

Public Disclosure

October 12, 1999

Community Reinvestment Act Performance Evaluation

**First National Bank of Pikeville
Charter Number: 10470**

**100 East Spring Street
Pikeville, Tennessee 37367**

**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 of Pikeville (FNB) prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of October 12, 1999. 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 a loan sample of twenty-three 1 to 4 family real estate mortgages, twenty-eight consumer automobile loans, twenty-four small business loans, and twenty-five small farm loans.

- 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 satisfactory penetration among individuals of different income levels and among businesses and farms of different revenues.
- We detected no evidence of discrimination or other illegal credit practices during our review.

Description of Institution

FNB reports \$55 million in total assets¹ as of June 30, 1999. The bank is based in Pikeville, Tennessee which is located in Bledsoe County approximately 60 miles northwest of Chattanooga, Tennessee. Pikeville serves as the county seat and is the only city located in rural Bledsoe County. The bank's primary business is real estate lending, specifically residential loans. There are no branch offices. The bank has two Automatic Teller Machines (ATMs). One is located at the main office and the other is a cash only (non-depository) ATM located at nearby Fall Creek Falls State Resort Park. FNB offers a satisfactory array of banking services. The bank is wholly owned by First Pikeville Bancshares, Inc., a one-bank holding company. There are no financial or legal impediments that would impair the bank's performance under the Community Reinvestment Act.

As of June 30, 1999, the bank's loan portfolio aggregated \$33.6 million and represents 62% of the total assets. Residential lending and installment lending are the primary business lines for FNB. Residential real estate loans for the period totaled \$18.4 million (55%), installment loans \$11.8 million (35%), commercial loans \$2.4 million (7%), agriculture loans \$827 thousand (2%), and all other loans \$25 thousand (less than 1%). The bank's lending philosophy is conservative. Real estate loan rates are fixed, one-to-three year balloons, and based on a fifteen-year amortization. Commercial loan rates are typically fixed and priced according to risk.

The bank received a "**Satisfactory**" rating at the last CRA examination dated August 1, 1996.

Description of Assessment Area

FNB has designated their assessment area to be the entire block numbering areas (BNAs) located in Bledsoe County. These include BNA numbers 9530.98, 9531, and 9532. The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low or moderate income areas.

The three BNAs include one moderate (9530.98) and two middle income geographies (9531 and 9532). The 1990 census reported the county's population at 9,669. The 1999 Department of Housing and Urban Development (HUD) estimated median family income for non-MSA portions of Tennessee is \$37,500. As of June 30, 1999 the county unemployment rate was 2.5% compared to state and national levels of 3.6% and 4.5%, respectively. Bledsoe County enjoys the lowest unemployment for a rural county in Tennessee. Major employers for the county include forestry-related products and two state correctional facilities. A diversified industrial base also contributes to low unemployment. Within the city limits of Pikeville, there are more than one thousand jobs available to the estimated two thousand inhabitants. Major industrial employers include Dura (formerly Excel Systems which manufactures window regulators for the automobile industry), Hubbard Farms (chicken hatchery, research and development),

¹ Consolidated Report of Condition - Call Report

Robinson Manufacturing (apparel), FLX products (automotive accessories), Pikeville Apparel (clothing), and Eclipse (small engines).

FNB's primary competition is from the Pikeville branch of Citizens Tri-County Bank based in Dunlap, Tennessee. Citizen's main office is approximately 20 miles southwest of Pikeville. By comparison, this institution has eight branches located in four counties with assets in excess of \$125 million. There is also an Ag Credit Association located in Pikeville.

Demographic data reflect 2,498 families reside in Bledsoe County. Of these families, 24% are low income, 21% moderate income, 20% middle income, and 35% upper income. Low income is defined as less than 50% of the state median family income (less than \$18,750), moderate income is between 50 and 80% (\$18,750 to \$29,999), middle income is between 80 and 120% (\$30,000 to \$44,999), and high income is anything over 120% (over \$45,000).

Twenty-two percent of the families within the Bledsoe County assessment area are below the poverty level. Thirty-one percent of the households in Bledsoe County receive social security. An additional thirteen percent receive public assistance.

We contacted a local community leader during the examination to identify community credit needs. Our contact was an elected county official. The contact stated community credit needs include more affordable home loans, housing rehabilitation programs for the elderly, and community centers/playgrounds. Based on 1995 - 1998 information provided by TVA Economic Development, the median housing price is \$36,000. The contact felt the census information was 20 to 25% less than actual population. According to the contact, bank involvement in the local community is satisfactory.

