

Public Disclosure

January 18, 2000

Community Reinvestment Act Performance Evaluation

**First National Bank
Charter Number: 8673**

**200 East Broadway
Lenoir City, Tennessee 37771**

**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 **First National Bank (FNB)** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of January 18, 2000. 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 following are the primary factors supporting FNB's rating. These conclusions were based on our review of a sample of 1 to 4 family real estate mortgages originated during 1998 and 1999.

- The bank's loan-to-deposit ratio meets the standard for satisfactory performance given its size, financial condition, and assessment area credit needs.
- A substantial majority of the bank's loans are made within its assessment area.
- The bank's distribution of credit reflects good penetration among individuals of different income levels and strong penetration among small businesses.
- The bank has designed a special residential loan product for low-and moderate-income individuals within its assessment area.
- We detected no evidence of discrimination or other illegal credit practices during our review.

Description of Institution

FNB reports \$248 million in total assets¹ as of December 31, 1999. The main office and two branches are located in Lenoir City, Tennessee (Loudon County) which is approximately 20 miles west of Knoxville, Tennessee. There are three other branches. There is one located in Loudon (Loudon County), Knoxville (Knox County), and Maryville (Blount County), Tennessee. The county seat is located in Loudon.

The main office and branches are full-service offices that include drive-up facilities. Automatic Teller Machines (ATMs) are also available at each location. FNB offers a full array of banking products and services. The bank is independent and there is no relationship with a one-bank holding company. There are no financial or legal impediments that would impair the bank's ability in meeting the credit needs of its assessment area.

As of December 31, 1999, the bank's loan portfolio aggregated \$122 million and represents 49% of the total assets. Residential and commercial lending are the primary business lines for FNB. Residential real estate loans for the period totaled \$66.3 million (54%), commercial loans \$43.2 million (35%), installment loans \$11.8 million (10%), and agriculture loans \$647 thousand (1%). The bank's lending philosophy is conservative. Real estate loan rates are fixed, one, three, and five-year balloons based on fifteen, twenty, and thirty-year amortization. Commercial loan rates are fixed, priced off the prime rate according to risk, with maximum five-year maturity.

The bank received a "**Satisfactory**" rating at the last CRA examination dated December 5, 1997.

Description of Assessment Area

FNB has designated its Assessment Area to include all seven census tracts (601 through 607) in Loudon County, nine census tracts (46.02, 46.03, 46.04, 57.02, 57.03, 58.01, 58.02, 59.01, and 59.02) in Knox County, and three census tracts (116.01, 116.02 and 111.02) in Blount County. Selection of these tracts is based on the location of banking offices and proximity to branches. All tracts are included in Knoxville's Metropolitan Statistical Area (MSA) #3840. There are additional tracts within Knoxville's MSA, but FNB includes only the tracts closest to its offices. Also included in FNB's designated Assessment Area are block numbering areas (BNAs) 301.00 and 302.01 in Roane County and 9850, 9851, and 9852 in Monroe County. FNB does not have any offices located within these BNAs, but these BNAs are in close proximity to bank offices. Knox, Blount, Roane, and Monroe Counties adjoin Loudon County. The Assessment Area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. There are no natural boundaries within the Assessment Area that hinder accessibility.

¹ Consolidated Report of Condition - Call Report

ASSESSMENT AREA DEMOGRAPHICS						
Families*	Census/ BNA Tract Count	Low Income Families	Moderate Income Families	Middle Income Families	Upper Income Families	Total Families
Low Income Tracts	0	0	0	0	0	0
Moderate Income Tracts	2 (8%)	1,103	861	706	963	3,633
Middle Income Tracts	11 (46%)	3,101	2,710	3,433	6,786	16,030
Upper Income Tracts	11 (46%)	1,657	1,849	3,390	14,555	21,451
Total	24 (100%)	5,861 (14%)	5,420 (13%)	7,529 (19%)	22,304 (54%)	41,114 (100%)

* Based on HUD Estimated 1999 Median Family Income of \$45,500 for MSA Census Tracts and \$37,500 for non-MSA tracts.

The above table combines census tract and BNA (non-MSA) information since the majority of FNB's residential mortgage loans are concentrated within the MSA.

