



**Comptroller of the Currency
Administrator of National Banks**

Nashville Duty Station
5200 Maryland Way, Suite 104
Brentwood, Tennessee 37027

(615) 377-6062

PUBLIC DISCLOSURE

August 1, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Pikeville
Charter #10470
100 East Spring Street
Pikeville, Tennessee 37367**

**Office of the Comptroller of the Currency
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 Community Reinvestment Act (CRA) performance of The First National Bank of Pikeville prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of August 1, 1996. 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 bank has made a substantial portion of loans within their assessment area. The loan-to-deposit ratio is adequate. In addition, the distribution of credit within the assessment area and across all income levels is reasonable. We found no evidence of discrimination or other illegal credit practices during our review.

The following table indicates the performance level of The First National Bank of Pikeville with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	The First National Bank of Pikeville PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

The First National Bank of Pikeville (FNB) is a \$46 million, one office institution, wholly owned by Pikeville Bancshares, Inc, a one bank holding company. The bank is based in Pikeville, Tennessee located in Bledsoe County approximately 60 miles northwest of Chattanooga, Tennessee. Pikeville is the only city located in Bledsoe County. There are no financial or legal impediments that would impair the bank's performance under the Community Reinvestment Act.

FNB's primary business is real estate lending, specifically residential loans. The bank's loan portfolio is comprised of residential real estate (34%), consumer loans (24%), commercial and commercial real estate (30%), agriculture (5%) and other real estate (7%).

During the first six months of 1996, the bank originated 1,225 loans totaling \$13,417,329. This includes one-year balloon mortgage products and short-term consumer purpose loans. These loans are frequently renewed and are not distinguished from new loans. Therefore, the number of originations is overstated. It was not practical for management to develop a separate reporting system for new originations only. We performed a review on new loans only which yielded similar results to management's analysis of lending in the assessment area and distribution of credit within the assessment area.

DESCRIPTION OF ASSESSMENT AREA

FNB of Pikeville has designated their assessment area to be all block numbering areas (BNAs) located in Bledsoe County. The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low-to-moderate income areas.

The assessment area has three BNAs including one moderate and two middle income geographies. The 1990 census reported the county's population at 9,669. The 1996 statewide non-metropolitan median family income is \$30,200. As of April 1996 the county unemployment rate was 5.5% compared to the state and national levels of 4.8% and 5.4%, respectively. Major employers for the county include: two state correctional facilities, Excel Systems (window regulators for the automobile industry), County School System, and Robinson Manufacturing (apparel).

The bank's main competition is from the Pikeville branch of Citizens Tri-County Bank based in Dunlap, Tennessee located in Sequatchie County. By comparison, this competitor has over \$100MM in total assets with eight branches located in four counties. There is also an AG Credit Association located in Pikeville.

We contacted two local community leaders during the examination to identify community credit needs. These contacts stated that community credit needs include consumer purpose loans for automobiles and personal expenses, home loans and farm loans. The leaders expect growth in the local community with the emergence of new industries which will increase the demand for home and consumer purpose loans. According to the contacts, bank involvement in the local community is good.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Analysis

- **The loan-to-deposit ratio is reasonable given FNB's size, financial condition, and assessment area credit needs.**

The average loan-to-deposit ratio since the previous CRA examination (August 1992) is satisfactory at 50.56%. FNB's loan-to-deposit ratio has increased from 49.95% at December 31, 1994 to 60.56% at June 30, 1996. Even though this ratio has been below the peer average of 58.25%, the demographic composition of the county justifies a lower ratio. Approximately 11% of the county's population resides in two correctional facilities located in the county. Twelve percent of the population is over the age of 65. Approximately 31% of the households are supported by social security and 22% of the households are below the poverty level. Bank management also stated that they do not make a significant amount of automobile loans because there is only one used automobile dealer in the county. Consumers must go outside of the county to purchase an automobile and typically finance it at that location.

Comparison of Credit Extended Inside and Outside the Bank's Assessment Area

- **A large majority of loans and other lending related activities are in FNB's assessment area.**

Management tracks their lending activities within and outside their assessment area by zip code. Management's analysis of new and renewed loans made between January through June 1996 revealed that 84.82% of the number and 72.92 % of the dollar volume of loans made were within their assessment area. We verified the tracking system and performed a review on new loans only which yielded similar results to management's analysis.

Most institutions use BNAs to analyze their geographic areas, however this bank relies upon zip codes to track their distribution of loans. The bank has very limited address information since the majority of the population have a post office box or rural route rather than a specific street address. As a result, tracking loans by zip code is the most accurate method available and provides the most relevant information to the bank.

Distribution of Credit Based on Borrower Income and Business Revenue

- **The distribution of credit reflects reasonable penetration among individuals of different income levels and businesses and farms of different sizes.**

We sampled 60 home mortgage and consumer loans made during 1996 to determine distribution of loans by borrower income levels. This analysis reflected reasonable penetration to low- and moderate-income borrowers. The following table illustrates the distribution of our sample by income levels:

Income Category*	% by number	% by dollar
Low Income	28.3%	9.9%
Moderate Income	16.7%	11.0%
Middle Income	18.3%	2.8%
Upper Income	36.7%	76.3%
* calculated using 1996 HUD's Tennessee Median Family Income for a Non-metropolitan area.		

During the first six months of 1996, 61 new loans totaling \$586,081 were made to small farms and 110 new loans totaling \$1,943,465 were made to small businesses. Of the loans made to small businesses, 99% of the number and 82% of the dollar amount originated at \$100,000 or less.

Distribution of Credit Within the Assessment Area

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

Management tracks the distribution of credit within their assessment area by rural routes and post office boxes. Management's analysis revealed that 11.26% of the number and 16.26% of the dollar amount of loans were made in the moderate income BNA. The remaining loans were made in the two middle income BNAs. We verified the tracking system and our analysis yielded similar results. According to the 1990 census population information, only 18.46% of the total population of Bledsoe county resides in the moderate income BNA. Through discussions with management, we learned that the city of Pikeville is not easily accessible to those who reside in the moderate income BNA. There are only three main roads which lead from that area of the county into Pikeville, one is under construction and another is a gravel road. It could take residents up to 40 minutes to reach Pikeville where other cities outside of the county are more easily accessible. Therefore, the geographic distribution is considered satisfactory.

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 the anti-discrimination laws and regulations were identified.**

The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations including the Equal Credit Opportunity Act and the Fair Housing Act. During our examination, we tested home purchase applications 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.