



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

May 15, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Talladega
Charter Number: 4838

120 E. North Street
Talladega, AL 35160-0000

Office of the Comptroller of the Currency

Birmingham Field Office
100 Concourse Parkway Suite 240
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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 Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The First National Bank (FNB) of Talladega, Talladega, Alabama has a satisfactory record of meeting community credit needs. This rating is based on the following:

- A substantial majority of the bank's loans are extended within their assessment area. The distribution of loans demonstrates a reasonable penetration among borrowers of different income levels and businesses of different sizes. The bank's loan-to-deposit ratio is reasonable based on the bank's performance context and lending opportunities within its assessment area.
- The level of qualified community development services, loans, and investments represents satisfactory responsiveness to identified community development needs. FNB's delivery systems are reasonably accessible to geographies and individuals of different income levels in its assessment areas. The bank originated community development loans during the evaluation period totaling \$617 thousand or 1.56% of Tier 1 Capital.

SCOPE OF EXAMINATION

Conclusions regarding the bank's lending performance are based on residential real estate, consumer, and commercial loans for the years 2007, 2008, and year to date 2009. For the community development test, the evaluation period runs from the ending date of the last CRA evaluation period to the stated date of the current CRA evaluation. This test includes a review of the investments, services, and loans provided in the bank's assessment area that meet the definition of community development.

DESCRIPTION OF INSTITUTION

The First National Bank of Talladega is a \$355 million bank which serves the northern portion of Talladega County through branches in the communities of Talladega, Lincoln and Munford. FNB Talladega is wholly owned by First National Talladega Corporation. The bank offers a full range of loan and deposit products. The following chart reflects the distribution of the bank's loan portfolio as of March 31, 2009.

Loan Category	\$ (000)	%
Real Estate Loans	118,421	75.51
Commercial Loans	17,430	11.11
Loans to Individuals	10,474	6.68
Agricultural Loans	1,921	1.22
Other Loans	8,572	5.48
Total	156,818	100.00

There are no legal impediments or other factors that inhibit the bank's ability to meet the credit needs of the community. The bank was rated satisfactory during the prior CRA Examination dated April 2, 2003.

DESCRIPTION OF ASSESSMENT AREA

The assessment area (AA) is comprised of census tracts from Talladega County. Census tracts 101, 102, 103, 104, 105, 106, 107, 109, 110, 111, and 112 are included in the AA. These constitute all of the census tracts north of Childersburg and Sylacauga. The AA is comprised of contiguous tracts which include such communities as Talladega, Lincoln, and Munford. The designated area does not exclude low and moderate-income geographies. This area does not fall within the boundaries of any Metropolitan Statistical Areas. Only census tracts which the bank realistically plans to serve are included in the AA. The AA meets the requirements of the Community Reinvestment Act (CRA).

The AA has a total population of 49,270 and consists of two moderate income tracts, eight middle income tracts, and one upper income tract. The unemployment rate for the AA is 3.15%. Competition in the area is strong with numerous nationally and state chartered banks headquartered in Talladega County. Additionally, branches from larger banks headquartered outside the AA have claimed a substantial portion of the market. Major employers in the AA include Honda Manufacturing of Alabama, Talladega County Board of Education, Nemak Aluminum Components, Alabama Institute for Deaf and Blind, New South Express, and Coosa Valley Medical Center. Interviews with local business and civic organizations revealed that there is a need for financing for all product types, which is likely related to the shortage of credit in the current economic environment. The following table provides a description of the assessment area based on census data and 2008 Department of Housing and Urban Development (HUD) information.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	13,260
Number of Households	18,192
<i>Geographies</i>	
Number of Census Tracts	11
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	18.18%
% Middle-Income Census Tracts	72.73%
% Upper-Income Census Tracts	9.09%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$37,858
2008 HUD-Adjusted MFI	\$45,400
<i>Economic Indicators</i>	
Unemployment Rate (2000) Census	3.15%
2000 Median Housing Value	\$61,533
% of Households Below Poverty Level	17.56%

Source: U.S. Census data.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Management has demonstrated satisfactory performance in meeting the credit needs of the community. The following sections provide detail of our assessment of each performance criteria.

