



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 22, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank Of Tullahoma
Charter Number 3107**

**115 North Atlantic Street
Tullahoma, TN 37388**

**Comptroller of the Currency
Nashville Field Office
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.

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General Information

The Community Reinvestment Act (CRA) requires that 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 CRA performance of First National Bank of Tullahoma (First), Tullahoma, TN prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of September 22, 2003. 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.

We assigned the rating based on the following information:

- The bank's loan-to-deposit ratio is reasonable.
- The bank originated a substantial majority of its loans within their assessment area.
- Analysis reflects excellent penetration among businesses of different sizes and reasonable penetration to individuals of different income levels.
- The geographic distribution of loans reflects reasonable dispersion throughout the bank's assessment area.
- No public complaints related to CRA have been filed since the previous performance evaluation.

DESCRIPTION OF INSTITUTION

First is a wholly owned subsidiary of FN BanCorp, Inc., a one-bank holding company, headquartered in Tullahoma, Tennessee. At December 31, 2002, the holding company had \$69,683,000 in total assets. First National Bank's total assets for fiscal year end 2002 and 2001 were \$69,446,000 and \$71,766,000, respectively. As of June 30, 2003, the bank reported total assets of \$72,099,000, of which net loans comprise 44.86 percent. The bank is primarily a residential mortgage lender. However, the bank is not a Home Mortgage Disclosure Act (HMDA) reporter. The bank is also a commercial lender. The bank received a satisfactory CRA rating at its last CRA performance evaluation dated April 23, 1998. There are no legal or financial impediments to First's ability to meet the credit needs of its assessment area.

First provides a full range of banking services in its primary market area of Coffee County and contiguous portions of Bedford, Franklin, and Moore counties. The bank has a main office and two full-service branches. The main office is located in the business district of downtown

Tullahoma. Two branches are also located in Tullahoma. There is an automated teller machine (ATM) located at each branch office. There is also one free standing ATM. There has been one branch closed since the previous performance evaluation.

Product Category	Gross Loans as of June 30, 2003*	
	Dollar (000's)	Percent
Commercial & Industrial Including Commercial Real Estate	12,293	37.40
Residential Mortgage Loans	16,016	48.73
Construction & Land Development	337	1.02
Individuals	4,154	12.64
All Other	0	0
Farmland and Agriculture	69	0.21
Total	32,869	100

* Data obtained from Call report

DESCRIPTION OF THE ASSESSMENT AREA (AA)

The bank's assessment area (AA) is designated as Coffee County census tracts 9708, 9709, and 9710, Bedford County census tract 9508, Franklin County census tract 9602, and Moore County census tracts 9901 and 9902 as established by the U. S. Census Bureau at the 1990 census. Upper income census tracts are 9708 (Coffee County), 9602 (Franklin County), and 9508 (Bedford County). Middle-income census tracts are 9710 (Coffee County) and 9901 and 9902 (Moore County). Census tract 9709 (Coffee County) is the only moderate tract. There are no low-income census tracts within the banks AA. Of the seven census tracts, one is designated moderate-income (14%), three are designated middle-income (42.86%), and three are designated upper income (42.86%).

The bank's main office, Kings Lane Branch, and Grundy Street ATM are located in Upper Income Census Tract 9708. The West Lincoln Street Branch is located between middle-income census tract 9710 and moderate-income census tract 9709. All offices are located in Coffee County.

The AA encompasses portions of four counties with total population of 33,799 for 2002. Tullahoma has enjoyed steady growth in population over the years. The city is home to more than 50 industries and has an excellent selection of goods and services available to more than 100,000 people who live within a 20-mile radius. Located half way between Nashville and Chattanooga, TN, Tullahoma is home to Arnold Air Force Base (AFB). Arnold AFB has over 44,000 acres including the Arnold Engineering Development Center (AEDC), a permanent aeronautical research-testing center developed in 1949. AEDC is the world's largest and most complex collection of flight simulation test facilities and has tested virtually every high performance aerospace system used by the Department of Defense. This facility has brought thousands of new residents, including scientists, engineers, skilled technicians and their families, to Tullahoma and the surrounding area from all over the world. As of September 30, 2002, AEDC had 2,676 employees. Secondary jobs created totaled an additional 1,846. Total direct

and indirect employment of 4,522 resulted in direct and indirect expenditures of \$333.5 and \$157.8 million, respectively, for the bank’s assessment area and other adjoining counties in Middle Tennessee. AEDC has had a tremendous economic impact on the local economy since 1950. Tullahoma also offers an abundance of recreational venues with three nearby lakes, numerous cultural attractions, plentiful fishing, and historical landmarks.

