

PUBLIC DISCLOSURE

July 8, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Tri-City Bank and Trust Company

Blountville, 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 Tri-City Bank and Trust Company, Blountville, 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 Outstanding, 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.

Tri-City Bank and Trust Company has done an outstanding job in ascertaining the credit needs of its local community, including low- and moderate-income areas. The bank has established this record through ongoing, meaningful contact with a full range of groups and individuals. These include civic, religious, neighborhood, minority, and small business organizations, and officials and leaders from city, county, state, and federal government. Contact with many of these groups and organizations is initiated through the bank's officer call program, or its outreach and needs assessment program. Bank officers and directors are also active in the community.

The bank's officer call program has been very effective in determining credit needs of the bank's local community. All branch managers are required to make eight or more business calls each month to inform current and potential customers of loan and deposit services available at Tri-City Bank and Trust Company. A review of telephone logs indicates that managers are exceeding the required number of calls. During these calls, managers seek information regarding unmet credit needs and ways the bank can help fulfill needs.

Also, the bank's commercial loan officers actively call on local businesses to determine and help meet their credit and banking needs. In 1995, the commercial department made 464 officer calls to local businesses to ascertain personal credit needs for each business as well as common credit needs for all businesses. As of June 1996, the commercial department has made 275 officer calls to local businesses. To provide an incentive for calls, the bank has an incentive program which awards points for each call made. The point system is used as a means of evaluating performance. All calls are documented and forwarded to the branch administrator for review. From this strategy, bank management determined that most of its nonconsumer loan market is small businesses needing small dollar loans for working capital, business renovation, and expansion. A review of the products and services offered by Tri-City Bank and Trust Company indicates that the bank currently offers loan products, including Small Business Administration (SBA) loans, to help meet community credit needs.

To enhance ascertainment efforts, bank management implemented an outreach and needs assessment program. The purpose of this program is to interview community leaders and "spokespersons" to identify credit and banking services and products that are not adequately provided by Tri-City Bank and Trust

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS (CONTINUED)

Company. 75 interviews were conducted in 1994 and 1995. As of this examination, 22 interviews had been conducted in 1996. Those individuals interviewed represented a wide variety of groups representing business and religious organizations, low-income advocate groups, and senior citizens groups. Some of the organizations, individuals, and groups contacted were Service Corps of America; Realty World; City of Bristol, Tennessee; Project Help; Greene County Retired Teachers; United Way; Sullivan County Commissioners; the President of Tusculum College; East Hawkins Chamber of Commerce; Women's Ministry Mission; Johnson City Housing Authority; and the pastor of New Hope Baptist Church. From these interviews, the bank determined the primary credit needs were low-cost, affordable housing lending, and credit and budget counseling.

Because of a lack of affordable housing in the local community, it is difficult for the bank to develop products or programs that would help address this particular need. However, to meet the need for long-term financing, the bank refers all requests to its mortgage affiliate, First Virginia Mortgage Company. In addition, First Virginia Mortgage Company offers Veterans Administration (VA) and Federal Housing Administration (FHA) mortgage loan products to assist applicants that are unable to make the down payments normally required for conventional financing.

To meet the need for credit and budget counseling, the bank established a partnership with the Bristol Housing Development and Kingsport Housing Authorities. They provide credit counseling and general banking classes to low-income residents of the bank's community. The bank also participates in the Personal Economic Program (PEP) which provides basic instruction on economic awareness.

The bank's Community Reinvestment Act Committee provides an effective forum for discussing credit needs identified through the bank's ascertainment efforts. The committee is also responsible for developing credit products to meet those identified needs. The bank's directors, senior management, and officers actively participate in the committee, which meets monthly to review the geographic distribution of the bank's loan requests. The review focuses on the location of the requests and the percentage of loan applications accepted and rejected. Special emphasis is placed on reviewing the loan activity in the low- and moderate-income tracts in the bank's community. The analysis serves to identify any areas where additional ascertainment efforts or credit products are needed.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS (CONTINUED)

The bank has an advisory board composed of members of the local community. The purpose of the advisory board is to review the loan production of the bank's branches and discuss the adequacy of current bank promotions and products. Advisory board members work with members of the board of directors to bring new business into the bank. Through their contacts, these members increase the awareness of the bank's services in the local community.

