



Comptroller of the Currency
Administrator of National Banks

LARGE BANK

PUBLIC DISCLOSURE

August 30, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank Southeast
Charter # 11229
202 South Main Street
Reidsville, NC 27320**

**Office of the Comptroller of the Currency
Southeastern District
Marquis One Tower, Suite 600
245 Peachtree Center Avenue, N.E.
Atlanta, Georgia 30303**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **First National Bank Southeast** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of June 30, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The institutions record of lending to borrowers within its assessment area is good. The distribution of loans by income and geography reflects reasonable penetration. No violations of the substantive provisions of the antidiscrimination laws and regulations were identified.

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

FIRST NATIONAL BANK SOUTHEAST Performance Levels			
<i>SMALL INSTITUTION ASSESSMENT CRITERIA</i>	<i>Exceeds Standards for Satisfactory Performance</i>	<i>Meets Standards for Satisfactory Performance</i>	<i>Does not meet Standards for Satisfactory Performance</i>
<i>Loan-to-Deposit Ratio</i>		X	
<i>Lending in Assessment Area</i>		X	
<i>Lending to Borrowers of Different Incomes and to Businesses of Different Sizes</i>		X	
<i>Geographic Distribution of Loans</i>		X	
<i>Response to Complaints</i>	No Complaints Received		

DESCRIPTION OF INSTITUTION

FNB Southeast is a ten branch institution headquartered in Reidsville, North Carolina. In addition to three offices in Reidsville, the bank operates offices in nearby Greensboro, Eden, Ruffin, and Madison, North Carolina. The bank also operates a branch in Wilmington, North Carolina. FNB Southeast is a \$368 million wholly owned subsidiary of FNB Financial Services Corporation, a one bank holding company. There are no known financial or legal impediments that would impair the bank's ability to meet the credit needs of the assessment areas.

The bank's primary business strategy is to meet the needs of small businesses and retail customers. There are numerous other financial institutions in the bank's assessment areas. Competition is keen with a mix of branches of large and regional banks as well as savings banks. There is no similarly situated local competitor. Comparisons to peer are made in reference to North Carolina banks with assets of <500MM.

Average assets were \$363 million as of June 30, 1998 with gross loans representing 64% of average assets. The loan portfolio is comprised of the following loan types:

- 34% Commercial and Industrial Loans
- 30% Non-farm, Non-residential real estate
- 26% 1-4 Family Residential, Construction, Home Equity
- 10% Consumer Loans

As illustrated above, the majority of the bank's lending is centered in commercial loan products, which is consistent with the institution's overall strategic goals and objectives. The bank also extends a substantial amount of consumer and residential mortgage loans. As a result of this business strategy, this evaluation incorporates the bank's performance in small business as well as consumer lending.

DESCRIPTION OF THE ASSESSMENT AREA(s)

The bank has three assessment areas located in three counties in North Carolina. The primary assessment area is Rockingham County, given the bank's long history of operation there. Branch expansion over the past year resulted in the establishment of assessment areas in Guilford and New Hanover counties as well. The Guilford County assessment area is part of the Greensboro/Winston-Salem/High Point Metropolitan Statistical Area (MSA). The institution has limited their assessment area to Guilford County, as the current branch structure could not reasonably serve the entire MSA. Each of the bank's assessment areas meets the legal requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

Assessment Area (1) - Rockingham County

This assessment area includes each of the cities within the county. Of the 16 census tracts in the county, there are no low- or moderate- income census tracts. There are 10 middle- income tracts which represent 62% of the total number of census tracts, and 6 upper- income census tracts which represent the remaining 38%. Lending to borrowers of different incomes was evaluated based on the HUD 1998 Statewide Non-Metro median family income of \$36,100. In Rockingham County, manufacturing leads the economy with 42% of the employment distribution, while finance, insurance, and real estate make up the next largest portion at 15%, respectively.

