

## **PUBLIC DISCLOSURE**

*February 23, 1998*

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

**Farmers National Bank  
Charter # 9550**

**605 2nd Avenue  
Opelika, Alabama 36803**

**Office of the Comptroller of the Currency  
1117 Perimeter Center West, Suite W401  
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**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.

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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 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 performance of **Farmers National Bank**, prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **February 23, 1998**. 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 ***Outstanding***.

The CRA rating for Farmers National Bank (the “*bank*” or “*FNB*”) is based on the institution’s more than reasonable loan-to-deposit ratio, substantial majority of lending within its assessment area, excellent distribution of loans to borrowers of different income levels and different size businesses, good distribution of loans to borrowers in different geographies, and good record of providing services that enhance credit availability in the assessment area.

The following table shows *FNB's* performance level with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	Farmers National Bank 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 Areas	X		
Lending to Borrowers of Different Incomes and to Businesses of Different sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	FNB has not received any CRA-related complaints since the previous evaluation.		

## DESCRIPTION OF INSTITUTION

The Farmers National Bank (FNB) is a \$235 million retail banking institution that is wholly owned by Farmers National Bancshares. The bank's financial condition is characterized by total loans of \$178 million, total deposits of \$205 million, and net income of \$2.29 million, for 1997. The bank maintains a satisfactory level of capital. The main office is located at 605 2nd Avenue in Opelika, Alabama. The bank has six other locations, three of these branches are in Opelika and three are in neighboring Auburn. Two of the branches in Opelika and one in Auburn are located in grocery stores. The grocery store locations do not staff lenders but do accept applications and are each located in close proximity to a full service branch. The bank has drive-thru teller windows at the four full service office locations and automated teller machines (ATMs) at all seven offices/branches and one stand alone ATM in the Opelika area. The bank also offers various mortgage products through a mortgage department which are sold in the secondary market. The bank also owns a finance company in Opelika which offers a variety of consumer purpose loans. No legal impediments exist that should hinder the bank from meeting the credit needs of its assessment area.

FNB offers traditional financial services including commercial loans, Small Business Administration loans, residential mortgage loans, home improvement loans, consumer loans, credit cards, and deposit accounts and services. The bank's gross loan portfolio, as of December 31, 1997, consisted of 52 percent real estate loans, of which 44 percent are one-to-four family residential real estate loans. The loan portfolio also includes 13 percent in other consumer loans. Competition is strong in the assessment area. Four other community banks, several regional bank branches, and various finance companies and credit unions are located in the assessment area.

The bank is a member of the Cirrus and Honor ATM networks, which offers the convenience of 24-hour nationwide banking through eight ATM locations in Lee County. FNB also offers 24-hour XPress Telephone Banking for account inquiry and transactions.

## DESCRIPTION OF ASSESSMENT AREA

FNB has designated Lee County, Alabama as its assessment area. This area contains 21 census tracts (*tracts*) which includes two low-income, two moderate-income, four middle-income, and 13 upper-income census tracts, as determined by the U.S. Census Bureau, 1990. The two low-income tracts are small and the central cores of the downtown areas of Opelika and Auburn. These tracts contain primarily businesses and account for a very small percentage of the population in Lee County. Of the two moderate-income tracts, one includes a large portion of Auburn University and the other includes an industrial park and shopping center. These two tracts also account for a small percentage of the population in the county.

According to the 1990 U.S. Bureau of Census data, the total population of the bank's assessment area is 87,146. Approximately 20,127 families live in the bank's assessment area, with the largest percentage, 72 percent, residing in upper-income census tracts. Approximately 18 percent of families live in middle-income tracts, nine percent in moderate-income tracts, and one percent in low-income tracts. About 28 percent of the households in Lee County have incomes below the poverty level.

The 1997 HUD estimate for the median family income in an Alabama non-metropolitan area is \$31,500. The following table (*Table 1*) contains additional demographic information by each census tract.

Assessment Area Demographic Data Distribution by Census Tract										
Demographic Data	Low		Moderate		Middle		Upper		Total	
	#	%	#	%	#	%	#	%	#	%
Census Tracts	2	10%	2	10%	4	19%	13	61%	21	100%
Families (000's)	<1	1%	2	9%	4	18%	14	72%	20	100%
Population (000's)	4	5%	11	13%	15	17%	57	65%	87	100%

Source: Demographic Data

**Table 1**

Lee County has a diverse economic base which helps to stabilize the economy. The unemployment rate is low at around three percent. Major industries include; manufacturing, textiles, medical, education, and retail. Major employers include; Uniroyal/Goodrich, East Alabama Medical Center, Auburn University, and West Point Stevens.

