



**SMALL BANK**

---

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

---

## **PUBLIC DISCLOSURE**

**January 24, 2005**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The First National Bank of LaFollette  
Charter Number 7225**

**101 W. Central Avenue  
LaFollette, TN 37766**

**Comptroller of the Currency  
Nashville  
5200 Maryland Way Suite 104  
Brentwood, TN 37027**

**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 average loan-to-deposit ratio at 73.41% is reasonable given the bank's size, financial condition, and assessment area credit needs.
- ◆ A substantial majority of the number of the bank's loans originated was inside the assessment area.
- ◆ The borrower distribution of loans reflects strong penetration among individuals of different income levels and businesses of different sizes.
- ◆ The geographic distribution of loans reflects very favorable geographic distribution of residential real estate loans and business loans.

Examiners reviewed a sample of residential mortgage and business loans originating between January 1, 2002 and December 31, 2004. Loans originated in 2002 were compared to 1990 U.S. Census data. Loans originated in 2003 and 2004 were compared to 2000 U.S. Census data.

## **DESCRIPTION OF INSTITUTION**

First National Bank of LaFollette (FNB) is a \$172 million community bank with offices located in Campbell and Anderson Counties Tennessee. The bank has their main office and two branches located in Campbell County. The main office and a branch are located in the City of LaFollette. The other Campbell County branch is located in the adjoining City of Jacksboro. An additional branch is located in the City of Clinton, which is in the adjoining Anderson County. Anderson County is approximately 10 miles South of the bank's main office. All offices are full service. All offices offer ATM services, except one-branch. The Clinton Branch was opened in 1999. There have been no branch closings since the previous CRA Performance Evaluation. As of December 31, 2004, the bank reported total assets of \$172 million. Deposits and loans comprise \$152 and \$114 million, respectively. Loans represent 66% of total assets. FNB is a wholly owned subsidiary of LaFollette First National Corporation, a one-bank holding company. The bank's main office and Jacksboro Branch are located in moderate-income census tracts. The other two branches are located in middle-income census tracts.

FNB is one of twelve institutions operating within the competitive Campbell and Anderson County market. There are six community banks, five regional bank branches, and a federal savings bank within the market. Based on FDIC market data as of June 30, 2004, FNB ranked third in the deposit market share with 13%. Two regional bank offices control 20 and 14%, respectively. The smallest market share of 2% is controlled by another regional bank. An independent competitor institution controls 8% of the deposit market. The bank's primary business focus is residential real estate, commercial loans, and consumer loans. The loan portfolio composition as of December 31, 2004, is as follows:

<b>Loan Category</b>	<b>\$ (000s)</b>	<b>Percent</b>
Residential Mortgage Loans	\$60,160	52.8%

Commercial & Commercial Real Estate	\$30,847	27.0%
Individuals	\$10,567	9.3%
Farmland and Agriculture	\$192	0.2%
Construction & Land Development	\$12,162	10.7%
<b>Total</b>	\$113,928	100%

\* Data obtained from 12/31/2004 Call report

FNB offers convenient banking hours and a variety of loan and deposit products to meet the needs of the assessment area. There are no financial impediments that would limit the bank's ability to help meet the credit needs in its assessment area. The bank's last CRA examination was performed as of November 2, 1998 and was rated **Satisfactory**.

## DESCRIPTION OF ASSESSMENT AREA

FNB's assessment area (AA) meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. The AA includes nine of eleven census tracts in Campbell County and three of sixteen census tracts in Anderson County. Two moderate census tracts in Campbell County are excluded from the AA due to the physical barrier of the Cumberland Mountain Range. The Clinch River, a natural barrier, divides the City of Clinton. The three Anderson County census tracts included in the AA are east of the Clinch River. These tracts were added to the bank's AA in 1999 after opening the Clinton Branch. The 1990 U.S. Census data shows the assessment area contains four moderate-income census tracts. The 2000 census data shows the AA contains six moderate-income tracts. No low- income census tracts have been identified within Campbell or Anderson Counties during either the 1990 or 2000 census and therefore, there are no low- income tracts within the bank's AA.