Bank management collects and analyzes local demographic information of its local community. This task is performed at least annually so that bank management can remain aware of changing demographics and their affect on the credit needs of the community. The bank's credit products are suited to the needs of the community and include those products that make use of government insured and publicly sponsored programs. The bank offers various personal, real estate, small business, and governmentally guaranteed credit products to address community needs.

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 approves the bank's CRA Statement annually, with the current statement being approved in January 1996. The board's involvement in the bank's CRA program is further evidenced by the regular discussions of community reinvestment noted in the board minutes. The bank's CRA officer continues to present a quarterly report to the board on the bank's CRA program and the geographic distribution of the loan applications and originations. The board members are asked to comment on the results of the analysis and offer suggestions for additional credit extensions.

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.

Tri-City Bank and Trust Company selects various media to inform its community of credit-related programs. Media advertising includes newspaper and radio advertisements, as well as direct mail programs. Each branch of the bank communicates the various credit programs to its customers by direct mail and branch handouts. The newspapers groups that handle the bank's media advertising are Bristol Herald Courier, Greeneville Sun, Johnson City Press, Kingsport Times News, Rogersville Review, and Sullivan County News. The radio stations used include WTFM-FM and WXBQ-FM. Direct mail solicitation are sent to families with a length

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

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

of residency of five years and to Greene, Hawkins, Sullivan, and Washington counties; the cities of Baileyton, Bluff City, Bristol, Bulls Gap, Church Hill, Greeneville, Johnson City, Jonesborough, Kingsport, Mosheim, Mount Carmel, Rogersville, Surgoinsville, and Tusculum; and the communities of Blountville, Limestone, and Piney Flats. Advertisements regarding home equity loans, home equity lines of credit, and personal loans have appeared in various newspapers, been included in direct mailouts, and been broadcast in various radio spots since the previous examination. In addition, bank management uses the officer call program to inform local businesses of the credit products offered by the bank. According to bank management, the call program has proven to be the most effective marketing tool for advertising business credit related products. A review of the bank's advertisements indicated no violations of consumer regulations and statutes.

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's CRA Statement lists the following types of credit offered to the community: home construction loans, mortgage loans, home equity loans, home improvement loans, commercial loans to local businesses, government guaranteed or government sponsored loans (SBA, FHA Title I home improvement loans, and Stafford, Plus, and Supplemental Loans for Students), personal loans, credit cards, lines of credit, community development loans, and agricultural loans. A review of the bank's loan portfolio and credit files revealed that it offers and extends the credit products listed in the CRA Statement.

The March 31, 1996 Consolidated Reports of Condition and Income revealed a loan portfolio that consisted of the following:

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

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

LOAN TYPE	DOLLAR AMOUNT	PERCENTAGE OF PORTFOLIO
CONSTRUCTION & LAND DEVELOPMENT	\$1,715,000	1.1%
1-4 FAMILY RESIDENTIAL	\$40,837,000	25.1%
NONFARM NONRESIDENTIAL	\$9,276,000	5.7%
COMMERCIAL & INDUSTRIAL LOANS	\$13,405,000	8.2%
LOANS TO INDIVIDUALS	\$96,465,000	59.3%
OTHER	\$928,000	0.6%
TOTAL	\$162,626,000	100.0%

Tri-City Bank and Trust Company defines itself as a "retail" lender. As indicated by the table above, over 84 percent of the bank's loan portfolio is retail lending. Loans to individuals account for 59.3 percent, and one- to four-family residential loans account for 25.1 percent of the bank's loan portfolio. The average loan-to-deposit ratio for Tri-City Bank and Trust Company for the nine quarters from January 1994 to March 1996 is 80.4 percent, which is slightly higher than the 76.9 percent average for local competitors.

