



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

July 01, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Peoples National Bank
Charter Number 21037**

**1800 East Main Street
Easley, SC 29640**

**Comptroller of the Currency
ADC - Carolinas (Charlotte)
6100 Fairview Road Suite 1154
Charlotte, NC 28210**

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 factors and data supporting the rating are as follows:

- Peoples National Bank's loan to deposit ratio is reasonable.
- A substantial majority of the bank's loans and lending activities are within the assessment area (AA).
- The distribution of borrowers reflects reasonable penetration among individuals of different income levels.

DESCRIPTION OF INSTITUTION

The Peoples National Bank (PNB) is a \$256 million bank located in Easley, SC. PNB serves the communities within and adjacent to Pickens County in South Carolina. In addition to the main office in Easley, three other branch offices are located in Powdersville, Pickens, and Pendleton South Carolina. PNB is wholly owned by a three-bank holding company, Peoples Bancorporation, also located in Easley, SC. Other subsidiaries of the holding company include Bank of Anderson, N.A., Anderson, SC, and Seneca National Bank, Seneca, SC. As of December 31, 2002, the holding company reported total consolidated assets of \$416 million.

PNB offers a full range of banking products and services. As of December 31, 2002, loans totaled \$205 million and represented 80% of total assets. Deposits totaled \$185 million. Loan portfolio distribution was as follows: loans secured by 1-4 family residential properties (46%); loans for commercial purposes or secured by commercial real estate (48%); and non real estate secured consumer purpose loans (6%). Based on the loan mix and the bank's business strategy, PNB is primarily a commercial lender and secondarily a home mortgage lender. The bank also sells home mortgages on the secondary market. During the assessment period, PNB originated 910 home mortgage loans totaling \$105 million. Of these, approximately half or 459 home mortgage loans originated within the assessment area. Mortgage loan applications processed from outside the assessment area were primarily originated for resale on the secondary market. The majority of loans originated within the assessment area were retained in the PNB loan portfolio

Our analysis of PNB's CRA performance consisted of reviewing a sample of commercial loans and home mortgage loans to consumers reported on the Home Mortgage Disclosure Act Loan Application Register (HMDA-LAR). As of December 31, 2002, Tier 1 capital was \$19 million, and risk based capital to risk weighted assets was 10.97%. There are no legal, financial, or other factors impeding PNB's ability to help meet the credit needs of the AA. The last CRA examination for PNB, dated September 30, 1998, received a rating of Satisfactory.

DESCRIPTION OF ASSESSMENT AREA

Peoples National Bank has defined its assessment area as the 61 adjacent census tracts in Pickens, Greenville, and Anderson Counties in South Carolina. All three counties are located within the Greenville-Spartanburg Metropolitan Statistical Area (MSA #3160). The AA consists of 9 moderate (15%), 42 middle (69%), 8 upper (13%), and 2 undefined (3%) income census tracts. There are no low-income tracts within the AA. PNB's assessment area meets the legal requirements of the regulation and does not arbitrarily exclude any low or moderate-income areas. The total population of the AA is 239,090 represented by 60,047 families. While there are no defined low-income census tracts within the AA, low-income families represent 20% of the total families within the AA, and moderate-income families represent 19% of the total.

The overall economic condition of the AA is good. As of December 31, 2002, the 2.5% unemployment rate for Pickens County was well below the statewide average of 6.4% for the same period. Within Pickens County, the majority of commercial businesses are located in middle-income census tracts.

The City of Easley is geographically located in the center of the "Upstate" region of South Carolina. Although a growing area in its own right, Easley also functions as a "bedroom" community for the major employment center of Greenville, South Carolina, approximately 10 miles east. PNB's assessment area is comprised primarily of service related businesses and industries. Excluding the significant employment provided by Greenville companies, the major employer in the surrounding area is Clemson University. The 2002, updated MSA median family income for the AA is \$53,200. The Greenville-Spartanburg MSA includes many large national and international employers including BMW, Michelin, and others.