As a part of our examination, we contacted the East Alabama Food Bank, a local non-profit organization, and a local Realtor regarding local economic conditions and community credit needs. We also reviewed community contact information obtained by the Federal Reserve Bank from the Alabama Council on Human Relations and the City of Auburn Department of Planning and Community Development. Based on the information provided by these contacts, local banks are serving the credit needs of all segments of the community including the low- and moderate-income families.

**Income Definitions**

The Alabama statewide non-MSA median family income is used as the area median income for non-

MSA communities. The U.S. Census Bureau 1997 updated median family income is \$31,500.

*Low-income* - an individual income, or median family income for geographies, that is less than 50 percent of the area median income.

*Moderate-Income* - an individual income, or median family income for geographies, that is at least 50 percent and less than 80 percent of the area median income.

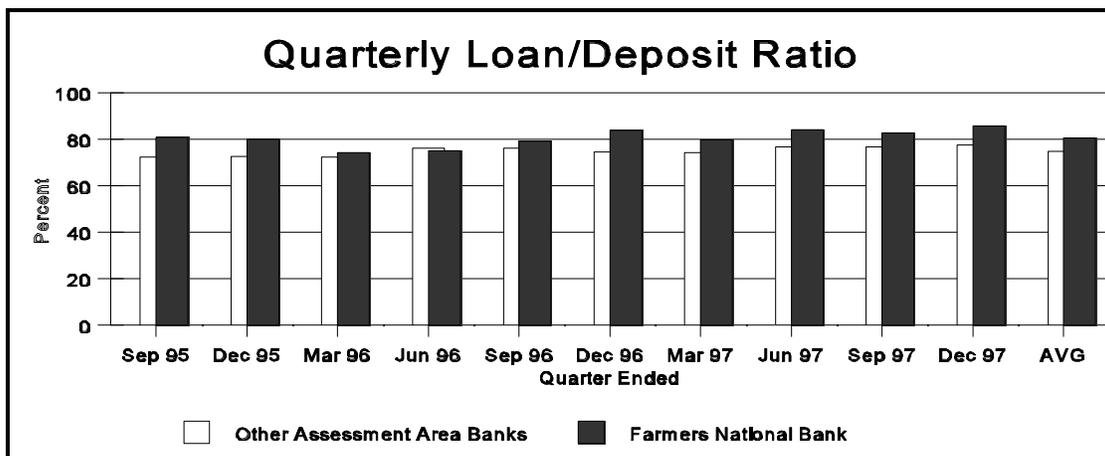
*Middle-Income* - an individual income, or median family income for geographies, that is at least 80 percent and less than 120 percent of the area median income.

*Upper-Income* - an individual income, or median family income for geographies, that is 120 percent or more of the area median income.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### LOAN-TO-DEPOSIT RATIO

Since the last CRA examination in September 1995, the bank's ten-quarter average loan-to-deposit ratio is 80.54 percent compared to the average loan-to-deposit ratio of 74.91 percent for the other four independent community banks in the assessment area. The following chart (*Figure 1*) illustrates how the quarterly and average loan-to-deposit ratios compare during the evaluation period. The bank's loan-to-deposit ratio has exceeded the peer group banks in nine out of the ten quarters in the evaluation period. The bank's loan-to-deposit ratio is more than reasonable given the bank's size financial condition, and assessment area credit needs.



**DISTRIBUTION OF CREDIT**

Lending levels reflect responsiveness to the community. We used internal bank documentation which shows all loans originated within the bank's assessment area during 1996 and 1997 to determine the extent of lending inside and outside the bank's assessment area. Information collected in 1997 also included the dollar volume of loans extended. To determine the bank's lending to borrowers of different income levels, including low- and moderate-income families, we relied on the bank's internally generated information for loans extended in 1996 and 1997. We also relied on bank gathered information for loans extended in 1996 and 1997 to determine whether the bank is lending to businesses of different sizes. As a part of our review, we validated the accuracy of the banks internal information. Our conclusions are based on the above-mentioned information.

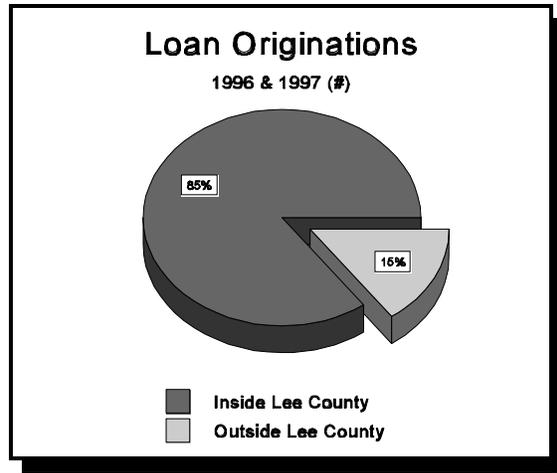
FNB is primarily a consumer and small business lender. As of December 31, 1997, approximately 36 percent of loans outstanding were for consumer purposes, including residential mortgage loans. Also, in 1996 and 1997, almost 400 loans were originated under FNMA guidelines in the bank's mortgage department and sold to other financial institutions. The residential mortgage portfolio includes over \$250 thousand in loans extended under the Lee County Housing Consortium. The consortium was initiated by FNB and established in 1994 with two other local banks to help meet housing needs for low- and moderate-income families. This program is designed for low- and moderate-income borrowers and provides for less stringent underwriting criteria. As a part of the program, applicants must complete home buyers education. The majority of the bank's commercial loans are to small businesses. In addition, the bank has a sizeable SBA loan portfolio. Since 1995, the bank extended twelve SBA loans in their assessment area. Current SBA outstandings are \$4,119M. The following table (*Table 2*) details the bank's lending portfolio as of December 31, 1997, based on the bank's Consolidated Reports of Condition and Income.