At June 30, 2003, unemployment for Coffee, Bedford, Franklin, and Moore Counties was 4.8%, 10.1%, 5.1%, and 2.9%, respectively. Unemployment for the State and Nation was 5.3% and 6.4% for the same period. On average, unemployment within the assessment area has been lower than the State and Nation.

The following table includes the general demographic data describing the AA.

Demographic Information for Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	7	0	14.29%	42.86%	42.86%	0
Population by Geography	33,799	0	0	27.6%	72.4%	0
Owner-Occupied Housing by Geography	13,864	0	0	27.9%	72.1%	0
Businesses by Geography	2,035	0	0	32.5%	67.5%	0
Farms by Geography	79	0	0	43.0%	57.0%	0
Family Distribution by Income Level	9,939	14.3%	13.1%	19.7%	52.9%	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	2,718	52.2%	47.8%	0	0	0
Median Family Income	= \$31,483	Median Housing Value		= \$53,141		
HUD Adjusted Median Family Income for 2003	= \$42,600	Unemployment Rate		= 4.8%		
Households Below the Poverty Level	= 14.03%					

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 1990 U.S. Census, and 2002 HUD updated MFI.

COMMUNITY CONTACTS – We conducted one community contact with the City Administrator of Tullahoma. They stated that First is adequately serving the needs of the community and local businesses. It was also reported that as a group the banking industry is adequately serving the needs of the community and local businesses. The community contact did not reveal any unmet credit needs in the bank’s AA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio – Meets the Standard for Satisfactory Performance

First’s loan to deposit ratio is reasonable. The average loan-to-deposit ratio for the twenty-one quarters from June 30, 1998 to June 30, 2003 was 58.28%. The highest loan-to- deposit ratio was 63.98% as of December 31, 2000 while the lowest ratio was 51.22% as of September 30,

1998. As of June 30, 2003, the bank’s loan-to-deposit ratio was 61.26%.

Two similarly situated community banks, two regional bank offices, and various finance companies afford moderate competition for First. When compared to the two community banks as of June 30, 2003, First’s loan-to-deposit ratio is lower. Both community banks had \$119 million in total assets as of June 30, 2003. The average loan-to-deposit ratio for the two-competitor banks for the twenty-one quarters from June 30, 1998 to June 30, 2003 was 82.95% and 73.36%, respectively. Similarly, the highest loan-to-deposit ratios were 86.71% (September 30, 1998) and 85.29% (June 30, 2001), respectively. For the same period, the lowest loan-to-deposit ratios were 78% (June 30, 2003) and 63.87% (March 31, 2000). Additional intense competition is afforded by a local, large credit union.

Lending in the Assessment Area – Meets the Standard for Satisfactory Performance

The bank originated a substantial majority of its total loans within their AA. For loans to businesses 89% of the number and 93% of the dollar amount were within the AA. For home mortgage loans, 80% of the number and 78% of the dollar amount were within the AA. The analysis of lending in the bank’s AA included a sample of commercial loans, the bank’s primary loan type. The bank is not a HMDA reporter. Since home mortgage loans are a primary loan product, we also included information taken from the bank’s home loan register.

Lending Inside the Assessment Area

Evaluation Period: July 1, 1998 through June 30, 2003								
Assessment Area:	Total Sampled Small Loans to Businesses				Total Home Loan Register Home Mortgage Loans			
	#	%# of Total	\$ (000)	%\$ of Total	#	%# of Total	\$ (000)	%\$ of Total
Tulahoma AA	122	89%	14,740	93%	383	80%	37,613	78%

** Home Loan Register reported Home Mortgage loans include loans originated 07/01/1998 through 06/30/2003.

Lending to Businesses of Different Sizes and Borrowers of Different Incomes – Meets the Standard for Satisfactory Performance

The distribution of the bank’s primary lending product, business loans, given the demographics of the AA, reflects excellent penetration by number and dollar amounts among business of different sizes. The analysis of lending to businesses of different sizes was completed using information generated by the bank inside the AA.

The distribution of home mortgage loans among borrowers of different income levels (including low-and moderate-income) reflects lower penetration than the demographics of the AA in all categories except upper-income borrowers. The analysis was completed using home loan register data for the periods July 1, 1998 through June 30, 2003.

Borrower Distribution of Small Loans to Businesses

Evaluation Period: July 1, 1998 through June 30, 2003

Assessment Area:	Business With Revenues of \$1 million or less			Loans by Original Amount Regardless of Business Size					
	% of Businesses in Tullahoma AA	%# Bank Loans	% \$ Bank Loans	\$100,000 or less		>\$100,000 to \$250,000		>\$250,000 to \$1,000,000	
				#	\$	#	\$	#	\$
Tullahoma Assessment Area	79.3%	95.9%	86.2%	69.7%	17.6%	15.6%	19.2%	14.6%	63.4%

*Percentage of Businesses in Tullahoma AA is the percentage of business based on 1990 Census information.

