

PUBLIC DISCLOSURE

June 6, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Newport Federal Bank
170 West Broadway
Newport, Tennessee 37821
Docket #: 02892**

**Office of Thrift Supervision
Southeast Region
1475 Peachtree Street, NE
Atlanta, Georgia 30309**

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.



Office of Thrift Supervision
Department of the Treasury

Southeast Region

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June 30, 2011

Board of Directors
Newport Federal Bank
170 West Broadway
Newport, Tennessee 37821

Members of the Board:

Enclosed is your institution's written Community Reinvestment Act (CRA) Performance Evaluation. The Office of Thrift Supervision (OTS) prepared the evaluation as of June 6, 2011. Pursuant to the provisions of the CRA and OTS regulations (12 C.F.R. 563e), your institution must make this evaluation and your institution's CRA rating available to the public.

In accordance with 12 C.F.R. 563e, Newport Federal must make this written CRA Performance Evaluation available to the public within 30 business days of receiving it. You must place the evaluation in your CRA public file at your home office and at each branch within this time frame. You may not alter or abridge the evaluation in any manner. At your discretion, you may retain previous written CRA Performance Evaluation(s) with the most recent evaluation in your CRA public file.

Newport Federal may prepare a response to the evaluation. You may place the response in each CRA public file along with the evaluation. In the event the bank elects to prepare such a response, please forward a copy of it to this office.

All appropriate personnel, particularly customer contact personnel, need to be aware of the responsibilities that the institution has to make this evaluation available to the public. Consequently, we suggest that your institution reviews internal procedures for handling CRA inquiries, including those pertaining to the evaluation and other contents of the CRA public file.

We strongly encourage the Board of Directors, senior management, and other appropriate personnel to review this document and to take an active interest and role in the CRA activities of your institution. Please

acknowledge receipt of this evaluation by signing the attached Board signature page and retaining a copy of the acknowledgment.

Sincerely,

Rickert Marlin
Regional Compliance Examiner Supervisor

Enclosure

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General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions, 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 Newport Federal Bank (Newport Federal or Institution). The Office of Thrift Supervision (OTS) prepared the evaluation as of June 6, 2011. OTS evaluates performance in assessment area(s) delineated by the institution rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. OTS rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 563e.

Institution

Overall Rating

INSTITUTION'S CRA RATING: Newport Federal is rated “Satisfactory record of meeting community credit needs.”

At the preceding evaluation, conducted as of December 29, 2006, the OTS assigned a CRA rating of “Satisfactory record of meeting community credit needs” to Newport Federal. We’ve again based our report of the Institution’s performance upon the “streamlined” standards for small savings associations.

During the current review period, January 1, 2007 through December 31, 2010, Newport Federal maintained a strong loan-to-deposit (LTD) average ratio of 83.4 percent which was very near the 87.9 percent average ratio of those similarly sized savings associations regulated by the OTS.

Other measures of lending activity indicated that the Institution originated a reasonable volume of products, based upon its average asset size and in comparison to similarly sized OTS-regulated institutions. The Institution is a community savings association and offers a variety of lending products, including single and multi-family residential mortgage, nonresidential real estate mortgage, commercial loans, consumer loans and loans secured by its own savings products.

Properties located within the assessment area secured the vast majority of the 1-4 family residential loan origination activity (an average 87.5 percent between January 1, 2008 and December 31, 2010.) Our review found the Institution’s overall record of lending to low-to moderate-income (LMI) borrowers within the assessment area reasonable compared to area demographics and to that of similar mortgage lenders within the assessment area, especially when taking the percentage of low-income families below the poverty level into consideration. We determined that the Institution’s record of lending within the moderate-income census tracts (CTs) within the assessment area is reasonable compared to area demographics and to the lending record of similar mortgage lenders within the assessment area.

Institution (continued)

Scope of Examination

The time period reviewed for this evaluation will be from January 1, 2007 through December 31, 2010; however, our review generally disregarded the 2007 data as it is too old to be meaningful. Products reviewed included purchase and refinance mortgage loans originated during this period.

The assigned rating also took Newport Federal's community development investments and services into consideration.

Description of Institution

Newport Federal is a federally chartered, stock savings association with total assets of \$180 million at December 31, 2010. The Institution and its two branches are located in the small rural town of Newport, Cocke County, Tennessee.