Demographic data reflect 35,140 families reside in the Knoxville MSA. Of these families, 14% are low-income, 13% moderate-income, 18% middle-income, and 55% upper-income. Demographic data reflects additional 5,974 families reside within the five BNAs. Of these families, 18% are low-income, 13% moderate-income, 19% middle-income, and 50% upper-income.²

² Income definitions as 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.

There are no low-income tracts within the Assessment Area. Loudon County census tracts 602 and 606 have been identified as moderate-income areas. Eleven tracts each have been identified as middle-income and upper-income tracts. Fourteen and 13 percent, respectively, of the families within the Assessment Area are identified as low- and moderate-income families. Nineteen percent of the families within the Assessment Area are middle-income while 54% are upper-income families.

The 1990 census reported population at 140,417 within the bank's Assessment Area. The Department of Housing and Urban Development (HUD) estimated 1999 median family income for the MSA at \$45,500. 1999 non-metropolitan median family income is estimated at \$37,500.

Nine percent of the households within the Knoxville MSA Assessment Area are below the poverty level. Twenty-one percent of the households receive social security. An additional four percent receives public assistance. Fourteen percent of the households in the non-MSA are below the poverty level. Thirty percent of the households receive social security. An additional 8% receive public assistance.

Seventy-one percent of the housing in the Knoxville MSA is owner occupied and the median housing value is \$77,080. Seventy-four percent of the housing in the non-MSA is owner occupied and the median housing value is \$52,673.

As of June 30, 1999 the area unemployment rate was 2.6% compared to state and national levels of 3.6% and 4.2%, respectively. Major employers within the Assessment Area include a diversified group of manufacturers, retailers, and processors. While no one group in Loudon County employs more than five hundred employees, twenty-eight companies employ 1,540 employees. Knox County has a broad, diversified economic base centered in health, education, manufacturing, government, sales, and services. As an industry, Knox County employs 15,600 in the health industry, 12,700 in education, 11,500 in manufacturing, 8,000 in city and county government, and 2,900 in sales and services. In Blount County, an automotive parts manufacturer and aluminum processor employ 2,500 and 2,000 workers, respectively. Thirty-two other local businesses employ 5,200 workers. Portions of Roane and Monroe County included in the bank's Assessment Area are considered bedroom communities of Loudon, Knox, and Blount County. Typically, residents who live there commute elsewhere for employment.

FNB's primary competition comes from several large, regional holding company banks. An eastern Tennessee holding company headquartered in Knoxville also has several banking offices within FNB's Assessment Area. Lenoir City and Knoxville have one additional community bank each. Two other community banks are located in Maryville. Several savings and loans, credit unions, and finance companies provide additional competition.

Two local community leaders were contacted during the examination to identify community credit needs. One contact was employed by a county development agency and the other was a volunteer for a low-income housing program. Each was complimentary of the level of involvement by the two local community banks including FNB. One contact indicated a need for low interest business loans. It was suggested that low interest, community development business loans would be an effective incentive to rehabilitate downtown Lenoir City. The other contact stated there was a need for additional low-income housing loans and lower deposit fee accounts.

Conclusions with Respect to Performance Criteria

The bank's current rating at the CRA examination dated January 18, 2000 is **“Satisfactory.”** This performance evaluation is based on an analysis of a sample of 1 to 4 family residential real estate loans (586 loans for \$27 million) originated during 1998 and 1999. The 1 to 4 family residential real estate loans represent the bank's primary lending product. We tested forty residential loans originated during 1999 for data integrity. While the emphasis of this evaluation was placed on our analysis of 1 to 4 family residential real estate loan originations, we also reviewed a sample of small business loans (37 loans for \$1 million) that were originated during 1999.

Loan-to-Deposit Analysis

- **The loan-to-deposit ratio meets the standard for satisfactory performance given FNB's size, financial condition, and assessment area credit needs.**

FNB's quarterly average loan-to-deposit ratio³ for the nine quarter period beginning December 31, 1997 through December 31, 1999 is 60%. The loan-to-deposit ratio reflects an overall decline during the period. It has ranged from a high of 69% as of December 31, 1997 to a low of 55% as of September 30, 1999. At December 31, 1999, the loan-to-deposit ratio increased slightly to 57%. The loan-to-deposit decline is attributed to competitive factors and falling loan rates. FNB has recently become more aggressive in its lending efforts and loan rates and terms have been adjusted in an effort to increase its loan-to-deposit ratio.

