

PUBLIC DISCLOSURE

July 8, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

United Southern Bank

Morristown, Tennessee

Federal Reserve Bank of Atlanta
104 Marietta Street, N.W.
Atlanta, Georgia 30303

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to the 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

This document is an evaluation of the Community Reinvestment Act (CRA) performance of United Southern Bank, Morristown, Tennessee, by the Federal Reserve Bank of Atlanta, the institution's supervisory agency.

This evaluation represents the agency's current assessment and rating of the institution's CRA performance based on an examination conducted as of July 8, 1996. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977, (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take the record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Institution's Rating:

This institution is rated Satisfactory, based on the findings presented in the following discussion of the institution's performance.

DISCUSSION OF INSTITUTION'S PERFORMANCE

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

The bank is active in efforts to ascertain local credit needs. The primary method used to determine local credit needs is the involvement of bank officers, employees, and directors in various community organizations. Bank officers are involved in the Hamblen County Industrial Development Board, the Planning Commission, the Chamber of Commerce, and the Tennessee Municipal League. A well structured officer call program also helps to ascertain community credit needs. This program serves to develop business relations and provide feedback to the bank about specific credit needs. Calls are also made on local organizations to determine credit needs. In 1995, a goal of 130 calls was established. 216 calls were actually made and documented. In 1996, 62 calls had been made by the end of May.

The bank has a Community Reinvestment Act Committee that includes a director, the president, and the compliance officer as well as other employees representing all three offices of the bank. The committee meets monthly to discuss activities related to CRA as well as credit needs, credit requests, and business loan prospects. The committee also reviews the periodic analysis of the geographic distribution of the bank's loan application activity.

The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act (CRA).

The board of directors of the bank is directly involved in compliance with CRA. In addition to a director being on the CRA Committee, the board receives quarterly reports on CRA compliance. The board of directors has reviewed and approved a CRA Statement for 1996.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

The bank uses several methods of marketing its loan products to the community. These efforts are designed to stimulate awareness of its credit and banking services in the community, including low- and moderate-income areas. The bank advertises through the following media:

- C Newspapers
- C Brochures
- C Radio
- C Statement stuffers
- C Window signs
- C Lobby posters
- C Advertisements in publications.

The bank promoted its low home equity loan rates and its new Check/Link account in October 1995. A specially designed direct mail package explaining both products was mailed to 5,000 homeowners in the bank's delineated community. In addition to the mailers, extensive newspaper advertising and lobby posters were also used to promote these products.

A direct mail package, including information on the Stafford and PLUS student loans, was mailed to 996 parents of graduating Hamblen County high school seniors. The parents received a postage paid return card to request additional information and a loan application. Home equity loans were also presented as an option for financing a college education.

The bank, along with an affiliate, First Virginia Mortgage Company (FVMC), sponsored a home buyers fair at the main office for first-time home buyers to obtain information regarding credit requirements, down payments, closing costs, and interest rates. The Credit Bureau of Knoxville and Lakeway Title Company were also represented.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED (CONTINUED)

The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

The bank originates loans throughout its delineation, including low- to moderate-income areas. The bank's loan-to-deposit ratio of 73 percent is slightly better than one of its local competitors (70 percent), and substantially better than the other (51 percent). The bank's primary loan product is consumer loans. The March 31, 1996 Uniform Bank Performance Report (UBPR) indicates that the percentage of consumer loans contained in the bank's portfolio is twice that of its peer group.

The composition of the loan portfolio according to the March 31, 1996 UBPR is as follows:

LOAN TYPE	PERCENTAGE
Construction and development	1.9
Secured by one- to four-family dwellings	16.9
Other real estate:	
Farmland	0
Multifamily	0
Nonfarm nonresidential	6.6
Commercial and industrial	33.7
Loans to individuals	40.7
All other	.2
Total	100.0

Bank management identified a need for small-dollar loans in the community and actively markets and monitors production levels. The bank's records revealed that year-to-date production of installment loans less than \$2,000 as of May 31, 1996, was 124 loans totaling \$153,478.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED (CONTINUED)

The bank's CRA Statement lists the following types of credit which management is prepared to extend in its delineation:

C Residential loans

- Single and multifamily construction loans
- Home improvement loans
- Housing rehabilitation loans
- Residential mortgage loans for 1- to 4-unit dwellings
- Home equity loans and lines of credit