Newport Federal's offices (lobbies and drive-ups) are open for business from 9:00 a.m. to 4:00 p.m. Monday, Tuesday and Thursday; 9:00 a.m. to 5:00 p.m. on Friday and closed on Wednesdays. The main office and the 263 East Broadway offices are open from 9:00 a.m. until noon on Saturday. The 345 Cosby Highway branch office is not open on Saturday. The hours of operation are adequate and consistent with those of the Institution's competitors.

Newport Federal operates Automated Teller Machines (ATMs) at all three locations. The Institution issues ATM cards that permit its customers to access their accounts through other institutions' ATM network systems, including Pulse, Cirrus and Visa. As an added convenience to their customers the Institution also offers internet banking so that customers can check balances, review account histories, move money between their Newport Federal accounts, and pay bills on line.

A traditional savings association, Newport Federal has concentrated its operations in the origination of mortgage loans and the acceptance of deposits. The Institution engages mainly in the origination of residential real estate loans. As of December 31, 2010, 63.5 percent of the total assets consisted of mortgage loans secured by permanent mortgages on single-family residences, multi-family dwellings, nonresidential property, home improvements, and mortgage-backed securities. Additionally, the Institution has 2.4 percent of total assets invested in non-mortgage loans and 28.0 percent invested in other securities.

Institution (continued)

Newport Federal offers conventional fixed and adjustable rate first mortgages for the purchase, refinance, improvement, and construction of 1-4 family residences including mobile homes, multi-family dwellings as well as non-residential mortgages. The Institution maintains all loans production in its own portfolio.

Description of Newport, Cocke County, Tennessee

Newport Federal’s assessment area consists of all of Cocke County, Tennessee. This rural area is located approximately 50 miles northeast of Knoxville, Tennessee just off Interstate 40 and not included in a Metropolitan Statistical Area (MSA).

As per the 2000 Census report, Cocke County divides into eight census tracts (CTs) three moderate-income, and five middle-income tracts. In a rural area, a moderate-income CT is one with a Median Family Income (MFI) of at least 50.0 percent and less than 80.0 percent of the statewide, nonmetropolitan MFI. A middle income CT is one with a MFI of at least 80.0 percent and less than 120 percent of the statewide, nonmetropolitan MFI. There are no low or upper income tracts in Cocke County.

Cocke County has been experiencing an economic downturn for the last three to four years. Up until the 2005 tobacco buyout by the government, the area was still primarily a farming district. After the buy out and prior to the U.S. economic slowdown in 2007 the county was largely involved in tourism, that is buying and selling the land that the previous farm land to build vacation homes and hotels. As the U.S. economy slowed down and the real estate market tanked many people lost their sources of revenue and the county has not yet discovered another profitable way to make a living.

A summary of certain demographic characteristics for the assessment area based upon 2000 Census data is as follows:

DEMOGRAPHICS OF CTs			FAMILY DISTRIBUTION	
CT Category	Population	Owner Occupied Housing Units	Income Category	Distribution of Families
Low	-0-	0.0%	Low	28.9%
Moderate	11,238	33.0%	Moderate	19.8%
Middle	22,327	67.0%	Middle	22.9%
Upper	-0-	0.0%	Upper	28.4%
Total	33,565	100.0%	Total	100.0%

Institution (continued)

The examiner's review of 2000 Census data disclosed the following additional information about the combined assessment area:

Total Population	33,565
Population 16 and older	26,755 (79.7%)
Population Over 65	4,575 (13.6%)
Total Housing Units	15,844
Owner-Occupied Housing Units	10,388 (65.5)
Rental Occupied Units	3,375 (21.3%)
1 - 4 Family Units	10,829 (68.4%)
Multi-Family Units	396 (2.5%)
Total Families	9,801
Families below the Poverty Level	1,829 (18.7%)

Newport Federal encounters substantial competition from many other financial institutions within the assessment area. Specifically, as of June 30, 2010, the latest information available, the Institution is only one of five financial institutions in this small town. The other four are commercial bank branches for three regional banks and one national bank, each with several branches outside of the assessment area such as National Bank of Tennessee, U S Bank National Association, Greenbank and Tennessee State Bank. As of June 30, 2010, all institutions held approximately \$466.4 thousand in deposits within the assessment area. Newport Federal held approximately 31.5 percent of the assessment area's total deposits.

Given Newport Federal's resources, the examiner concludes that the assessment area is consistent with regulatory requirements.

Conclusions with Respect to Performance Tests

Loan-to-Deposit Ratio (LTD)

Information compiled from the OTS's Thrift Financial Reports disclosed that Newport Federal's LTD ratio averaged 83.4 percent over the review period. This ratio is only slightly lower than the average LTD ratio of 87.9 percent during this period for similarly sized savings associations regulated by the OTS.