LENDING TEST

FNB of Talladega's performance under the lending test is Satisfactory. The bank's loan-to-deposit ratio is reasonable and a substantial majority of the bank's loans were within its designated assessment area. The distribution of these loans by geography and by borrower income level reflects a reasonable penetration throughout the assessment area.

Loan-to-Deposit Ratio

The First National Bank of Talladega's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly loan-to-deposit ratio has averaged 54.52% since the prior CRA Examination. The average loan-to-deposit ratio of banks within and near the assessment area during the same time period was 75.79%. However, FNB of Talladega's loan-to-deposit ratio is 75.99%, more in line with peer banks, once public funds are netted out. This ratio

does not include \$12.7 million in 1-4 family residential real estate loans sold to the secondary market since January 2007.

Institution	Assets (000s) (as of 3/31/09)	Average LTD Ratio
The First National Bank of Talladega	\$354,417	54.52%
Alabama Trust Bank, National Association	\$81,498	74.74%
Metro Bank	\$518,172	84.36%
Union State Bank	\$310,068	62.87%
Firststate Bank	\$157,763	67.56%
Central State Bank	\$161,532	76.34%
Red Mountain Bank, National Association	\$358,830	98.29%
Cheaha Bank	\$165,724	70.60%
Farmers & Merchants Bank	\$188,869	68.02%
Noble Bank & Trust, National Association	\$127,700	79.35%

Lending in Assessment Area

A substantial majority of the bank’s lending activity is located within the assessment area. Our review focused on the bank’s primary product lines: commercial, consumer, and 1-4 family residential real estate loans. We reviewed a sample of 20 loans for each of these product types for this lending test. The sample revealed that approximately 87% of the number of loans was extended in the bank’s assessment area. While the dollar amount of loans extended outside of the assessment area does appear high, it should be noted that our sample for commercial loans included two very large loans that skew the outcome of the entire sample. Illustrated below is the breakdown of loans by category:

Lending in Talladega County AA										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	14	70.00	6	30.00	20	\$877	8.51	\$9,428	91.49	\$10,305
Consumer	19	95.00	1	5.00	20	\$231	93.90	\$15	6.10	\$246
Residential RE	19	95.00	1	5.00	20	\$745	98.68	\$10	1.32	\$755
Totals	52	86.67	8	13.33	60	\$1,853	16.39	\$9,453	83.61	\$11,306

Source: Loan sample.

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

The distribution of loans within the assessment area reflects a reasonable penetration among borrowers of different income levels. Our conclusions in regards to these tests take into account economic factors influencing the demand for loans in the assessment area. There are a high number of area civilians not actively seeking employment at 35.69%, which would typically influence loan demand. Additionally, the 2000 United States Census Data established that 17.56% of assessment area households live under the poverty line. There is also a high volume of affordable rental units in the AA. Overall, we feel the bank’s lending to low-to-moderate income (LMI) borrowers is justified given the aforementioned factors.

Borrower distribution of Residential Real Estate (RE) loans in the AA is reasonable. While lending to low income borrowers is lower than the demographics would suggest, we feel the local economic factors are sufficient to explain this discrepancy. In particular, rental units are in high supply and are very affordable. Furthermore, a large number of the low income population is comprised of students and retired individuals.

Borrower Distribution of Residential Real Estate Loans in Talladega County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Residential RE	19.46	9.26	16.07	18.52	23.03	20.37	41.44	51.85

Source: Loan sample; U.S. Census data.

The distribution of consumer loans to borrowers of different incomes is very good. Almost 45% of the loans in our sample were given to borrowers classified as low-to-moderate income. The demographic data is much lower than that figure at only 36%.

Borrower Distribution of Consumer Loans in Talladega County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	23.02	22.45	13.19	22.45	15.86	26.53	47.93	28.57

Source: Loan sample; U.S. Census data.