C Commercial loans and leases to local businesses

- Equipment loans
- Loans to finance accounts receivable and inventory
- Secured and unsecured commercial time and demand loans
- Loans to finance capital acquisitions and capital needs for equipment and plant expansion
- Business lines of credit
- Letters of credit
- Mortgage loans on commercial property
- Industrial development authority loans
- Loans to nonprofit organizations

C Consumer loans related to personal, family, or household purposes

- Auto, boat, airplane, recreational vehicle, mobile home, bill consolidation, home improvement, and educational loans
- Personal expenditures: medical, vacation, investment
- Loans secured by cash value of life insurance
- Loans secured by savings instruments
- Loans secured by stocks and bonds
- Open-end loans related to personal, family or household purposes
- Cash-A-Matic
- Credit cards

C Community development loans

- Participation with the city and county redevelopment and housing authorities
- Industrial development authority loans
- Loans to housing developers, contractors, and individuals for acquisition and development of land for building

C Loans to municipalities

C Loans for agricultural purposes

- Farm equipment
- Working capital loans

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED (CONTINUED)

The institution's participation in governmentally insured, guaranteed, or subsidized loan programs for housing, small businesses, or small farms.

Through FVMC, a subsidiary of First Virginia Banks, Inc., the bank indirectly participates in governmentally insured programs of Federal Housing Administration (FHA), Veterans Administration (VA), and the Tennessee Housing Development Agency (THDA). In addition, applicants are referred to the Fannie Mae Community Home Buyers Program. Applicants interested in first mortgage loans not offered by the bank are referred to FVMC. A loan originator of FVMC is present at the bank three days a week to accept applications. Since the previous examination in November 1994, the bank has referred 47 loan requests totalling \$2,356,340 to the mortgage company.

The bank solicits applications for two government-guaranteed student loan programs, the Stafford and the PLUS. The loans are actually originated at the Tri-City Bank, Blountville, Tennessee, and serviced at First Virginia Bank, Falls Church, Virginia. Since the November 1994 examination, the bank has made seven student loans.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

The bank defines its delineation as Hamblen County. The main office of the bank is located in Morristown, which is the largest municipality in the county. The bank's two branches are outside of Morristown on major roads on opposite sides of the county, allowing good coverage of the delineation. Because of this branch placement and the satisfactory distribution of loans and deposits, the delineation is viewed as reasonable.

The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

The bank conducts an annual analysis of the geographic distribution of its loan applications, credit extensions, and denials. Because approximately 40 percent of the loan portfolio is made up of consumer loans, this analysis covered only the largest component of consumer loans, which was installment loans. However, an analysis of the geographic distribution of the entire consumer loan portfolio for all loan types is conducted at the individual census tract level. The bank also reviews loan activity inside and outside the delineation and monitors loan-to-deposit ratios in the individual census tracts. The bank defines low- to moderate-income census tracts as those with median household incomes of less than 80 percent of the median income for the entire county, using data from the 1990 census. Three of the 12 census tracts in the delineation meet this definition.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES (CONTINUED)

However, an analysis of the demographics of the delineation using median family income indicated one census tract as being moderate-income and the remaining 11 census tracts as middle- and upper-income.

The following table illustrates the number of applications taken and declined in each census tract type with the resulting decline percentage. It also indicates the dollar amounts approved in each group of tracts and shows each as a percentage of the total dollar amount approved.

GEOGRAPHIC DISTRIBUTION OF INSTALMENT LOAN ACTIVITY FOR 1995					
Type of Tract	Number of applications	Number declined	Percent declined	Dollar amount approved	Percent of Total Dollar Amount approved
Moderate-income	13	5	38.5	\$ 109,467	7.8
Middle- and upper-income	209	67	32.1	\$1,295,069	92.2
Total	222	72	N/A	\$1,404,536	100.0

13 of the 222 applications (5.9 percent) came from the one moderate-income tract. 7.8 percent of the loan dollars went to this tract. The total number of households in this tract was 1,133, or 5.8 percent of the 19,410 total households in the delineation. The median family income in this tract is \$16,742, significantly lower than the second lowest tract income of \$21,183. The data indicate that the bank is effectively reaching the residents of this census tract. The declination percentage of 38.5 percent in the moderate-income tract is not significantly higher than that in the middle- and upper-income tracts of 32.1 percent.