The examiner concludes that the Institution's LTD ratio exceeds the standard for satisfactory performance for this criterion.

Institution (continued)

Lending within the Assessment Area

Newport Federal was not subject to the Home Mortgage Disclosure Act (HMDA) for the review period but did maintain a loan/application register and captured data similar to that required by the HMDA. After reviewing these records, the examiner determined that the Institution originated 307 mortgage loans between January 1, 2008, and December 31, 2010. The examiner also determined that property located within the assessment area secured the majority of the originated mortgage loans as described below:

LOAN APPROVALS/ORIGINATIONS DURING THE REVIEW PERIOD				
Approvals/Originations	Number	Pct. No.	Volume (000s)	Pct. of \$
Inside Assessment Area	272	88.6%	\$19,041	87.5%
Outside Assessment Area	<u>35</u>	<u>11.4%</u>	<u>2,568</u>	<u>12.5%</u>
Total	307	100.0%	\$21,609	100.0%

Based upon the data referenced above, the examiner concludes that Newport Federal’s level of mortgage lending within the assessment area exceeds the standard for satisfactory performance for this particular criterion.

Lending to Borrowers of Different Income Levels

In order to evaluate Newport Federal’s record of lending to borrowers of different income levels for 2008 through 2010, family income levels were stratified as a percentage of the updated MFI for the non-metropolitan area of Tennessee. The updated MFI figures, as provided by the Department of Housing and Urban Development, for the non-metropolitan areas of Tennessee for 2008, 2009, and 2010 were \$44,400, \$46,300, and \$46,400, respectively.

Institution (continued)

From information contained in the Institution’s records, the examiner compiled the following borrower income distribution statistics:

Income Category	Percent of MFI	Number	No. Pct.	Volume (\$000s)	Pct. of \$	Distribution of Families
Low	<50%	57	21.0%	\$2,526	13.2%	28.9%
Moderate	≥50-<80%	55	20.2%	3,295	17.2%	19.8%
Middle	≥80-<120%	62	22.8%	4,645	24.3%	22.9%
Upper	≥120%	98	36.0%	8,700	45.3%	28.4%
Total		272	100.0%	\$19,166	100.0%	100.0%

As indicated above, the percentage of mortgage loans granted to low-income borrowers was below the number of low-income families within the assessment area. However, family poverty levels in the assessment area may be an influence to Newport Federal’s ability to originate mortgage loans to low-income borrowers. The examiner noted that according to the 2000 Census, approximately 64.7 percent of the low-income families residing within the assessment area have incomes below the poverty level (18.7 percent of all families living within the assessment area have incomes below the poverty level). The Institution’s level of mortgage lending to moderate-income borrowers was slightly above the percentage of moderate-income families residing within the assessment area.

Although not subject to HMDA, our exam also compared Newport Federal’s overall record of lending to borrowers of different income levels to the lending activity of other lenders subject to the CRA that originated HMDA reportable loans within the combined assessment area, focusing upon LMI borrowers. In accordance with the HMDA, creditors with total assets greater than \$250 million and a branch office located within an MSA, must submit certain information regarding mortgage loans for purchase, refinance, and home improvement purposes for all property locations. Our exam derived this information from the 2008 and 2009 HMDA Aggregate information, the latest available.

Institution (continued)

Based upon the data shown below for 2008 and 2009, Newport Federal’s combined record of lending to LMI borrowers was higher than that of other lenders within the assessment area. However, both were below the assessment area’s LMI demographics.

2008/2009 Aggregate HMDA Borrower Income Analysis for Mortgage Loan Originations of similar products by other lenders within the Combined Assessment Area

Income Category	Percent Of MFI	Newport Fed Percent of No.	Other Lenders Percent of No.	Distribution Of Families
Low	<50%	19.8%	10.0%	28.9%
Moderate	≥50-<80%	24.1%	20.6%	19.8%

Newport Federal furthers their ability to lend to LMI borrowers by being the only one of the banks in the area that makes loans on mobile home loans at reasonable interest rates. Only one other lender finances mobile homes, a company that also sells mobile homes and charges a much higher rate of interest. The Institution financed 63 mobile home loans between January 1, 2008 and December 31, 2010.

Institution (continued)

The examiner determined that Newport Federal’s overall level of lending to borrowers of different income levels exceeds the standard for satisfactory performance for this criterion.