<b>Types of Loans Outstanding at December 31, 1997</b>	<b>\$ of Loans Outstanding</b>	<b>% of Total Loans</b>
Residential Mortgage	\$41,118	23%
Consumer (automobile, credit card, etc.)	23,238	13%
Commercial Real Estate	41,141	23%
Construction and Land Development	10,214	6%
Commercial and Industrial	59,025	33%
Agriculture	637	< 1%
All Other	2,184	1%
<b>TOTAL LOANS</b>	<b>\$177,557</b>	<b>100%</b>

**Table 2**

**LENDING IN THE ASSESSMENT AREA**

FNB has extended a substantial majority of its loans, including mortgage originations, within the assessment area (*Figure 2*). For loans originated in 1996 and 1997, 85 percent of the number of loans were extended in Lee County. For 1997 only, 85 percent of the dollar volume of loans were extended in Lee County.



**Figure 2**

**LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES**

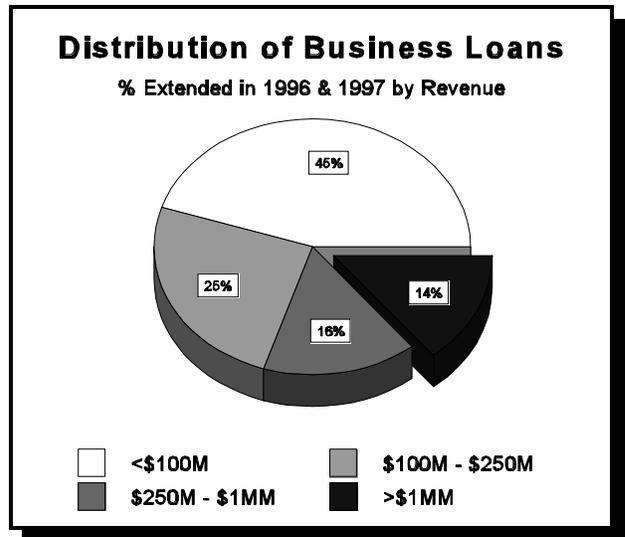
The overall distribution of loans to borrowers with different incomes is excellent compared to the demographics of the assessment area. We used the bank's internally gathered and prepared information for loans extended in 1996 and 1997. For 1996 the information is only for the number of loans extended. For 1997, the information is for both the number of loans extended and the dollar volume of loans extended. The bank made 38 percent of the number of residential real estate and consumer loans they extended in 1997 to low- and moderate-income families compared to 28 percent of low- and moderate-income families residing in the assessment area. In 1996, the bank made about 30 percent of the number of these loans to low- and moderate-income families compared to 28 percent of families. The following table details the number and dollar volume of residential real estate and consumer loans originated in 1997 and the number of loans originated in 1996 as a percentage compared to the percentage of families from each of the four income levels.

Distribution of Consumer Loans by Borrower Income Level in Lee County							
Income Level	% Families in Assessment Areas	1996		1997			
		#	%	#	%	\$(000)	%
Low Income	17%	184	9%	343	19%	4,366	10%
Moderate Income	11%	430	21%	342	19%	3,255	8%
Middle Income	16%	534	25%	374	21%	7,178	17%
Upper Income	56%	954	45%	723	41%	27,502	65%
Total	100%	2,102	100%	1,782	100%	42,301	100%

**Table 3**

The dollar volume is not as high as a percentage of families, due to the generally lower dollar size of loans to low- and moderate-income families.

Lending to businesses of different sizes is very good. For purposes of the Community Reinvestment Act, small businesses are defined as those with gross annual revenues less than \$1 million. Bank provided information indicated that in 1996 and 1997, 86 percent of commercial loans were to small businesses with 45 percent to businesses with gross annual revenues less than \$100 thousand. The following chart (*Figure 3*) details the bank's business loans extended in 1996 and 1997 by business revenue and includes seven SBA loans.



