of 3%. Financing alternatives for fixed rate mortgages exist, which include more relaxed debt-to-income ratios. Closing costs may be provided from a gift, grant, or be paid by the seller.

The Qualla Housing Authority facilitates mortgage lending for FHA 184 Indian Program Loans. These loans are targeted at Native Americans residing in the rural Western North Carolina Cherokee Indian reservation and parts of up-state South Carolina. Loans under this program are guaranteed by HUD.

In addition to the government lending detailed in the table above, FUNB-NC has demonstrated a substantial commitment to the college educational needs of North Carolina through its participation in a multi-bank student loan pool. Through this arrangement, First Union has committed a \$150 million line of credit to the College Foundation Incorporated (CFI), representing a 25 percent participation in this program. As of October 31, 1996, the bank had \$130 million in outstanding loans through this program.

CFI is a private, non-profit corporation organized to provide financial assistance to qualified college students. CFI is the lender and administrator of the Stafford Student Loan Program (GSL), the Parent's Loans for Undergraduate Students Program (PLUS), and the Supplemental Loans for Students (SLS) in North Carolina. The North Carolina State Educational Assistance Authority guarantees the loans which are re-insured by the U.S. Department of Education.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications and credit denials.

- ◆ **The FUNB-NC geographic distribution of loans is reasonable.**
- ◆ **Loan originations come from all income segments of the bank's delineated communities.**
- ◆ **Lending percentages to low- and moderate- income (LMI) customers in mortgage and consumer related loans are also considered reasonable.**

Geographic analysis at FUNB-NC is primarily performed by the bank personnel in each assessment area. Analytical and data support is provided by parent holding company personnel. The geographic analysis techniques used in First Union are being revised for greater usefulness and conformity with the upcoming changes to CRA requirements.

The following tables depict the bank's lending performance in 1995 and 1996. Due to systems' changes at FUNB-NC, 1995 bank data on consumer loans is not available. The lending numbers used in this category include all First Union affiliates in the state including First Union Mortgage Company. The 1995 data from the Home Mortgage Disclosure Act (HMDA) materials comes from First Union public filings.

In reviewing the geographic distribution data, several factors must be considered to place the evaluation in context. The Goldsboro area is fairly small in deposits and loans with one branch office. As such, the lending percentages can be easily effected by small changes in loan origination numbers. Bank management reports that the Wilmington and Asheville areas have had only one (sometimes none) mortgage loan originator. This management decision obviously has had an impact on mortgage originations to all income groups in these areas.

Table 1 -First Union National Bank of NC - 1995 HMDA Loans					
Assessment Area	% LMI Families by Income	% of LMI Loans in Overall Market	% of bank loans to LMI borrowers	Number of Total Originations	Total \$ Amount of Originations
Total State (MSA)	38	27.1	24.7	4,690	374,645
Asheville	37	24.8	16.9	343	24,632
Charlotte	36	26.3	21.5	1,557	144,316
Fayetteville	39	20.6	16.6	157	9,804
Goldsboro	38	27.1	7.1	14	777
Greensboro	37	29.2	29.8	1,109	77,568
Greenville	41	27.9	10.2	37	3,224
Hickory	36	31.6	32.2	453	22,092
Raleigh	37	27.7	27.4	776	68,931
Rocky Mount	39	29.3	22.2	54	4,506
Wilmington	35	20.3	17.5	154	17,059

Note: The above data came from the bank's 1995 HMDA Loan Application Register filed with the Federal Reserve. The percentage of LMI population by income was calculated from 1990 Census Bureau figures. Assessment areas were determined by FUNB-NC designation. The total state figures include only the designated MSAs.