Assessment Area (2) - Greensboro/High Point/Winston-Salem MSA - Guilford County

This assessment area includes all 94 census tracts in Guilford County. There are 4 low- income census tracts which represent 4% of the total number of census tracts, and 21 moderate- income census tracts which represent 22% of the total number of census tracts. There are 43 middle- income census tracts which represent 46% of the total number of census tracts, and 26 upper- income census tracts which represent the remaining 28%. Lending to borrowers of different incomes was evaluated on the basis of the 1998 HUD MSA median family income of \$45,500. The Guilford County economy is well diversified. Services make up the largest portion of the county employment distribution at 25%, while manufacturing and retail make up 21% and 18%, respectively.

Assessment Area (3) - Wilmington, NC MSA - New Hanover County

This assessment area includes the City of Wilmington and all of New Hanover County. The county is located on the North Carolina coast and the economy is reliant on tourism and state ports. There are 31 census tracts in the county. There are 4 low- income census tracts which represent 13% of the total number of census tracts, and 7 moderate- income census tracts which represent 23% of the total number of census tracts. There are 9 middle- income census tracts which represent 29% of the total number of tracts, and 9 upper- income census tracts which represent the remaining 29%. There are also 2 unclassified census tracts which represent the remianing 6%. Lending to borrowers of different incomes was based on the 1998 HUD MSA median family income of \$41,300.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan to Deposit Ratio

The institution's average loan-to-deposit ratio of 78% is reasonable. The bank's ratio is consistent with the 79% average of North Carolina banks with total assets under \$500MM. There is no similarly situated institution in the local market. Competition is provided by branches of large and regional banks as well as savings banks which all have different asset structures.

Lending in the Assessment Area

A substantial majority of the bank's lending is within its defined assessment area. Based on a review of the bank's lending patterns using HMDA loans originated in the 1st & 2nd quarters of 1998, we determined 90% of the number volume and 88% of the dollar volume of loans were originated within the assessment area. The HMDA data includes all home purchases, refinance, and home improvement loans. Given the bank's business strategy also includes meeting the needs of small businesses, we also reviewed commercial loans originated for the same period and determined 92% of the number volume and 80% of the dollar volume of loans were originated within the assessment area.

We also reviewed a sample of all loans originated October 1, 1996 through June 30, 1998 to evaluate the bank's penetration within each assessment area. We found the bank attained reasonable penetration in each of the three assessment areas. The bank extended loans in all census tracts in Rockingham County. The bank penetrated 76 of the 94 census tracts in Guilford County and 27 of the 29 census tracts in New Hanover County.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

We found the institutions lending to borrowers of different incomes reasonable. The bank's distribution of loans among borrowers of different incomes is consistent with the demographic data in Rockingham County. While performance in Guilford and New Hanover counties was below demographic statistics, the bank's performance is reasonable given the institution entered those markets in May 1997 and March 1997, respectively. This analysis was based on a loan sample which included all consumer loans originated in the month of June 1998. The specific lending data for each assessment area is detailed below.

Assessment Area (1) - Rockingham County

Demographic data for the county indicates 16% of families in the assessment area are low income families and 16% are moderate income families. Middle and upper income families represent 23% and 45%, respectively. As depicted in the following chart, the bank's lending performance is consistent with the area demographics.

Originations within Rockingham County To Borrowers of Different Incomes				
Income Category	# of Loans	% of Orig	\$ of Loans	% of Orig
Low	33	17%	114,738	9%
Moderate	33	17%	210,070	16%
Middle	51	27%	297,572	22%
Upper	74	39%	714,428	53%

Assessment Area (2) - Greensboro/High Point/Winston-Salem MSA - Guilford County

The demographic data for Guilford County indicates 18% of families in the assessment area are low-income families and 17% are moderate- income families. Middle and upper- income families represent 23% and 42%, respectively. The bank's level of lending to borrowers of different incomes is reasonable considering the bank entered this market in May 1997.

Originations within Guilford County To Borrowers of Different Incomes				
Income Category	# of Loans	% of Orig	\$ of Loans	% of Orig
Low	2	14%	8,175	5%
Moderate	0	0%	0	0%
Middle	7	50%	107,278	64%
Upper	5	36%	51,161	31%

Assessment Area (3) - Wilmington, NC MSA - New Hanover County

The demographic data for New Hanover County indicates 19% of families in the MSA are low-income families and 16% are moderate- income families. Middle and upper- income families are 22% and 43%, respectively. The bank's loan distribution among borrowers of different incomes is reasonable given the bank entered this market in March 1997.