There is only one comparable, independent institution headquartered in Lenoir City. As of September 30 1999, this community bank showed \$69 million in loans (62% of total assets) and its loan-to-deposit ratio was 69%. Total deposits in Loudon County based on June 30, 1999 Federal Deposit Insurance Corporation (FDIC) information were \$460.7 million. FNB held \$185.3 million (40%) of those deposits while the other local independent bank had deposits of \$70.4 million (14%). An area competitor, which is a community bank headquartered in Knoxville, held \$86.6 million (19%).

³ Quarterly Call Reports

Comparison of Credit Extended Inside and Outside the Bank's Assessment Area

- **A substantial majority of loans are made within FNB's Assessment Area.**

The following table indicates the ratio of 1 to 4 family real estate loans originating during 1998 and 1999. We also sampled thirty-seven small business, commercial loans originating during 1999. We tested the integrity of loan information for HMDA purposes on forty loans originated during 1999. The recorded information was determined to be accurate. The following table reflects a substantial majority of HMDA reportable loans originated during 1998 and 1999 were made within the bank's Assessment Area. Additionally, a majority of the thirty-seven small business commercial loans originated during 1999 were also made with the bank's Assessment Area. The table combines census tract and BNA information since the majority of FNB's residential mortgage loans are concentrated within the MSA.

RATIO OF LOANS MADE WITHIN ASSESSMENT AREA				
1-4 Family Real Estate	Number	Percent	Amount	Percent
Inside	553	94%	\$25,205,000	93%
Outside	33	6%	\$1,967,000	7%
Small Business	Number	Percent	Amount	Percent
Inside	28	76%	\$502,000	52%
Outside	9	24%	\$465,000	48%
Total Loans	Number	Percent	Amount	Percent
Inside	581	93%	\$25,707,000	91%
Outside	42	7%	\$2,432,000	9%

Distribution of Credit Based on Borrower Income Within the Assessment Area

- **The distribution of credit reflects good penetration among individuals of different income levels.**

The following table shows FNB has a good distribution of loans to real estate borrowers of different income levels. Low-income families comprise 14% of families within the Assessment Area. During 1998 and 1999, 17% of the number and 7% of the dollar of 1-4 family real estate loans were made to low-income families. Management believes the percentage of loans (number) made to be representative of its efforts in meeting 1-4 family real estate loan requests in its Assessment Area. Typically, 1-4 family real estate

loan request amounts, from low-income families, are smaller when compared to requests of other income levels. At 23% and 13% respectively, the percentage of loans (number and dollar) to moderate-income families compares favorably to 13% of the families within the Assessment Area.

The following table also combines census tract and BNA information since the majority of FNB’s residential mortgage loans are concentrated within the MSA.

DISTRIBUTION OF LOANS BY BORROWER INCOME WITHIN ASSESSMENT AREA						
Income Level	Families in Assessment Area		1-4 Family Real Estate			
	Number	Percent	Number	Percent	Dollar	Percent
Low	5,861	14%	95	17%	1,657,000	7%
Moderate	5,420	13%	127	23%	3,396,000	13%
Middle	7,529	19%	140	25%	6,170,000	25%
Upper	22,304	54%	191	35%	13,982,000	55%
Total	41,114	100%	553	100%	\$25,205,000	100%

Small Business Lending

- The distribution of credit reflects strong penetration among businesses with revenues less than \$1 million.

SMALL BUSINESS LOANS (sample)					
Small Business	Revenues <= \$1MM	Revenues > \$1MM	Total Loans	% <= \$1MM	% > \$1MM
		35	2	37	95%

We sampled loans made to businesses of different revenue levels. The results of our sample indicate that 95% of all loans FNB originated were to small businesses with revenues less than one million dollars. The above table reflects

strong distribution of lending to small business made between January 1, 1999 and December 31, 1999.