Table 2 - First Union National Bank of NC - 1995 HMDA Loans					
Assessment Area	% of families in LMI CTs	% of Loans in Overall Market to LMI CTs	% of bank loans to LMI CTs	Number of Total Originations	Total \$ Amount of Originations
Total State (MSA)	19	12.7	12.0	4,690	374,645
Asheville	14	12.1	6.7	343	24,632
Charlotte	20	12.0	13.0	1,557	144,316
Fayetteville	22	11.3	10.2	157	9,804
Goldsboro	8	5.3	0	14	777
Greensboro	16	12.1	9.7	1,109	77,568
Greenville	27	21.1	16.2	37	3,224
Hickory	7	6.9	6.8	453	22,092
Raleigh	25	15.5	19.7	776	68,931
Rocky Mount	15	10.9	13.0	54	4,506
Wilmington	22	12.1	8.4	154	17,059

Note: The above data came from the bank's 1995 HMDA Loan Application Register filed with the Federal Reserve. The percentage of LMI population by income was calculated from 1990 Census Bureau figures. Assessment areas were determined by FUNB-NC designation. The total state figures include only the designated MSAs.

Tables 1 and 2 indicate the FUNB-NC overall mortgage lending performance in 1995 was satisfactory to LMI and other income customers. Generally, lending percentages to LMI customers were below the market average and the demographic comparators. The demographic comparators specify the percentage of LMI families (as determined by income or by residence in a LMI designated census tract) to total families.

- The 1995 HMDA data shows strong performance to LMI customers in the Hickory area.
- The LMI percentages in Hickory exceeded market averages and were close to matching the demographic comparators.
- The Greensboro, Charlotte, Raleigh and Rocky Mount areas also had above average market percentages to LMI customers in Tables 1 or 2.
- The Wilmington, Asheville and Goldsboro areas had LMI lending percentages below their market averages. The Greenville area showed a low LMI percentage to low- and moderate-

income customers in Table 1, but their LMI percentage comparison improved considerably in Table 2. This indicates the Greenville area is penetrating the LMI census tracts and their percentage is closer to the market average.

Table 3 - First Union National Bank of NC - Mortgage Loans			
Assessment Area	% of households in LMI CTs	12 mo. ending 10/31/96	
		Total Number of Originations	% of originations in LMI CTs
Total State	23	11,085	15.7
Asheville	19	468	12.8
Charlotte	29	2,655	19.5
Fayetteville	22	365	9.3
Goldsboro	18	57	12.3
Greensboro	22	1,866	11.9
Greenville	27	57	12.3
Hickory	7	752	6.9
Raleigh	30	1,532	22.9
Rocky Mount	27	149	15.4
Wilmington	29	378	9.3

Table 4 - First Union National Bank of NC - Consumer Loans			
Assessment Area	% of households in LMI CTs	12 mo. ending 10/31/96	
		Total Number of Originations	% of originations in LMI CTs
Total State	23	94,446	16.0
Asheville	19	3,602	14.7
Charlotte	29	16,583	18.2
Fayetteville	22	1,873	18.9
Goldsboro	18	456	10.3
Greensboro	22	16,346	13.1
Greenville	27	430	21.9
Hickory	7	3,186	6.9
Raleigh	30	10,470	21.5
Rocky Mount	27	844	18.1
Wilmington	29	1,193	14.7

Tables 3 and 4 compare 1996 mortgage and consumer lending percentages in LMI census tracts to the appropriate demographic comparator. All of this data was supplied by FUNB-NC. Accordingly, the demographic comparators are different from those used in previous tables as the bank uses 1995 estimates from outside vendors. Tables 1 and 2 used 1990 Census Bureau information and updated income figures published by the U.S. Housing and Urban Development Department.

Tables 3 and 4 indicate FUNB-NC's overall lending performance in 1996 was satisfactory to LMI and other income customers. Generally, these tables show lending percentages to LMI customers were below the market average and the demographic comparators. Tables 3 and 4 again show the Hickory area to have very good performance in LMI lending percentages in 1996. Their percentages were approximately equal to demographic comparator in consumer and mortgage loans.

The Fayetteville and Greenville areas show a lower 1996 mortgage lending percentage to customers in LMI census tracts than the prior year. These two area's LMI percentages in consumer loans, however, was stronger and much closer to the demographic comparator. The

Asheville assessment area also had improved LMI lending percentage comparisons in 1996. The Goldsboro area showed a better 1996 LMI lending percentage in mortgage loans. The Wilmington assessment area’s 1996 LMI lending percentages were low in comparison to demographic numbers in both mortgage and consumer loans.