The LaFollette and Jacksboro city limits join each other. Jacksboro serves as the county seat of Campbell County. The local employment base is diversified with principal industries being light manufacturing, education, and health care. Some of the major employers in the county include Carmel Manufacturing (canvas – 366 employees), A & S Building Systems, Inc. (steel buildings – 300 employees), Advance Food Company (food products – 200 employees), and PACA Body Armor (body armor – 180 employees), SEMCO (sewing – 160 employees), Tactical Armor Products (protective armor products – 140 employees), and B/S/H Home Appliance Corp. (range, stove tops, and barbeque grills – 128 employees). Clinton is the county seat for Anderson County. The local employment base is diversified with principal industries being manufacturing, education, and health care. Some of the major employers are Carlisle Tire & Wheel Company (industrial tires – 600 employees), Eagle Bend Manufacturing, Inc. (automotive parts – 427 employees), Food Lion Corporation (distribution – 300 employees), Link-Belt Bearing (bearings - 260 employees), and Techmer P. M. (poly modifiers – 250 employees). As of December 2004, the unemployment rates in Campbell and Anderson Counties were 5.9% and 5%, respectively. Campbell County unemployment exceeded both the State of Tennessee and United States unemployment rates for the period of 5.2% and 5.1%, respectively, whereas Anderson County unemployment compared favorably to both the State of Tennessee and the United States. The 2003 annually adjusted unemployment rate for Campbell and Anderson

County were 6.5% and 4.6%, respectively. Similarly, the 2003 annually adjusted unemployment rate for the State of Tennessee and United States was 5.8% and 6%, respectively.

FNB is a Home Mortgage Disclosure Act (HMDA) reporter.

The following table includes general demographic data describing the assessment area.

Demographic Information for Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	12	0.00	50.00	50.00	0.00	0.00
Population by Geography	50,758	0.00	46.78	53.22	0.00	0.00
Owner-Occupied Housing by Geography	15,400	0.00	43.87	56.13	0.00	0.00
Businesses by Geography	2,187	0.00	46.55	53.45	0.00	0.00
Farms by Geography	46	0.00	30.43	69.57	0.00	0.00
Family Distribution by Income Level	14,889	26.66	20.65	23.67	29.03	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	6,816	35.27	22.33	0.00	0.00	0.00
Median Family Income	\$39,357	Median Housing Value 2004				\$70,025
HUD Adjusted Median Family Income for 2004	\$44,625	Unemployment Rate 2004				6.05%
Households Below the Poverty Level	20%					

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 U.S. Census, and 2004 HUD updated MFI.

The following table shows the demographic and economic characteristics of the assessment area:

<b>Demographic Information for Assessment Area</b>					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs) 1990	12	0%	33%	66%	0%
Geographies (census Tracts/BNAs) 2000	12	0%	50%	50%	0%

*Source: 1990 U.S. Census, 2000 U.S. Census.*

We conducted a community contact with the local chamber of commerce. They stated that the area financial institutions are positively perceived for their involvement in community activities. This contact revealed that local banks are meeting the primary credit needs in the area.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### **Loan-to-Deposit Ratio**

FNB's loan-to-deposit ratio meets the standard for satisfactory performance given the bank's size, financial condition, and considering the credit needs of the assessment area. Since the previous CRA examination dated November 2, 1998, the quarterly loan-to-deposit ratio averaged 73.41% for the twenty-six quarters. The ratio has ranged from a high of 80.01% at December 31, 2002 to a low of 62.97% at December 31, 2001.

There was only one institution of similar size, location, and number of branches in FNB's market to compare loan-to-deposit ratios. Its quarterly loan-to-deposit ratio averaged 66.37% for the twenty-six quarters ending December 31, 2004. The ratio has ranged from a high of 86.81% at September 30, 2004 to a low of 51.39% as of June 30, 2000.

### **Lending in Assessment Area**

FNB's lending within its AA exceeds the standards for satisfactory performance. A substantial majority of the number of FNB's loans originated was within the AA. Our sample was comprised of residential real estate mortgage loans and business loans. For mortgage loans, 90% of the total number and 91.4% of the dollar amount of loans were originated within the AA. For business loans, 85.1% of the total number and 94% of the dollar amount of loans were originated within the AA. Based on our sample, 87.2% of the total number of sampled loans and 92.7% of the total dollar amount of sampled loans were originated in the bank's AA. Lending within the AA is detailed in the following table.

<b>Table 1 - Lending in Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total #	Inside		Outside		Total \$
	#	%	#	%		\$	%	\$	%	
Home Mortgage Loan Sample	54	90.0%	6	10.0%	60	\$4,132	91.4%	\$391	8.6%	\$4,523
Business Loan Sample	55	85.1%	10	14.9%	65	\$4,401	94.0%	\$282	6.0%	\$4,683
Totals	109	87.2%	16	12.8%	125	\$8,533	92.7%	\$673	7.3%	\$9,206

Source: sampled home mortgage loans and business loans from 2002, 2003 and 2004.

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

The distribution of lending to borrowers of different incomes and to businesses of different sizes, given the demographics of the AA, meets the standards for satisfactory performance. Although the bank's overall penetration among individuals of different income levels (including low- and moderate-income) has shown some declining trends, the bank's efforts are still reasonable considering overall their lending is generally greater than 50% of the AA families with the exception of 2004 moderate income families. Lending to businesses of different sizes is reasonable.