**Figure 3**

## GEOGRAPHIC DISTRIBUTION OF LOANS

FNB has a good record of lending to all segments of its assessment area. The bank records the census tract number for each loan extended and we reviewed documentation for all loans extended in 1996 and 1997. We found that the loans in the assessment area reflect reasonable dispersion throughout the county. The majority of loans were in geographies near the bank's branches, but many loans were also made to borrowers throughout the assessment area. The following table (*Table 4*) details the bank's distribution of residential real estate and consumer loans in the assessment area by tract income level compared to the number and percentage of each tract in the assessment area and the number and percentage of families residing in those tracts. Residential lending is combined with consumer loans since the bank's volume of residential lending is low, less than two percent of loans originated in 1996 and 1997. Loans originated through the bank's mortgage department are not included.

Distribution of Loans in 1996 and 1997 by Census Tract Income Level								
Demographic Data	Low		Moderate		Middle		Upper	
	#	%	#	%	#	%	#	%
Residential Real Estate and Consumer Loans	61	1%	292	7%	921	21%	3,085	71%
Census Tracts	2	10%	2	10%	4	19%	13	61%
Families (000's)	<1	1%	2	9%	4	18%	14	72%

**Table 4**

The bank's level of residential real estate and consumer lending in low- and moderate-income tracts is reasonable. The two low-income tracts are small and the central cores of the downtown areas of Opelika and Auburn. These tracts contain primarily businesses and account for a very small percentage of the population in Lee County. Of the two moderate-income tracts, one includes a large portion of Auburn University and the other includes an industrial park and shopping center. These two tracts also account for a small percentage of the population in the county. The number of families in those tracts is low in comparison to the percentage of low- and moderate-income tracts. Although 10 percent of the tracts in the assessment area are designated low-income, only about one percent of the families in the assessment area reside in those tracts. The bank extended one percent of consumer loans in low-income tracts in 1996 and 1997. Also, 10 percent of the tracts are designated moderate-income, and about nine percent of families reside in those tract. The bank extended seven percent of the consumer loans in moderate-income tracts in 1996 and 1997.

The bank has penetrated the low- and moderate-income tracts through business lending. The bank

extended eight percent of business loans made in 1996 and 1997 in low-income tracts and seven percent in moderate-income tracts. This level of penetration is reasonable considering that nine percent of businesses are located in low-income tracts and nine percent are located in moderate-tracts.

#### **RESPONSE TO CONSUMER COMPLAINTS**

FNB did not receive any CRA-related complaints since its last CRA examination dated September 30, 1995.

#### **SERVICES AND INVESTMENTS**

FNB's record of providing branches, ATMs, and other services enhances the credit availability in the assessment area. FNB has the largest branching network in the assessment area with seven offices/branches. The bank's offices/branches are located throughout Lee County and in close proximity to where the majority of the population resides. The main office in Opelika is located in one of the two low-income tracts and adjacent to one of the two moderate-income tracts in the assessment area. The other six offices/branches are located in tracts in which approximately 36 percent of all families reside and 32 percent of the low- and moderate-income families reside in the county. All of the bank's offices/branches are easily accessible to all segments of the community. FNB has extended hours available at their grocery store branches and at their drive-thru locations. The grocery store branches are open Monday through Saturday from 9:00am to 6:00pm. These branches staff trained personnel who are able to accept loan applications as well as provide a full array of deposit and other services. The drive-thru locations are open from Monday through Friday from 8:00am to 5:00pm and Saturday from 8:00am to Noon. Full service branches close early on Monday through Wednesday, but loans officers are available by appointment. Office hours are consistent with other banking hours in the community.

FNB further enhances credit availability in the assessment area through its finance company, Hometown Financial Services, Inc., which operates as a subsidiary of the bank and is located in downtown Opelika. Hometown offers consumer credit services to individuals and families who do not ordinarily qualify for credit through banks.

FNB has made qualified investments in the community through donating funds and furniture to local non-profit organizations that have as their primary purpose supporting community development for low- and moderate-income families. In 1996 and 1997 they donated almost \$6 thousand dollars to the following non-profit organizations; Lee County United Way, East Alabama Food Bank, Habitat for Humanity of Lee County, and Christmas in April. Christmas in April is a group which repairs and rehabilitates homes owned by low-income families. The bank also donated office furniture to the East Alabama Food Bank for their new warehouse. Also, as a part of the Lee County Housing Consortium, the bank donates funds to provide home ownership counseling to borrowers.

**RECORD OF COMPLIANCE WITH ANTIDISCRIMINATION LAWS.**

We conducted a concurrent compliance and fair lending examination. We did not find any discriminatory lending practices or violations of the substantive provisions of federal antidiscrimination laws, including the Equal Credit Opportunity Act. The bank has instituted fair lending policies, procedures, and training programs.

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