Table 5 - First Union NB of NC Distribution of Lending by Category in LMI Census Tracts						
Loan Type	10 mo. ending 10/31/95			12 mo. ending 10/31/96		
	# of loans in LMI CTs	% of total loans in LMI CTs	\$ total of loans in LMI CTs	# of loans in LMI CTs	% of total loans in LMI CTs	\$ total of loans in LMI CTs
Mortgage	855	13	\$ 27,185	1,785	16	\$ 102,099
Consumer	12,181	15	86,633	15,083	16	133,976
Total	13,036	15	\$ 113,818	16,868	16	\$ 236,075

Table 5, constructed from FUNB-NC supplied data, shows reasonable lending penetrations in LMI census tracts on a statewide basis.

As of 10/31/96, FUNB-NC had made 763 (\$42 million) small business loans in LMI census tracts which represented 18% of total loans in LMI CTs.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

- ◆ **FUNB-NC provides banking services to all segments of its assessment areas.**
- ◆ **The bank’s record of opening and closing offices has not adversely affected the level of services available in low- and moderate-income areas.**

The bank offers service to its customers through 237 branches. Approximately 25% of branches are located low- or moderate- income census tracts. Between January 1, 1995 and December 31, 1996 the bank closed 25 branches. Five of the closed branches were located in low- and moderate-income neighborhoods. Before branches in LMI areas are closed, management normally contacts influential members of the local community to discuss the potential closing and adverse impact on the community.

The “Branch Closings, Consolidations and Reductions in Service” policy requires management to perform a detailed analysis prior to reducing services or closing any branches in any low- to moderate-incomes areas. This analysis includes the potential impact to residents and alternative

solutions to a proposed reduction in service. The policy provides guidelines for :

- branch closures,
- branch consolidations,
- branch relocations,
- reductions in service, and
- branch/ATM divestitures.

A review of the policy shows that First Union has adopted a strategy to reduce the number of branch facilities while improving the overall level of service to its customers. The corporation has pledged to adopt effective written policies and procedures that minimize any adverse effect such actions may have on the communities served.

The First Union policy requires each bank to:

- objectively determine those branches which should be closed, consolidated, or have services reduced;
- consider alternative solutions such as adjusting branch hours and services, including the use of ATMs;
- identify and examine options that minimize potential adverse effects and inconvenience on the communities; and
- communicate anticipated changes to affected customers and communities with sufficient advance notice to minimize adverse effects and inconvenience.

Before taking action, each bank evaluates several factors outlined in the policy. If the bank decides to proceed, management completes the appropriate forms to obtain final approval from the bank President and Board of Directors. The CRA coordinator receives copies of the forms. When an action impacts a low- and moderate-income community, the policy outlines that one or more of the following steps be taken as appropriate:

- complete an analysis,
- make community contacts, and/or
- review the credit need ascertainment calls.

These steps help to identify other alternatives and to more fully evaluate the issues. Bank management uses input from the Marketing Division, Real Estate Division, and State CRA Coordinator to explore potential remedial actions to improve any identified recommendations.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

- ◆ **The bank solicits credit applications from all segments of the community, including low- and moderate- income areas. We did not find any practices intended to discourage credit applications on a prohibited basis.**

FUNB-NC actively solicits applications from all segments of its delineated communities including low- and moderate-income areas. The Board and management have developed a number of programs to ensure compliance with fair lending laws and provide equal access to credit.

Management committees have been formed to oversee the bank's fair lending initiatives. Major departments of the bank are represented on these committees including a corporate department which was created to manage the overall fair lending activities of the company.

Detailed, formal policies, procedures and training programs have been developed to help assure the institution does not illegally discourage or pre-screen applicants. First Union has developed and provided a fair lending training program for its employees to ensure they understand the legal requirements as well as bank policies and procedures. The company uses videos, formal training sessions, and on-the-job training to ensure employees become familiar with the fair lending laws and regulations. In addition, the bank conducts diversity training sessions for its employees.