During 1998, FNB's self-assessment of their lending efforts reflected 396 loans aggregating \$5.1 million were originated to small businesses. Of this total, 385 loans, or 97% of the number, and \$4.5 million, or 88% of the dollar, were made to small businesses with annual revenues of less than one million dollars. FNB's performance exceeds demographic data that shows 73% of reporting businesses within the assessment area have revenues less than \$1 million.

Geographic Distribution of Credit Within the Assessment Area

- **The geographic distribution of 1 to 4 family residential loans reveals satisfactory dispersion throughout the Assessment Area.**

A review of the bank's 1998 and 1999 Home Mortgage Disclosure Act (HMDA) loan application registers revealed that at least one 1 to 4 family residential real estate loan was originated in each census tract and BNA within the Assessment Area. The only exceptions were census tract number 57.03 in Knox County and BNA 9852 in Monroe County. The census tract is predominantly business and therefore little, if any, residential lending opportunities exist. Discussions with bank management revealed that many of the residents of BNA 9852 utilize banks located in Sweetwater (Monroe County) due to the shorter distance. The northern half of this BNA borders Loudon County and is mostly undeveloped farmland. Therefore, few residential lending opportunities exist. The southern half of BNA 9852 is served by several competing financial institutions. Also, there are numerous competing bank offices offering similar loan products throughout FNB's defined Assessment Area.

FNB originated 42 residential real estate loans totaling \$2.04 million in the Roane County BNAs. In addition, FNB originated 12 residential real estate loans totaling \$580 thousand in the three BNAs of Monroe County. At least one 1 to 4 family residential real estate loan was originated in each BNA within the bank's assessment area with the exception of Monroe County's BNA 9852.

FNB's residential real estate loans are concentrated within the MSA. While penetration was low in the BNAs compared to the census tracts, FNB has demonstrated satisfactory loan penetration. FNB does not have any branch offices located within the five BNAs of its Assessment Area. See table below for further details

Geographic Distribution Within Assessment Area				
Block Numbering Area (BNA) or Census Tract (CT)	Number of Families	% of Families	Loans in BNA or CT #/\$	% of Total Loans #/\$
Low-Income	0	0	0/0	0/0
Moderate-Income	3,633	9	184/5,959	33/24
Middle-Income	16,030	39	171/7,692	31/30
Upper-Income	21,451	52	198/11,554	36/46
Total	41,114	100	553/25,205	100/100

Other

- **The bank has designed a special residential loan product for low- and moderate- income individuals within its assessment area.**

FNB implemented a “Community Housing Program” in 1991. This program promotes loans to low- and moderate-income individuals. Loans are available to purchase, remodel, or repair the borrower’s residence. The property must be located in the bank’s assessment area. Specific underwriting guidelines in the program have been revised to accommodate residential borrowers who may not otherwise qualify under the bank’s regular, residential loan program. Maximum income, debt ratios, loan amounts, and loan-to-value ratios have been modified to accommodate this program.

The Board has designated a maximum of \$3.5 million to this program. As of December 31, 1999, there were 132 loans aggregating \$2 million under the program. This amount originated at \$3.2 million. Since the previous CRA examination, the bank has made eleven loans under this program aggregating \$259 thousand dollars.

One bank contact identified a need for additional low-income housing in Loudon County. This program helps to address those needs.

Response to Complaints

- **No complaints have been received since the previous examination.**

Institution's Record of Complying with the Anti-discrimination Laws

- **We found no evidence of discrimination or other illegal credit practices. No violations of the substantive provisions of anti-discrimination laws and regulations were identified.**

We also conducted a review of the bank's fair lending practices. The loan product selected was residential loans that consist of first mortgage home purchase and refinance loans and home improvement loans. The loan sample included thirty-eight approved loans originated during 1999. This review compared loan rate and loan terms of approved single applicants to approved married applicants. We did not identify any discriminatory lending practices or violations of the substantive provisions of Federal antidiscrimination laws and regulations.

The bank has a good record of complying with anti-discrimination laws including Equal Credit Opportunity Act (ECOA) and the Fair Housing Act (FHA). During this review, there is no evidence of discrimination or other illegal credit practices based on our review of sampled files. This conclusion is based on our file testing, policy review, and discussions with management.