Geographic Distribution of Loans

The examiner also performed a review to determine the adequacy of dispersion of lending with regard to lending within the moderate-income areas of the assessment area for 2008, 2009, and 2010. Specifically, the examiner analyzed the percentage of residential mortgage loans, by number and dollar amount of the mortgage loans originated by Newport Federal within the moderate-income CTs compared to the percentage of owner-occupied housing units (OOHUs) located within those areas.

The analysis disclosed the following information concerning the Institution’s record of residential mortgage lending throughout the different CTs within the assessment area. We derived the percentage of OOHUs from the 2000 Census:

Income Category	Percent Of MFI	Number	No. Pct.	Volume (\$000s)	Pct. Of \$	Distribution Of OOHUs
Moderate	≥50-<80%	147	54.1%	8,988	46.9%	33.0%
Middle	≥80-<120%	125	45.9%	10,178	53.1%	67.0%
Total		272	100.0%	\$19,166	100.0%	100.0%

Newport Federal’s overall record of lending in the moderate-income area was above the assessment area’s demographics on a number basis, as well as above the area’s demographics on a dollar volume basis.

Although the Institution was not subject to the HMDA, our exam also compared Newport Federal’s overall record of lending within the moderate-income CTs to the lending activity of other lenders subject to the CRA that originated HMDA reportable loans within the assessment area. We derived this information from the 2008 and 2009 HMDA Aggregate information, the latest available. In order to provide a more accurate comparison, the lending activity was compiled for all types of mortgage loans for single-family dwellings originated by lenders subject to the CRA, focusing upon mortgage lending in the moderate-income CTs.

Institution (continued)

Based upon this data for 2008 and 2009, Newport Federal’s level of lending within the moderate-income CTs was below that of other lenders, but both were below the assessment area’s demographics as indicated below:

2008/2009 Aggregate HMDA Geographic Distribution Analysis for Mortgage Loan Originations of similar products by other lenders within the Assessment Area

Income Category	Percent Of MFI	Newport Fed Percent of No.	Other Lenders Percent of No.	Distribution Of O.O.H.U.
Moderate	≥50-<80%	24.1%	29.1%	33.0%

Based upon the bank’s overall level of lending within the moderate-income CTs, the examiner determined that Newport Federal’s overall geographic distribution of lending for the review period minimally meets the standard for satisfactory performance for this criterion.

Fair Lending or Other Illegal Credit Practices Review

Record of Compliance with Anti-discrimination Laws and Regulations

Our compliance exam team reviewed a sample of loan application files at the Institution’s most recent compliance examination to determine the Newport Federal’s level of compliance with anti-discrimination laws and regulations, including the OTS Nondiscrimination Regulations; the Equal Credit Opportunity Act and its implementing regulation, Regulation B; and the Fair Housing Act. That review disclosed no evidence of prohibited discriminatory lending practices, and it appeared that the bank treated all applicants consistently and in accordance with the Institution’s written underwriting guidelines.

Response to Community Complaints

No complaints concerning Newport Federal’s performance in meeting the credit needs of the assessment area have been received since the preceding evaluation.

CRA Rating Definitions

There are four separate and distinct CRA assessment methods set forth in the CRA: the lending, investment, and service tests for large, retail institutions; the streamlined examination method for small institutions; the community development test for wholesale and limited purpose institutions; and the strategic plan option for all institutions. OTS will assign an institution one of the four assigned ratings required by Section 807 of the CRA:

1. "Outstanding record of meeting community credit needs."
2. "Satisfactory record of meeting community credit needs."
3. "Needs to improve record of meeting community credit needs."
4. "Substantial noncompliance in meeting community credit needs."

OTS judges an institution's performance under the test and standards in the rule in the context of information about the institution, its community, its competitors, and its peers. Among the factors to evaluate in an examination are the economic and demographic characteristics of the assessment area(s); the lending, investment, and service opportunities in the assessment area(s); the institution's product offerings and business strategy; the institution's capacity and constraints; the prior performance of the institution; in appropriate circumstances, the performance of a similarly situated institution; and other relevant information. An institution's performance need not fit each aspect of a particular rating profile in order to receive that rating, and exceptionally strong performance with respect to some aspects may compensate for weak performance in others. The institution's overall performance, however, must be consistent with safe and sound banking practices and generally with the appropriate rating profile. In addition, OTS adjusts the evaluation of an institution's performance under the applicable assessment method in accordance with §563e.21 and §563e.28, which provide for adjustments on the basis of evidence of discriminatory or other illegal credit practices.