FUNB-NC has established several processes to ensure applicants are treated fairly. These processes include, but are not limited to, a "second review" program and a comparative analysis of loan files. The bank conducts a second review on proposed denials of loans subject to the Home Mortgage Disclosure Act. This review occurs prior to the issuance of a denial or adverse action notice to the applicant(s). The comparative loan review process, applied on a regular basis, enables the bank to monitor compliance with fair lending laws and to assess the effectiveness of its fair lending programs. The process includes activities to evaluate actions for fair treatment of all applicants.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

- **We noted no evidence of discrimination or other illegal credit practices.**

We performed an examination for compliance with the Equal Credit Opportunity Act (ECOA) and the Fair Housing Act (FHA) in conjunction with this CRA examination. We reviewed the bank's policies and procedures for conformance with these laws and regulations, and conducted tests to check for any areas of noncompliance. Our comparative file analyses for racial and

gender discrimination did not detect any instances of illegal disparate treatment or discrimination.

The comparative file review of HMDA applications received during 1995 tested First Union actions to determine if any instances of racial discrimination occurred. We reviewed and compared 368 denied minority transactions to 645 approvals for white applicants sampled from all national banks within First Union plus its mortgage company. The above total includes 315 minority denials and 502 white approvals originated by all of the individual banks. The remaining applications represented 53 minority denials and 143 white approvals received by First Union Mortgage Corporation. In accordance with OCC procedures, minorities selected for comparison purposes represented American Indian, African American, and Hispanic applicants.

The other aspect of our testing included a comparative file review for gender discrimination. For automobile loans through one of the corporation's significant lending units, we reviewed and compared 124 denied female applicants to 226 approved male applicants.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

◆ **FUNB-NC participates in various local community development and redevelopment programs within North Carolina.**

FUNB-NC is involved in many on-going community development and redevelopment programs at the state and local level throughout North Carolina. Most of these programs are focused on the creation or rehabilitation of affordable housing for low- and moderate-income individuals, small business development, and downtown revitalization. Although the majority of these programs are targeted at the urban markets in the state, the bank has also participated in community development projects in rural areas.

From January 1995 through October 1996, FUNB-NC has been involved in 78 projects generating a total of approximately \$31 million in corresponding loans with an additional \$16 million in various unused lines of credits and commitments.

Some examples of this involvement within its North Carolina communities are detailed below:

- The Community Investment Corporation of North Carolina (CICNC) is an affordable housing loan consortium that provides permanent financing for the development or rehabilitation of low- and moderate-income housing. Through this program, First Union has provided over \$3 million in lines of credit to be used for housing development during 1995 and 1996. In total, this organization has provided 53 rental properties located throughout 26 communities in North Carolina.
- In conjunction with the Affordable Housing Program offered by the Federal Home Loan Bank of Atlanta, First Union provided a \$2.6 million loan to the East Carolina Community Development Corporation for the construction of a 44 unit apartment complex in Morehead City, North Carolina. These units are designed to provide affordable housing for the elderly.
- FUNB-NC has committed \$5 million to the Charlotte-Mecklenburg Housing Partnership for development of affordable housing for low- and moderate-income families in the City of Charlotte and throughout Mecklenburg County.
- FUNB-NC participates in a loan pool in conjunction with the City of Charlotte to help meet the capital needs of small businesses located in targeted uptown neighborhoods. This program is designed to stimulate economic activity and product jobs for low- and moderate-income individuals. FUNB-NC has committed \$1 million to initially fund this program.
- FUNB-NC Home Ownership Pool of Wilmington facilitates development, rehabilitation, and financing of housing for low- and moderate-income individuals within the community. Through this program, the bank has committed and funded \$210,000.
- FUNB-NC has recently partnered with the Enterprise Foundation to develop the Neighborhood Fund which consists of a loan pool designed to provide assistance to six community development corporations working towards development of affordable housing in low- and moderate-income tracts in Charlotte. The bank has committed \$2 million to the program, however, due to its relatively new status, there are no loans currently outstanding.
- The Shelby office was a leader in the development of the Cleveland County Community Reinvestment Loan Pool. This program provides funds for single- and multi-family affordable housing units in Cleveland County. FUNB-NC has committed \$100,000 to this program with \$14,000 in loans currently outstanding.
- During 1996, FUNB-NC has partnered with various cities to form programs that encourage rehabilitation of the downtown districts. These programs provide funding for small businesses that relocate or rehabilitate properties within the city. Details regarding the

bank's commitments and funded loans to these programs are provided as follows:

- Through the Greenville Business Loan Pool, FUNB-NC committed \$50,000 to this project with no loans currently outstanding.
 - FUNB-NC committed \$150,000 to the Wilson Downtown Development Corporation. The bank has funded \$60,000 against this commitment to date.
 - Through the Fayetteville Center City Business Loan Pool, FUNB-NC committed \$60,000 to this project with no loans currently outstanding.
- The Raleigh Small Business Success Program was organized to stimulate business development and create employment opportunities with emphasis in the southeastern quadrant of the city. This area of Raleigh primarily houses low- and moderate-income individuals. FUNB-NC participates in this \$1 million loan pool with a commitment of \$125,000. Through October 31, 1996, the bank has funded over \$45,000 in loans under this program.

Assessment Factor K - The institution's ability to meet various community needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

- ◆ **There are no financial factors or economic conditions that impede the bank's ability to meet the credit needs of its delineated community.**

There are no financial, legal, or economic barriers that prevent FUNB-NC from meeting the identified community credit needs. First Union is one of the largest banks in North Carolina, with numerous offices located throughout the state. The bank has made efforts to address community credit needs by funding loans for affordable housing, small business, and community development projects.

Please refer to the **Bank and Community Profile** included in the front section of this Performance Evaluation for more details on the bank and its market area.

Assessment Factor L - Any other factors that, in the regulatory authority's judgement, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

- ◆ **The bank engages in several other meaningful activities, not included in other performance categories, which enhance the bank's efforts to meet community credit needs and the non-credit banking needs of low- and moderate-income individuals.**

Examples of other projects which enhance the community include:

- Choices & Decisions: Taking Charge of Your Life is an educational program designed for high school students which is developed by Visa U. S. A. in cooperation with the United

States Office of Consumer Affairs and the National Consumers League. The program teaches personal financial management skills to students throughout the state. FUNB-NC administers the program at schools in Georgia.

- School Savings Banks are offered by FUNB-NC in partnership with elementary and middle schools throughout the state. The School Savings Banks are designed to assist students in learning the importance of saving money. The students operate the bank with the assistance of a bank employee and they learn to handle money carefully and responsibly. They also learn customer service skills as they operate the banks. FUNB-NC pays the regular savings interest rate for these deposits and send each customer a quarterly statement. FUNB-NC currently has established programs throughout the state.
- During the assessment period, the bank has made several charitable contributions to various community organizations within the state totaling \$746,469.
- The bank participates in a partnership formed by Fannie Mae, Self-Help Credit Union and several other North Carolina banks which promotes home lending for low- and moderate-income individuals. Through this partnership, Self-Help purchased \$10 million in mortgage loans made to low- and moderate-income individuals in North Carolina. This purchase facilitates and encourages additional affordable mortgage lending by the bank.
- Employee membership and participation in a variety of community, civic, and government organizations. Its employees volunteer more than 53,000 hours annually to various programs.
- FUNB-NC has purchased \$233 million in state and county municipal investments during 1995 and through October 31, 1996.
- FUNB-NC has developed several programs designed to support the education needs of North Carolina's young students through the Excellence In Education Grant Program. Various partnerships have been developed with parents, students, teachers, and local businesses to promote these initiatives. FUNB-NC maintains more than 50 school based savings banks statewide.
- FUNB-NC is participating in development of the College Vision Fund which is a savings program that will allow parents to save for children's college tuition in advance. The bank, in conjunction with three other North Carolina banks, founded the Education Financing Services to develop and market this program. This organization would assist parents with establishing savings goals and administer the accounts. The money is ultimately invested by the state treasurer.
- During 1996, FUNB-NC initiated special programs to assist North Carolina residence

Charter 15650

impacted by natural disasters. Specifically, these programs offered special home improvement loans at below-market rates to area residents who suffered property damage from hurricanes during the year.

ADDITIONAL INFORMATION

Corporate and Local CRA Programs

FUNB-NC has access to the Corporate CRA staff based in Charlotte, North Carolina, which coordinates CRA activities throughout First Union. The Corporate CRA staff provides various types of support which include analytical tools and communications, such as publication of a CRA newsletter. Since several aspects of the bank's CRA activities have been influenced by the parent company, the remainder of this section summarizes basic components of the corporate CRA program.