Competition in PNB's assessment area includes other community banks, branches of regional institutions, credit unions, and finance companies. PNB's main competitors are branches of regional banks, as well as, other local community banks. Based on discussions with senior management and community representatives, mortgage products are the primary credit needs of the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our analysis included an evaluation of commercial and home mortgage loans that represent PNB's primary loan products, based upon PNB's current loan portfolio composition. We selected a random sample of 20 commercial loans and used PNB's Home Mortgage Disclosure Act (HMDA) reporting system to identify loans originated or purchased since the last CRA examination. The evaluation period for this examination was September 30, 1998 through December 31, 2002. The loan sample was used to determine PNB's percentage of lending in the AA, as well as, PNB's distribution by borrower income level performance. In arriving at the overall bank rating, more weight was placed on borrower income distribution considering the absence of low-income census tracts and the small number of moderate-income tracts.

Loan-to-Deposit Ratio

The quarterly average loan-to-deposit ratio of 84% for the period from September 30, 1998 to December 31, 2002 is more than reasonable, and exceeds the peer bank average of 76%. This is an increase from the average loan to deposit ratio of 80% calculated during the previous CRA evaluation period in 1998. The ratio increase reflects the additional loan volume of 1-4 family mortgage loans originated, closed, and subsequently sold in the secondary market.

Lending in Assessment Area

Lending activities and loan volume in the AA are considered satisfactory with respect to both mortgage and business lending activities. Our review indicated PNB meets the standards for satisfactory performance with 50% of mortgage loans originated in the assessment area. Of the 50% of mortgage loan volume originated in the assessment area, 73% was retained in PNB loan portfolio and 27% was sold on the secondary market. Our review also indicated that 100% of the randomly selected commercial loans were made within the assessment area

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

Lending to borrowers of different incomes and businesses of different sizes is reasonable and meets the standard for satisfactory performance. Demographic information indicates that approximately 20% of the families in the assessment area are categorized low-income, and 19% are moderate-income. The bank's mortgage loan distribution for borrowers of different income levels indicates that 9% (39 loans out of 459) home mortgage loans originated to low-income borrowers, and 17% (78 loans) home mortgage loans originated to moderate-income borrowers. For dollar volume, 4% (\$1.7 million) originated to low-income borrowers, and 12% (\$5.5 million) originated to moderate-income borrowers. The banks lending to low- and moderate-income borrowers is below the demographics of the AA. This disparity is mitigated considering 14% of the population is below the poverty level making it difficult for them to afford and maintain a home. PNB has programs for first-time homebuyers plus secondary market placement availability for low- and moderate-income borrowers that have received some interest. Other factors influencing performance are the higher rental unit occupancy of 34% and the limited number of branches to serve a highly competitive market. The 2000 Updated HUD MSA Median Family Income level of \$53,200 was used as the income base for stratifying population income levels.

The distribution of commercial loans is reasonable for businesses of different sizes. Small businesses represent 83% of all businesses in the AA. Based on a sample of 20 commercial loans, PNB originated 75% of their commercial loans to small businesses (businesses with revenues of \$1 million or less). This level of performance is slightly below the AA demographics for small businesses; however, 65% of the commercial loans originated in amounts of \$100 thousand or less. Furthermore, two commercial loans in the sample were made to businesses with revenues in excess of \$1 million, but these were both real estate construction loans for individual projects. The revenues generated for these borrowers are not necessarily reflective of the financing provided.

Geographic Distribution of Loans

PNB's geographic distribution of mortgage loans is reasonable. The assessment area contains 61 census tracts. There are no low-income census tracts and, and only nine or 15% of the census tracts are moderate-income. This demographic make-up is reflective of the affluent retirement nature of the communities and the easy commuting distance to the Greenville metropolitan area. Home ownership is heavy in the middle- and upper-income tracts, whereas, the moderate-income tracts reflect a high percentage of rental occupancy. As a percentage of the total number of housing units within the moderate-income tracts, 34.08% are renter occupied. This reflects a relatively high level of rental occupancy in moderate-income census tracts. PNB originated 9% of its home mortgage loans in moderate-income census tracts, which is below AA demographics; however, this level of performance is mitigated given the limited ability of the bank to compete because of branch distribution, competition, and the high rental occupancy for moderate-income census tracts.

PNB's distribution of commercial lending in the AA is reasonable. Based on the commercial loan sample, commercial lending in moderate-income tracts represented 10% of the loans sampled. This level of lending is near to the 13% AA business demographics.

Responses to Complaints

There are no CRA complaints on record.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.