The above table also illustrates the number and dollar volume of loans by size and the percentage of small loans to businesses compared to the percentage of business that are small. The distribution of loans to small businesses (businesses with \$1 million or less in gross annual revenues) of 95.9% is excellent when compared to the number of small businesses in the AA of 79.3%. Also, the distribution by loan size is also excellent with 69.7% of the number of business loans made in the AA was \$100,000 or less.

Borrower Distribution of Home Mortgage Loans

Evaluation Period: July 1, 1998 through June 30, 2003										
	Total Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers	
	#	% of Total	% Families	% Bank Loans	% Families	% Bank Loans	% Families	% Bank Loans	% Families	% Bank Loans
Tullahoma Assessment Area	376	100	14.3	4.8	13.1	11.4	19.7	15.4	52.9	64.9

• Percentage of Families is based on 1990 Census information.

The above table illustrates the distribution of home mortgage loans within the income levels compared to the percentage of families in each income level. Based on a review of the bank's HMDA-LAR data for this loan product, the distribution of home mortgage loans to both low- and moderate- income borrowers is considered reasonable because it would be difficult to afford and maintain a home even at the top of the low-income range and 14% of families in the AA have incomes below poverty level.

Geographic Distribution of Loans – Meets the Standard for Satisfactory Performance

First's geographic distribution of loans reflects reasonable dispersion throughout their AA. The analysis of the geographic distribution of business and home mortgage loans was completed using information generated by the bank. We considered loan distributions, branch locations, competition, market conditions, and demographic information. The following tables reflect the results for the bank's primary loan products, Commercial Loans and Home Mortgage loans.

Commercial Originations by Geography

Evaluation Period: July 1, 1998 through June 30, 2003												
	Low-Income Geographies			Moderate-Income Geographies			Middle-Income Geographies			Upper-Income Geographies		
Assessment Area:	% Bus	% Bank #Loans	% Bank \$Loans	% Bus	% Bank #Loans	% Bank \$Loans	% Bus	% Bank #Loans	% Bank \$Loans	% Bus	% Bank #Loans	% Bank \$Loans
Tallahoma AA	0%	0%	0%	0%	32.1%	36.8%	32.5%	17.4%	18.8%	67.5%	50.5%	44.4%

*Percentage of Businesses in Tallahoma AA is the percentage of business based on 1990 Census information.

The above table illustrates the geographic distribution of business loans among geographies of different income levels compared to the percent of businesses located in each tract category. Based on 1990 census information, there are no low- and moderate- income geographies within the AA. However, based on the bank’s internal information, 32.1% of the number and 36.8% of the dollar amount of commercial loans originations made during the evaluation period were made in moderate-income geographies. This is an excellent penetration of loans to moderate-income geographies. While middle-income geographies make up 32.5%, loan originations represented only 17.4% and 18.8% of the number and dollar within the geography. As might be expected, the majority of loans generated were to businesses located within upper-income geographies, but both the number and dollar were less than the percent of businesses located within this geography. Overall, this table reflects reasonable dispersion of commercial loan originations throughout the AA for the period given the bank’s demographics.

Geographic Distribution of Home Mortgage Loans

Evaluation Period: July 1, 1998 through June 30, 2003										
	Total		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies	
	#	% of Total	% Owner Occ Units	% Bank Loans	% Owner Occ Units	% Bank Loans	% Owner Occ Units	% Bank Loans	% Owner Occ Units	% Bank Loans
Tallahoma Assessment Area	308	100	0%	0%	0%	7.8%	27.2%	24.7%	72.8%	67.5%

*Percentage of Owner Occupied Units is based on 1990 Census information.

The above table illustrates the geographic distribution of home mortgage loans among geographies of different income levels compared to the percentage of owner occupied housing. There are no low-income geographies within the bank’s AA. Although 1990 Census information does not identify any moderate-income geography, 7.8% of the numbers of home mortgage loans were located within moderate-income geographies. Home mortgage loans within middle-income geographies at 24.7% and upper-income geographies at 67.5% were slightly less than the percentage of owner occupied units at 27.2% and 72.8%, respectfully. Overall, this table reflects reasonable dispersion of home mortgage loans throughout the AA for the period given the bank’s demographics.

Responses to Complaints

First has not received any CRA-related complaints since the previous Performance Evaluation.

Fair Lending Review

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