CRA Policy

The First Union Community Reinvestment Policy has been updated to reflect the recent changes in CRA and has been distributed to all of the individual banks. The policy was designed to provide overall guidance to the Corporation, its Directors, management and all employees to continually renew the First Union dedication and commitment to serve credit needs of all its communities. Administration of the policy remains a corporate-wide responsibility under the overall direction of the Boards of Directors for First Union and each state.

CRA Organization Structure

The Boards of Directors have identified committees and individuals to focus on CRA activities and to receive periodic reports to help keep the Directors informed. The Boards receive administrative support for CRA through committees, local advisory boards, officer positions and teams that work closely with CRA related activities.

The corporate and bank Audit Committees monitor compliance for their respective Boards and report to the Directors at least quarterly. The Audit Committees receive quarterly reports from the Director of Community Reinvestment at the corporate level or from the appropriate Regional CRA Coordinator at the bank level.

The Corporate CRA Steering Committee has overall responsibility to implement the policy throughout First Union. This committee monitors and supervises compliance with the policy on behalf of the Boards of Directors. The Vice Chairman of the corporation chairs the committee which includes executive officers from major department areas and bank presidents for each state.

Regional CRA Self-Assessment Committees have the overall responsibility to implement the policy in the states and to assess compliance with policy relative to performance. For each region, this committee reviews and analyzes the ascertainment efforts as well as the results to address community credit needs. The state President chairs this committee.

The Corporate CRA Staff has the responsibility to interface with the CRA committees to implement the policy throughout the corporation. Included as part of this staff, a senior level officer serves as the Corporate Director of Community Reinvestment. The ongoing activities

relative to CRA are undertaken by other officers who serve as Assistant Director of Community Reinvestment, CRA Lending Manager, Fair Lending/Home Mortgage Disclosure Act Manager, Communications Manager, Regional CRA Coordinators and Community CRA Coordinators.

Regional CRA Coordinators have the responsibility to interface with the Corporate CRA Staff and the appropriate state CRA committee to implement the policy in each state. The state coordinators receive support from the various local area coordinators.

Reporting

The policy requires no less than quarterly reports to the Board of Directors, or committees thereof. First Union also uses quarterly data for most reports as it implements the policy and monitors community reinvestment performance focusing on results.

CRA Plans

A formal CRA Plan to direct the CRA activities is in process of being updated to reflect the changes in the regulation. The plan will serve to affirm the company's commitment to help meet the needs of low- and moderate-income individuals in community serviced by First Union banking operations. The plan will highlight the overall process to implement the Community Reinvestment Policy.

Board Reviews

In addition to periodic reports, the Board reviews other CRA related material. Annually, the Board reviews and adopts the bank's CRA statement and the local community delineations. The Board also approves the CRA plan which contains policies and procedures for implementing CRA.

Self-Supervision

First Union and its subsidiary banks have established a system to ensure compliance with the basic technical requirements of the Act. The corporation relies upon the Internal Audit Division and the Regulatory Compliance Division to monitor performance and test compliance under the Act. In addition, the Branch Operations area has the responsibility to monitor compliance with the technical requirements of the Act.

Regional Self-Assessments

First Union has implemented a process to evaluate its own performance under the Act. Regional self-assessments of performance have been made on an annual basis. The Regional CRA Self-Assessment Committee receives reports on the evaluation results. Each bank uses other, more frequent, reviews in the interim to monitor the progress of each community.

CRA Training

Board of Directors and senior management have supported CRA training for bank and corporate personnel. The CRA related training conducted in 1996 adequately covered the technical and

regulatory requirements of the Act, CRA reform and a reemphasis on roles and responsibilities. Throughout First Union, training was provided to the Board of Directors, senior management, area presidents, CRA coordinators, Self-Assessment Committee members, branch managers, lending officers, tellers and customer service representatives. Computer based training was also provided to new and existing employees. The CRA Manual used in the training sessions, which is in process of being updated to reflect the regulations revisions, serves as a reference tool at the branch levels. First Union also included training sessions directed to promote fair lending throughout the corporation.

CRA Public File

We encourage the readers of this Performance Evaluation to contact the bank to review information contained in the public file.