In May 1996, bank management received geocoded loan data for the consumer loan portfolio as of December 1, 1995. The information was provided by census tract and loan type. The information revealed that 55 of the 1,038 loans in the delineation (5.3 percent) are from the one moderate-income

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES (CONTINUED)

census tract. The dollar amount outstanding of these loans represents 7.1 percent of the total dollars outstanding in the delineation. The bank did not consider any loan data from outside the delineation. A comparison of the portfolio data with the 1995 production data indicates that there has been increased penetration into the moderate-income area.

The bank reviewed loan-to-deposit ratios in each census tract. The moderate-income tract had a ratio of 202 percent. The middle- and upper-income tracts had ratios ranging from 32 to 167 percent. No conclusions could be drawn from this data although a high level of competition for both loans and deposits among the banks in the county seems to be a major factor.

A review of the data indicated that the bank has extended approximately 71 percent of its loans inside its community delineation. Most of the 29 percent from outside the delineation have been attributed to customers from a contiguous county who come to shop at a local mall and use a branch of the bank next to the mall.

The bank's business development call program and its other marketing efforts indicate that significant effort and resources are being used to extend credit throughout the local community. The bank's geographic analysis was meaningful and indicated a reasonable and satisfactory distribution of loan applications, extensions, and denials.

The institution's record of opening and closing offices and providing services at offices.

The bank has three full-service branches in the county. An examination of the location of these branches indicates that they are reasonably accessible to all segments of the community, including low- to moderate-income areas. The bank has not closed any branches since the previous examination.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement.

The bank solicits credit applications from all segments of its local community, including low- and moderate-income neighborhoods. The examination revealed no policies or practices intended to discourage individuals from applying for the types of credit set forth in the bank's CRA statement. First Virginia Banks, Inc., has developed comprehensive written policies and procedures for all of its member banks to

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES (CONTINUED)

ensure fair treatment of all applicants. The bank has a second review program to ensure that the lending standards are applied consistently and fairly to all applicants. No home purchase loan, home equity line of credit, or home improvement loan is declined without prior concurrence from the second review committee. The bank also provides ongoing training to bank employees to enhance their knowledge of all antidiscriminatory statutes and regulations.

Evidence of prohibited discriminatory or other illegal credit practices.

A sample of the bank's applications was selected and reviewed to ensure that there was no discrimination or disparate treatment of loan applicants. The review of 16 unsecured consumer loans consisted of eight denied female applicants and eight approved male applicants. These applicants were compared to ensure that males were not treated more favorably than females. The comparison revealed that credit standards were applied fairly to all applicants. Also, 19 loans secured by certificates of deposit (CDs) made up of ten accepted male applicants and nine accepted female applicants were reviewed to ensure that females were granted credit on terms comparable to those given to males. The loan policy states that the rates on CD-secured loans are to be priced 2 percent above the rate on the certificate. The comparison revealed that rates were consistent and within policy guidelines. Finally, five business loans were reviewed for compliance with spousal guarantee rules under Regulation B. These loans contained no prohibited spousal signatures. A separate review of residential real estate loan files indicated a limited pattern of violations of technical aspects of Regulation B - Equal Credit Opportunity Act; however, no credit practices inconsistent with the substantive provisions of fair housing and fair lending laws and regulations were identified.

V. COMMUNITY DEVELOPMENT

The institution's participation, including investments, in local community development and redevelopment projects or programs.

Opportunities for community development financing are limited because of the makeup of the local community. The bank's extensive involvement with local organizations, businesses, the industrial development board, and local government officials allow the bank management to remain aware of community development lending activities when they arise. In addition to the first-time homebuyers fair, the bank has been involved in community education about credit and banking on an ongoing basis.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

V. COMMUNITY DEVELOPMENT (CONTINUED)

The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions, and other factors.

The bank's main office is located in Morristown in Hamblen County, which makes up the bank's entire delineation. The county population was 50,480 and included 19,410 households according to the 1990 census. The median family income was \$27,327. The lowest median family income at census tract level was \$16,742. Various manufacturers are the primary employers in the county followed by services and retail or wholesale trade. The unemployment rate was 6.2 percent. The population of the county was 94.6 percent white and 4.6 percent black. There were 20,514 housing units in the county, 14,009 (68.3 percent) of which were owner-occupied. 81.7 percent were in one- to four-family structures. The median housing age was 17 years.