Conclusions with Respect to Performance Criteria

The bank's current rating at the CRA examination dated October 12, 1999 is "**Satisfactory**". This performance evaluation is based on our loan samples that consisted of 23 first lien, 1-4 family residential real estate loans, 28 consumer automobile loans, 24 small business, and 25 small farm loans. The sample was based on loans originated since January 1, 1997. A sample was taken because FNB's management does not collect the information. For CRA purposes, the bank is not required to collect the information.

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 ratio² for the fourteen quarter period beginning March 31, 1996 through June 30, 1999 is 61.43%. The loan-to-deposit ratio has been fairly steady and ranged from a high of 68.99% as of June 30, 1999 to a low of 54.88% as of March 31, 1996. The current five-quarter trend also reflects a slight increase.

Total deposits in Bledsoe County based on June 30, 1998 Federal Deposit Insurance Corporation (FDIC) information were \$64.9 million. FNB held \$45.4 million (70%) of those total deposits while their primary competitor, Citizens Tri-County Bank, held \$19.5 million (30%).

Thirteen percent of the households in the bank's assessment area are retired based on 1990 U.S. Census information.

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 loans made within FNB's assessment area based on our loan Sample. The Sample revealed a substantial majority of the loans for each product line are made within the bank's assessment area.

RATIO OF LOANS MADE WITHIN ASSESSMENT AREA				
1-4 Family Real Estate	Number	Percent	Amount	Percent
Inside	13	57%	\$860,800	57%
Outside	10	43%	\$564,300	43%
Automobile	Number	Percent	Amount	Percent
Inside	25	89%	\$181,713	89%
Outside	3	11%	\$9,380	11%
Total Loans	Number	Percent	Amount	Percent
Inside	38	75%	\$1,042,513	75%
Outside	13	25%	\$573,680	25%

Distribution of Credit Based on Borrower Income Within the Assessment Area

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

² Quarterly Call Reports

The following table shows FNB has a satisfactory distribution of loans to both real estate and consumer automobile borrowers of different income levels.

DISTRIBUTION OF LOANS BY BORROWER INCOME						
Income Level	Families in Assessment Area		1-4 Family Real Estate		Consumer Automobile *	
	Number	Percent	Number Of Loans	Percent	Number of Loans	Percent
Bledsoe County (BNAs 9530.98, 9531, & 9532)						
Low	596	23.86%	3	23%	5	28%
Moderate	538	21.54%	2	15%	7	39%
Middle	502	20.10%	3	23%	4	22%
Upper	862	34.51%	5	39%	2	11%
Total	1,936	100%	13	100%	18	100%

* Note: Of the 25 total consumer automobile loans within the assessment area, seven did not contain income information.

Small Business and Small Farm Lending

- The distribution of credit reflects reasonable penetration among businesses and farms of different revenues.

SMALL BUSINESS LOANS (sample)					
Small Business	Revenues <= \$1MM	Revenues > \$1MM	Total Loans	% <= \$1MM	% > \$1MM
		24	0	24	100%

SMALL FARM LOANS (sample)					
Small Farms	Revenues ≤ \$1MM	Revenues > \$1MM	Total Loans	% ≤ \$1MM	% > \$1MM
		25	0	25	100%

We sampled business and farm loans of different revenue levels. The results of our sample indicate that all loans FNB originated were to small businesses and farms. The above table reflects an excellent distribution of lending to small business and small farms made between January 1, 1997 and June 30, 1999.

Distribution of Credit Within the Assessment Area

- **The geographic distribution of loans reveals satisfactory dispersion throughout the assessment area.**

The following table illustrates the distribution of loans made within FNB's assessment area based on our sample. Overall penetration is evenly dispersed.

DISTRIBUTION WITHIN THE ASSESSMENT AREA				
BNA Income Tract	9530.98 Mod	9531 Mid	9532 Mid	Total
Percent of Families **	18%	48%	34%	100%
Number of loans				
1-4 Family RE	4	8	1	13
Automobile	4	15	6	25
Total	8	23	7	38
Percent	21%	61%	18%	100%

** Note: Percent of families for FNB's total assessment area.

Of the three BNAs in the bank's assessment area, BNA 9531 reflects the highest penetration. Geographically, BNA 9531 provides an easier route to the bank according to management. BNA 9532 is mountainous and rural thus potential customers have

easier access to other markets. Also located in BNA 9532 are the two correctional facilities which house 1,102 inmates.

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 consumer automobile loans. This review compared a sample of five denied female applicants, our prohibited basis group, to twenty approved male applicants, our control group. We did not identify any discriminatory lending practices or violations of the substantive provisions of Federal antidiscrimination laws and regulations.

We then reviewed the bank's denial and training procedures. The loan committee meets weekly and reviews proposed consumer credit denials a second time prior to mailing the official notice. Loan officers are provided regular training to ensure compliance with antidiscrimination laws.

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.