Originations within New Hanover County To Borrowers of Different Incomes				
Income Category	# of Loans	% of Orig	\$ of Loans	% of Orig
Low	1	11%	18,000	16%
Moderate	1	11%	6,890	6%
Middle	2	22%	45,150	39%
Upper	5	56%	45,179	39%

Lending to businesses of different sizes

The institution's distribution of lending also reflects reasonable penetration among businesses of different sizes. A review of commercial loans originated during the 1st & 2nd quarters of 1998 was performed to determine the bank's distribution of lending to small businesses. Small businesses are defined as companies with less than \$1 million in annual revenues. A summary of findings is provided in the following chart:

Small Business Originations					
# Cml Originations	\$ Cml Originations	# Sm Bus Originations	% of Cml Originations	\$ Sm Bus Originations	% of Cml Originations
201	\$32,500,871	138	69%	\$8,006,000	25%

Small business loans of \$100,000 or less make up a substantial portion of the bank's commercial portfolio. Out of 201 originations to small businesses within the assessment areas, 183 loans were originated at or below \$100,000. The chart below details the distribution of small business loans of various sizes within the assessment areas.

Small Business Loan Originations during the first six months 1998											
<=100,000				100,001 - 250,000				>250,000			
#	% Total	Orig Balance	% Total	#	% Total	Orig Balance	% Total	#	% Total	Orig Balance	% Total
183	91%	2,977,000	37%	11	6%	1,694,000	21%	7	4%	3,335,000	42%

Geographic Distribution of Loans

The distribution of consumer loans within the assessment area is reasonable. This analysis was based on a review of consumer loans originated October 1, 1996 - June 30, 1998. The following tables demonstrate the bank's satisfactory penetration throughout the assessment area. Our consumer loan analysis does not include a review of the distribution of loans in Assessment Area (1) - Rockingham County as there are no low- or moderate- income census tracts in the county.

Assessment Area (2) - Greensboro/High Point/Winston-Salem MSA - Guilford County

Originations within Guilford County For the Period 10/1/96 - 6/30/98				
Census Tracts	# of Loans	% of Orig	\$ of Loans (000's)	% of Orig
Low	5	1%	45	<1%
Moderate	50	7%	2,456	13%
Middle	443	60%	10,613	58%
Upper	240	32%	5,171	28%

This performance is reasonably consistent with the demographic data outlined in the description of the assessment area. The bank's geographic distribution of loans is reasonable given the bank entered this market in May 1997.

Assessment Area (3) - Wilmington, NC MSA - New Hanover County

Originations within New Hanover County Wilmington, NC - MSA For the Period 10/1/96 - 6/30/98				
Census Tracts	# of Loans	% of Orig	\$ of Loans (000's)	% of Orig
Low	32	5%	2,789	9%
Moderate	44	6%	926	3%
Middle	314	43%	6,859	21%
Upper	335	46%	21,497	67%

This performance is reasonably consistent with the demographic data outlined in the description of the assessment area. The bank's geographic distribution of loans is reasonable given the bank entered this market in March 1997.

Geographic Distribution of Loans - Small Businesses

The distribution of small business loans within the assessment area is also reasonable. This analysis was based on small business loans originated in the 1st & 2nd quarters of 1998. The institution extended commercial loans in 1 of 4 low- income census tracts and 3 of 21 moderate- income census tracts in Guilford County. Commercial loans were extended in 2 of 4 low- income census tracts and 1 of 7 moderate- income census tracts in New Hanover County. There are no low- or moderate-income geographies in the Rockingham County assessment area.

Review of Complaints

The bank has not received any complaints.

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

The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations including the Equal Credit Opportunity Act. During our examination, we tested automobile loans to determine if prohibited basis group borrowers were extended credit under similar terms. This testing disclosed no evidence of disparate treatment on a prohibited basis.