There are no extraordinary local economic conditions or legal impediments that affect the bank's ability to meet local community credit needs.

Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

Although not credit related, bank employees routinely volunteer time to several local charities, nonprofit organizations, and educational and religious organizations. The bank makes charitable contributions as well.

Recently, the bank made an investment in a community development bond issue for improvements in Hamblen County.

TO THE INSTITUTION EXAMINED:

THIS COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION WAS PREPARED BY THE FEDERAL RESERVE BANK OF ATLANTA. THE FOLLOWING ACTIONS MUST BE TAKEN TO FULFILL THE CRA'S REQUIREMENTS.

- C AT A MINIMUM, PLACE THE EVALUATION IN YOUR CRA PUBLIC FILE LOCATED AT YOUR HEAD OFFICE (AND A DESIGNATED OFFICE IN EACH OF YOUR LOCAL COMMUNITIES) NO LATER THAN 30 BUSINESS DAYS AFTER RECEIVING THE EVALUATION.
- C PROVIDE A COPY OF THE EVALUATION TO THE PUBLIC UPON REQUEST (YOU ARE PERMITTED TO CHARGE A FEE NOT TO EXCEED THE COST OF REPRODUCTION AND MAILING IF APPLICABLE) NO LATER THAN 30 BUSINESS DAYS AFTER RECEIVING THIS LETTER.

FEDERAL RESERVE BANK OF ATLANTA

ASSISTANT VICE PRESIDENT

(Date)

CYNTHIA C. GOODWIN

(Title)

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COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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TO THE FEDERAL RESERVE BANK OF ATLANTA

A COPY OF THE COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION PREPARED AS OF THE CLOSE OF BUSINESS JULY 8, 1996, BY AN EXAMINER FOR THE FEDERAL RESERVE BANK OF ATLANTA HAS BEEN RECEIVED AND WILL BE MADE AVAILABLE TO THE PUBLIC IN THE MANNER STATED IN THE LETTER WHICH ACCOMPANIED THE EVALUATION.

(Signature of Authorized Officer)

(Title)

UNITED SOUTHERN BANK

(Name of Bank)

MORRISTOWN, TENNESSEE

(Location)

FEDERAL RESERVE BANK OF ATLANTA

Cynthia C. Goodwin
ASSISTANT VICE PRESIDENT

Board of Directors
United Southern Bank
Post Office Box 1959
Morristown, Tennessee 37814

Dear Board Members:

Enclosed is the bank's Community Reinvestment Act Performance Evaluation prepared by Federal Reserve Examiner Jeff Bragg using the guidelines established by the Federal Financial Institutions Examination Council. This evaluation was prepared in accordance with the Community Reinvestment Act (CRA), as amended by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, and must be made available to the public. The following actions must be taken to fulfill the CRA's requirements.

- C At a minimum, place the evaluation in your CRA public file located at your head office (and a designated office in each of your local communities) no later than 30 business days after receiving this letter.
- C Provide a copy of the evaluation to the public upon request (you are permitted to charge a fee not to exceed the cost of reproduction and mailing if applicable) no later than 30 business days after receiving this letter.

Please acknowledge receipt of this evaluation by signing and returning the attached blue form. The format and content of the evaluation should not be altered or abridged in any manner. You may wish to comment on this information detailing actions the bank has taken since the examination to meet its obligations under the CRA. Any written comments concerning the evaluation placed in the public file should also be forwarded to this office. If you believe any of the information included in the public evaluation is proprietary, please contact this Reserve Bank so that the appropriate action can be taken.

Our Community Affairs staff is available to assist you in determining and responding to community credit needs. Please feel free to contact Mr. Courtney Dufries at (404) 589-7226. If you have any questions concerning this report or any other compliance matter, contact Ms. Gale Williams at (404) 589-7223.

Very truly yours,

Cynthia C. Goodwin

Enclosures

PUBLIC DISCLOSURE

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Name of Bank: UNITED SOUTHERN BANK

City and State: MORRISTOWN, TENNESSEE

Date of Examination: JULY 8, 1996

FEDERAL RESERVE BANK OF ATLANTA