As shown below, the number of residential real estate loans to low- and moderate-income families is lower than the percentage of low- and moderate-income families in the AA for the 2002, 2003, and 2004 sample. While the percent of the number of loans made to moderate-income families has declined over the years and improvement is needed, the percent of the number of loans the bank made to low-income families compared to the percent of AA families is greater than 70% for each year reviewed.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Assessment Area</b>								
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 Mortgage Loans <sup>1</sup>	27.96%	20.00%	18.64%	15.00%	22.40%	25.00%	31.00%	40.00%
Home Mortgage Loans <sup>2</sup>	26.43%	23.53%	20.44%	11.76%	23.72%	41.18%	29.40%	23.53%
Home Mortgage Loans <sup>3</sup>	26.66%	20.00%	20.65%	10.00%	23.67%	35.00%	29.03%	35.0%

<sup>1</sup>Source: Home mortgage loan sample for 2002; U.S. 1990 Census data.

<sup>2</sup>Source: Home mortgage loan sample for 2003; US 2000 Census data.

<sup>3</sup>Source: Home mortgage loan sample for 2004; U.S. 2000 Census data.

The distribution of loans to small businesses is good compared to the number of small businesses in the AA. As shown below, our sample of business loans reveals that 43.30% of the number and 56.70% of the dollar amount of loans in the AA were made to small businesses (businesses with \$1 million or less in gross annual revenues).

<b>Table 2A - Borrower Distribution of Loans to Businesses in Assessment Area</b>			
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Not reported
% of AA Businesses*	66.16%	4.34%	29.49%
% of Bank Loans in AA by #	43.30%	50.70%	6.00%
% of Bank Loans in AA by \$	56.70%	43.30%	0%

Source: Business loan sample for 2002, 2003 and 2004.

\*Dunn & Bradstreet data, % of AA businesses did not report revenue data

### Geographic Distribution of Loans

We determined that the geographic distribution of loans within the bank's AA exceeds the standards for satisfactory performance. There were no low-income census tracts within the assessment area. The following table shows that 30% of the number of loans to FNB residential real estate borrowers in 2002 and 41.18% in 2003 were made in moderate-income census tracts. These percentages compare favorably and equate to over 90% of the percentage of owner occupied housing in moderate-income census tracts. In 2004, 61.11% of the bank's number of loans made were in moderate-income census tracts and this compares very favorably to the percentage of owner occupied housing in moderate census tracts at 43.87%. This is partially explained by the 2000 census. The number of moderate census tracts increased by two. Conversely, the number of middle-income census tracts declined by the two following the 2000 census. The reclassification of census tracts from middle to moderate helps to explain the increases in the number of loans in moderate census tracts for the years 2003 and 2004.

<b>Table 3 – Geographic Distribution of Residential Real Estate Loans in Assessment Area</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of Owner Occupied Housing	% of Number of Loans	% of Owner Occupied Housing	% of Number of Loans	% of Owner Occupied Housing	% of Number of Loans	% of Owner Occupied Housing	% of Number of Loans
2002 Sample <sup>1</sup>	0%	0%	32.36%	30.00%	67.64%	70.00%	0%	0%
2003 Sample <sup>2</sup>	0%	0%	43.87%	41.18%	56.13%	58.82%	0%	0%
2004 Sample <sup>3</sup>	0%	0%	43.87%	61.11%	56.13%	38.89%	0%	0%

<sup>1</sup>Demographic data source: U.S. 1990 Census data.

<sup>2</sup>Demographic data source: U.S. 2000 Census data.

<sup>3</sup>Demographic data source: U.S. 2000 Census data

The following table reveals that 50%, 63.16%, and 55% of the business loans to FNB borrowers

in 2002, 2003, and 2004, respectively, were located in moderate-income census tracts. This compares very favorably to Dunn & Bradstreet data showing the percent of AA businesses in moderate income census tracts of 32.72%, 41,24%, and 46.55%, respectively, for the same periods.

<b>Table 3A - Geographic Distribution of Loans to Businesses in Assessment Area</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
2002 Sample <sup>1</sup>	0%	0%	32.72%	50.00%	67.28%	50.00%	0%	0%
2003 Sample <sup>2</sup>	0%	0%	47.58%	63.16%	52.42%	36.84%	0%	0%
2004 Sample <sup>3</sup>	0%	0%	46.55%	55.00%	53.45%	45.00%	0%	0%

*1,2,3Data source: Dunn & Bradstreet data.*

### **Responses to Complaints**

This criteria is not applicable as FNB has not received any CRA-related complaints since the previous CRA examination.

### **Fair Lending or Other Illegal Credit Practices Review**

An analysis of public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1998.