



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 09, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Talladega
Charter Number: 4838

120 E. North Street
Talladega, AL 35160

Office of the Comptroller of the Currency

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NOTE: This document is an evaluation of this 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. 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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

Summarize the major factors supporting the institution's rating.

- First National Bank (FNB's) loan to deposit ratio is reasonable compared to peer performance.
- FNB's geographic distribution of loans is adequate. Their distribution of loans by income level is also adequate.
- FNB has an adequate level of community development (CD) activities.

Scope of Examination

FNB qualifies as an Intermediate Small Bank under the CRA regulation and is therefore subject to being evaluated under the lending and CD tests.

FNB is primarily a commercial lender followed by residential real estate lending. Both of these loan types are considered the bank's primary loan products which will be reviewed during this examination. The scope of this evaluation included a sample of 27 commercial loans originated from January 1, 2009 until December 31, 2011. The bank's residential real estate loans were evaluated using supporting loan data collected under the Fair Housing Home Loan Data System (FHHLDS) for the years 2009 through year-end 2011. Only home purchase and refinance loans originated during this time frame were reviewed since home improvement loans are not subject to collection efforts under the FHHLDS.

The scope of the CD test includes all activity which meets the definition of CD loans, investments and services. The evaluation period for CD loans, investments and services includes all activities from May 16, 2009 until April 9, 2012.

Description of Institution

FNB is a \$421 million intrastate financial institution headquartered in Talladega, AL. The bank has one assessment area which includes 11 contiguous census tracts in the northern portion of Talladega County. FNB operates 3 full-service banking offices and 3 automated teller machines (ATMs) in northern Talladega County. FNB is wholly owned by First National Talladega Corporation, a one bank holding company which is also headquartered in Talladega.

FNB offers a variety of products and services including checking, savings, IRAs, consumer loans, commercial, educational and residential real estate loans. The bank also offers internet banking and safe deposit box services.

As of 12/31/2011, the bank's loan portfolio was comprised of commercial loans including construction & land development loans (52.69 percent), residential real estate loans (30.11 percent), consumer loans (5.70 percent), agricultural loan (5.39 percent) and all other loans (6.11 percent). As illustrated by the bank's loan mix, FNB is primarily a commercial lender followed closely by residential real estate lending. FNB originates residential loans for resale into the secondary market. Since January 2007, FNB sold 87 loans totaling \$13 million into the secondary market.

There are no financial or legal impediments that limit the bank's ability to meet the credit needs of the community. FNB was rated Satisfactory during their last CRA examination dated May 15, 2009.

Description of Assessment Area

FNB has one assessment area (AA) which includes 11 contiguous census tracts in northern Talladega County, AL. The AA includes census tracts 101-112 and the towns of Talladega, Munford and Lincoln, AL. The bank's AA complies with the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income census tracts.

Of the 11 census tracts, 0 are low-income, 2 moderate-income, 8 middle-income and 1 upper-income. The AA has a total population of 49,270 individuals and 13,260 families. Approximately 12.64 percent of the families in the AA live below the poverty level. The 2011 HUD updated median family income for the area was \$47 thousand and the weighted average median housing value was \$61,533.

Talladega County is located in the eastern portion of the state about 75 miles east of Birmingham and 100 miles west of Atlanta, GA. The county is home to the Talladega Super Speedway, Talladega College, and Alabama Institute for the Deaf and Blind. A Honda automotive assembly plant was built and began production in November 2001 which resulted in several automobile parts and supply companies starting up in nearby areas.

Employment in the county is primarily driven by manufacturing, health care and retail trade industries. Major employers in the area include Honda of AL (4,500 employees), AL Institute for the Deaf & Blind (985 employees) and Talladega County Board of Education (952 employees). As of February 2012, the unemployment rate for Talladega County was 9.3 percent which is well above the state unemployment rate of 8.0 percent.

There are 9 banking institutions operating in Talladega County from 17 banking offices. FNB is ranked 1st with a deposit market share of 40.62 percent. FNB operates 3 full-service banking offices and 3 automated teller machines in the AA.

Competition in the AA is modestly provided by Regions Bank, Frontier Bank, SouthFirst Bank, and Superior Bank with a total deposit market share of 41.91 percent.

Competition is also provided by credit unions such as Americas First Federal Credit Union and Teachers Credit Union and numerous small finance companies.

During this examination, we contacted a local public housing agency to help identify needs in the community. The organization indicated a need for more affordable rental units and home purchase loans.

The opportunity to make CD loans and investments and provide CD services in the AA is limited. We identified 5 CD organizations that operate in the AA and provide affordable housing and CD services to low- or moderate-income families in the area.

Conclusions with Respect to Performance Tests

LENDING TEST

Overall, FNB’s lending activities reflect adequate penetration and dispersion to low- and moderate-income tracts and families. The LTD ratio is adequate and the majority of the bank’s loans were made inside their AA.

Loan-to-Deposit Ratio

The bank’s quarterly average loan-to-deposit (LTD) ratio is reasonable at 53.02 percent compared to a peer average of 76.74 percent. During the 11 quarters since the last CRA examination, FNBs LTD ratio ranged from a low of 49.51 percent to a high of 56.33 percent.

We did not identify any similarly situated institutions in the bank’s primary market area however we did identify 7 peer banks with similar asset size. The peer banks were financial institutions in the state of AL with assets between \$367 million to \$471 million and had LTD ratios that ranged from a high of 97.20 percent to a low of 63.55 percent.

