



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

Public Disclosure

July 22, 1998

Community Reinvestment Act Performance Evaluation

**First National Bank of the Carolinas
Charter No. 23073**

**303 North Garnard Street
Gaffney, South Carolina 29342**

**Office of the Comptroller of the Currency
6100 Fairview Road, Suite 1154
Charlotte, North Carolina 28210-3277**

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 of the Carolinas** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of March 31, 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 of the Carolinas with respect to each of the five performance criteria.

| FIRST NATIONAL BANK OF THE CAROLINAS | | | |
|---|---|---|---|
| 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

First National Bank of the Carolinas is a two branch institution located in Cherokee County, South Carolina. In addition to the main office in Gaffney, South Carolina, the bank also has an office in nearby Blacksburg, South Carolina. The bank opened for business in October 1996 and is a subsidiary of FNB Bankshares, Incorporated, a one bank holding company. The bank is located in a middle-income census tract.

Average assets were \$22 million as of March 31, 1998 with gross loans representing 69% of average assets. The loan portfolio is comprised of the following loan types:

- 25% Commercial and Industrial Loans
- 32% Non-farm, Non-residential real estate
- 17% 1-4 Family Residential, Construction, Home Equity
- 26% 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's residential mortgage lending is limited. As a result of this business strategy, the focus of this review relies heavily on the bank's service to the small business segment within their assessment area. There are no financial or legal impediments restricting the lending activities of the bank.

DESCRIPTION OF THE ASSESSMENT AREA

The bank's assessment area includes all of Cherokee County, South Carolina, which includes the cities of Gaffney and Blacksburg. The bank's assessment area meets the legal requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The bank's assessment area contains 7 census tracts. There are no low-income or upper income census tracts within the assessment area. We identified 1 moderate-income census tract which equals 14% of the total. The remaining 6 tracts are middle income tracts which represent 86% of the total census tracts. The 1990 census reported the Cherokee County population at 44,506. Lending to borrowers of different incomes was evaluated on the basis of the 1998 Weighted Average of Median Family Income of \$28,907.

The Cherokee County economy, once largely reliant on textile and farming is becoming more diversified. The Outlet Shops have helped stimulate retail business in the county and the largest non government employer is Nestle Frozen Food Company. Other large area employers include The Timkin Company and Milliken & Company. The bank's competition in the area includes branches of large and regional banks, and a locally owned saving and loan which is the most comparable institution to the subject.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan to Deposit Ratio

The average loan-to-deposit ratio since the bank opened in October 1996 is reasonable at 73%. This ratio compares favorably to the most similarly situated local competitor average of 67%. The ratio is also in line with other national banks in South Carolina with average assets under 100 million.

Lending in the Assessment Area

A substantial majority of the bank's lending is within its defined assessment area. We compiled a sample of the bank's lending patterns using a sample of 40 automobile loans originated since opening. The sample indicated 93% of the loans were made to borrowers within the assessment area. Given the primary focus of the bank is to meet the needs of small businesses, we also selected a sample of 30 commercial loans and determined 77% were originated within the assessment area.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The institution's distribution of lending reflects reasonable penetration among businesses of different sizes. A review of commercial loans originated since opening was performed to determine the bank's distribution of lending to small businesses. Small businesses are defined as companies with less than \$1million 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 |
| 200 | \$9,136,081 | 174 | 87% | \$7,618,000 | 83% |

Small business loans of \$100,000 or less make up a substantial portion of the bank's commercial portfolio. Out of 174 originations to small businesses, 172 loans were originated at or below \$100,000.

We also reviewed the sample of 40 automobile loans to determine the bank's distribution of lending to borrowers of different incomes. The automobile sample was used for this analysis as the bank's strategy and loan mix result in a limited volume of residential real estate loans. The following is a summary of the analysis performed.

| Originations to Borrower's of Different Income Levels | | | | |
|--|-------------------|------------------|--------------------|------------------|
| Income Category | # of Loans | % of Orig | \$ of Loans | % of Orig |
| Low | 3 | 8% | 18,043 | 5% |
| Moderate | 9 | 23% | 73,478 | 21% |

| Originations to Borrower's of Different Income Levels | | | | |
|--|----|-----|---------|-----|
| Middle | 16 | 40% | 97,651 | 28% |
| Upper | 12 | 30% | 164,278 | 46% |

* Based on a sample of 40 automobile loans originated since opening.

The bank's assessment area is comprised of 23% low-income, 20% moderate-income, 26% middle-income, and 30% upper-income families. While the bank's consumer lending patterns are low when compared to the percentage of families in the low-income categories, consumer lending products have not been widely marketed by the bank. Additionally, this sample is a limited representation of the bank's overall lending practices. More extensive marketing efforts are planned once the bank has moved into their permanent facility.

Geographic Distribution of Loans

Distribution of small business credits within the assessment area is also reasonable. In addition to the automobile sample detailed above, we also reviewed a sample of small business loans originated in the assessment area since opening. The following table demonstrates the bank's satisfactory penetration throughout the assessment area.

| Small Business Originations | | | | |
|------------------------------------|-------------------|------------------|------------------------|--------------------|
| FNB of the Carolinas | | | Cherokee County | |
| Census Tracts | # of Loans | % of Orig | # of Sm Bus | % of Sm Bus |
| Low | N/A | N/A | N/A | N/A |
| Moderate | 2 | 10% | 152 | 14% |
| Middle | 18 | 90% | 1,091 | 86% |
| Upper | N/A | N/A% | N/A | N/A |

*There are no low or upper income census tracts in the assessment area (Cherokee County).

The geographic distribution of credit within the assessment area also reflects reasonable penetration. We noted no conspicuous, unexplained gaps in the bank's lending patterns. We based these findings on our review of the sample of 40 automobile loans originated since opening. The results of this sample are illustrated in the following table:

| Auto Loan Originations | | | | |
|-------------------------------|-------------------|------------------|--------------------|------------------|
| Census Tracts | # of Loans | % of Orig | \$ of Loans | % of Orig |
| Low | N/A | N/A | N/A | N/A |
| Moderate | 2 | 5% | 15,076 | 4% |
| Middle | 38 | 95% | 338,374 | 95% |
| Upper | N/A | N/A | N/A | N/A |

* There are no low or upper income census tracts in the assessment area (Cherokee County)

The percentage of originations extended to borrowers residing the moderate- income census tract is low compared to the county demographics. The demographics of Cherokee County indicate 18% of the families within the county reside in the moderate- income census tract. In an effort to reach out to low- income families, management has recently established a program specifically designed to attract to low income borrowers. In addition to gaining market penetration in the moderate- income census tract, the focus of the program is to stimulate residential real estate lending throughout the county.

Review of Complaints

The bank has not received any complaints since opening.

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 similarly situated applicants had an equal chance of obtaining a loan. This testing disclosed no evidence of disparate treatment on a prohibited basis.