The distribution of loans to businesses reflects a reasonable penetration. Approximately fifty percent of businesses do not report their revenues; therefore the percentage of businesses by income level may not accurately reflect a true percentage in each income category. Our sample of business loans inside the assessment area revealed a substantial majority of the number of the bank’s business loans were to businesses with revenues less than \$1 million. While the dollar amount of loans extended to businesses with revenues greater than \$1 million was high, this is mainly a result of a few very large loans.

Borrower Distribution of Loans to Businesses in Talladega County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	47.39	2.96	49.65	100%
% of Bank Loans in AA by #	82.61	17.39	0.00	100%
% of Bank Loans in AA by \$	47.96	52.04	0.00	100%

Source: Loan sample; Dunn and Bradstreet data.

Geographic Distribution of Loans

Overall, the geographic distribution of loans reflects a reasonable dispersion within the assessment area. The bank’s assessment area has no low income tracts and two moderate income tracts 106 and 107. The geographic distribution of residential real estate loans reflects a reasonable dispersion; however, loans to moderate census tracts represent 3.7% of our sample compared to 6.12% of the assessment area. Approximately 25% of moderate census tract families live below poverty level. The Helen Keller School for the Blind and Talladega College classrooms occupy a large portion of moderate income tract 107 thus explaining the limited number of total housing units. Occupied rental units represent 41% of total housing units thus limiting the supply available for purchase.

Geographic Distribution of Residential Real Estate Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
	0.00	0.00	6.12	3.70	86.98	77.78	6.90	18.52

Source: Loan Sample; U.S. Census data.

The geographic distribution of consumer loans represents a poor dispersion. This can be explained by the fact 15% of households in the moderate census tracts are below poverty level, 26% receive public assistance, and 25% of households rent costs exceed 30% of their income thus rendering many households unable to qualify for a loan.

Geographic Distribution of Consumer Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
	0.00	0.00	8.96	0.00	84.49	91.84	6.55	8.16

Source: Loan Sample; U.S. Census data.

The geographic distribution of business loans represents a reasonable dispersion. Our sample reflects 2.17% of loans reviewed were extended to businesses in the moderate income tracts. Only 9% or 273 businesses and 2% or 2 farms are located in the two moderate income tracts. FNB of Talladega must compete with RBC, Regions, and South First Bank for commercial loans. As mentioned earlier, The Helen Keller School for the Blind and Talladega College classrooms occupy a large portion of moderate income tract 107.

Geographic Distribution of Loans to Businesses								
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
	0.00	0.00	8.78	2.17	86.75	86.96	4.47	10.87

Source: Loan Sample; Dun & Bradstreet data.

Responses to Complaints

The First National Bank of Talladega has not received any CRA related complaints during the assessment period.

COMMUNITY DEVELOPMENT TEST

FNB of Talladega’s overall performance under the community development test is satisfactory. The bank has provided a satisfactory level of community development services, investments and loans in its assessment area.

Number and Amount of Community Development Loans

FNB of Talladega has a satisfactory level of community development loans in its assessment area. During this evaluation period, the bank had two loans totaling approximately \$617 thousand that qualified as community development.

Number and Amount of Qualified Investments

The opportunity and availability of qualified investments is limited in the bank's assessment area, which is a non-metropolitan area that is predominantly middle income. The two moderate tracts in the assessment area are primarily composed of a school for the blind, golf course and wooded area. Investments are limited to donations to local organizations that provide community services.

Extent to Which the Bank Provides Community Development Services

FNB's community development services reflect satisfactory responsiveness to the needs and opportunities within the bank's assessment area. Delivery systems are reasonably accessible to geographies and individuals of different income levels in its assessment area. FNB originated two Habitat for Humanity loans which were assigned to the Alabama Housing Finance Authority. The bank was also active in obtaining donations for closing costs for these loans. FNB is an active member of the Alabama Multi Family Loan Consortium which funds permanent financing on low and moderate income apartment complexes and communities within Alabama. Additionally, bank officers and employees are actively involved in community organizations.

Responsiveness to Community Development Needs

FNB of Talladega has demonstrated a satisfactory responsiveness to community development needs throughout its assessment area. FNB offers products and services which meet the needs of all individuals and geographies, regardless of income levels. Additionally, FNB officers and employees are actively involved in community organizations that promote community development.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.