Lending in Assessment Area

Table 1 - Lending in AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	34	79.07	9	20.93	100.00	2,236	67.53	1,075	32.47	100.00
Refinance	105	89.74	12	10.26	100.00	8,921	52.83	7,964	47.17	100.00
Commercial	20	86.96	3	13.04	100.00	9,370	91.28	895	8.72	100.00

A majority of the bank’s loans were made inside their AA. Overall, 87 percent of the loans reviewed were inside the bank’s AA. By loan product, 87 percent of both residential real estate and commercial loans were inside the bank’s AA.

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

Overall, the distribution of residential real estate loans reflects reasonable penetration to borrowers of different income levels in the AA.

The bank’s distribution of home purchase loans exceeds the percentage of low-income families in the AA whereas their distribution of refinance loans to low-income borrowers is lower than the demographic comparator. In terms of moderate-income borrowers, the bank’s distribution of home purchase loans is lower than the demographic comparator whereas their distribution of refinance loans to moderate-income borrower is near the comparator.

Table 2 - Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	19.46	22.58	16.07	9.68	23.03	19.36	41.44	48.38
Refinance	19.46	12.87	16.07	15.84	23.03	24.75	41.44	46.54

Source: Data collected by the bank; 2000 U.S. Census data.

Based on our sample, the bank’s distribution of commercial loans reflect reasonable penetration. Their distribution of loans to businesses with revenues less than \$1 million was near the demographic comparator. However, census data shows that revenues were unknown for a large percentage of the businesses in the AA. This could skew the demographic percentage of businesses in each revenue category.

Table 2A - Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	70.22	1.90	27.88	100%
% of Bank Loans in AA by #	65.00	35.00	0.00	100%
% of Bank Loans in AA by \$	52.68	47.32	0.00	100%

Source: Loan sample; 2010 Dunn and Bradstreet data.

Table 2B - Borrower Distribution of Loans to Businesses by Loan Size in AA				
Loan Size (000’s)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	7	35.00	433	4.63
\$100,001 - \$250,000	5	25.00	911	9.72
\$250,001 - \$500,000	6	30.00	2,525	26.95
\$500,001 - \$1,000,000	0	0.00	0	0.00
Over \$1,000,000	2	10.00	5,501	58.71

Source: Loan sample.

As illustrated by the chart above, the bank’s distribution of commercial loans is reasonably dispersed among loans of various sizes.

Geographic Distribution of Loans

Overall, the geographic distribution of loans reflects a reasonable dispersion throughout the AA. The dispersion of HMDA loans is adequate while the dispersion of commercial loans is poor.

There are no low-income census tracts in bank’s AA and there are 2 census tracts designated as moderate-income; tracts 106 and 107. A large portion of tract 107 consists of the AL School for the Blind, Talladega College and the county jail.

Table 3 - Geographic Distribution of Residential Real Estate Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	6.12	2.94	86.99	82.35	6.90	14.71
Refinance	0.00	0.00	6.12	8.57	86.99	74.29	6.90	17.14

Source: Data collected by the bank; 2000 U.S. Census data.

The bank’s distribution of home purchase loans in moderate-income tracts is lower than the percentage of owner-occupied units in the AA. In the moderate tracts, the average median family income is \$23,961 and 25 percent of the families live below the poverty level. These factors could make it difficult for these families to purchase a home in these tracts in the AA. When these factors are considered, the bank’s home purchase lending performance in moderate-income tracts is reasonable. However, FNB’s distribution of refinance loans significantly exceeds the demographic comparator.

Based on our sample, FNB made no commercial loans in moderate-income census tracts. Census data shows that there are 225 businesses that operate in the 2 moderate-income tracts.

Table 3A - Geographic Distribution of Loans to Businesses in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial Loans	0.00	0.00	5.85	0.00	89.78	95.00	4.37	5.00

Source: Loan sample; 2010 D & B data.

Responses to Complaints

There were no CRA related complaints made against the bank during this evaluation period.

COMMUNITY DEVELOPMENT TEST

Given the limited opportunities in the AA, the overall level of CD activities provided during this evaluation period reflect adequate responsiveness to meeting the credit needs of the community.

Number and Amount of Community Development Loans

The level of CD loans is adequate given the limited opportunities in the AA.

During this evaluation period, the bank made 2 qualified CD loans both of which were multi-family housing projects for low-and moderate-income families. One \$87,500 loan was made to renovate an apartment complex which was initially funded by low-income housing tax credits. The other loan was made to a state-wide fund to build multi-family housing throughout the state of AL including projects in the bank's AA. The bank's commitment to the state-wide fund is \$1 million of which \$713 thousand is outstanding.

Number and Amount of Qualified Investments

The level of CD investments is adequate given the dollar amount of qualified investments made in the AA.

During this evaluation period, FNB made 20 donations totaling \$17,016 to qualified community development organizations. These organizations provided community development services that benefitted low- and moderate-income families.

Extent to Which the Bank Provides Community Development Services

The level of CD services is adequate considering the number of services provided and the type of organizations that benefitted.

During this evaluation period, 3 bank employees provided financial services to 4 qualified community development organizations. The employees served as treasurer, board members or on the advisory board for organizations that provided affordable housing or community services to low- and moderate-income families in the AA.

Responsiveness to Community Development Needs

Overall, FNB adequately responded to meeting the CD needs of the AA through CD lending, investments and services. FNB also provided retail banking services in their AA through their branch network. The bank operates 3 banking offices in the AA; all of which are located in middle-income tracts.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.