Tri-City Bank and Trust Company is recognized as a retail lender, and indirect loans accounted for more than 50 percent of total loans in 1994 and 1995. For 1994, dealer indirect loans represented 3,966 (67 percent) of 5,917 total loans. For 1995, 2,606 (58 percent) of 4,473 total loans were dealer indirect loans. As of 1996, all indirect loans, primarily automobile loans, are originated by an affiliate of the bank, First Virginia Credit Services, Inc. (FVCS). The loans of FVCS are then bought by the affiliate bank based on the location of the borrowers' residences.

The bank does not offer mortgage loans for terms greater than 15 years. Customers seeking mortgage loans with terms greater than 15 years are referred to the bank's affiliate, First Virginia Mortgage Company. The bank's primary target market for real estate loans are those applicants seeking home equity lines of credit

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

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

and home equity mortgage loans. As of December 31, 1995, the bank had 193 loans (\$8.3 million) to either purchase or refinance homes. The bank also had outstanding balances of \$5.1 million in home equity lines of credit and \$24 million in home equity loans.

The following table lists the bank's loans reportable under the Home Mortgage Disclosure Act (HMDA) by product type for years 1994 and 1995.

PRODUCT TYPE	1994		1995	
	NUMBER OF ORIGINATIONS	DOLLAR AMOUNT	NUMBER OF ORIGINATIONS	DOLLAR AMOUNT
CONVENTIONAL PURCHASE	15	\$961,000	12	\$514,000
REFINANCE	185	\$6,778,000	43	\$1,767,000
HOME IMPROVEMENT	87	\$1,096,000	84	\$1,058,000
TOTAL	287	\$8,835,000	139	\$3,339,000

In 1994, interest rates were relatively low and as a result, the bank had a large volume of requests for refinance loans. In 1995, interest rates increased, and the number of requests for refinance loans greatly decreased. The share of the refinancing market declined during this time from 6.4 percent to 2.7 percent. The number of home improvement loans for 1994 versus 1995 remained relatively unchanged. The low number of conventional purchase loans can be attributed to the bank's policy of not offering loans with terms greater than 15 years. As a result, the bank's market share of conventional purchase money loans has remained minimal (0.4 percent in 1994 and 0.3 percent in 1995), compared to 7.8 percent market share for home improvement loans in 1994 and 1995.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

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

To determine how well Tri-City Bank and Trust Company was performing, the bank's origination rates for each type of HMDA loan were compared to market. The table below depicts the results.

LOAN TYPE	ORIGINATION RATE		ORIGINATION RATE	
	BANK		MARKET	
	1994	1995	1994	1995
CONVENTIONAL HOME PURCHASE	57.7%	48.0%	66.9%	57.2%
REFINANCE	76.8%	65.2%	74.2%	66.6%
HOME IMPROVEMENT	76.3%	78.5%	76.8%	75.9%
TOTAL	75.3%	70.2%	70.8%	61.8%

As indicated by the table, the bank was performing below market in 1994 in the origination of home purchase loans and home improvement loans. However, in 1995, the bank is performing better than market in the home improvement category. Overall, the bank performed above the market average for 1994 and 1995.

The following table, shows the total dollars outstanding to small businesses by loan amount as of the June 30, 1995 Consolidated Reports of Condition and Income.

LOAN AMOUNT	NUMBER OF LOANS OUTSTANDING	TOTAL DOLLAR AMOUNT OUTSTANDING
LESS THAN \$100,000	161	\$5,025,000
\$100,000 TO \$250,000	20	\$2,036,000
\$250,000 TO \$1,000,000	20	\$7,951,000
TOTAL	201	\$15,012,000

Normally, loan amounts less than \$250,000 indicate small business borrowing. The table indicates that 181 loans to small businesses totaling \$7.1 million are outstanding. Based on this information, Tri-City Bank is serving the credit needs of the small business market. However, according to bank data, 56 loans totaling \$2 million were extended to small businesses in 1995.

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.

The bank offers FHA Title I home improvement loans. However, because the FHA Title I home improvement program stipulates that all loan proceeds must be used for home improvement, many customers choose to apply for the bank in-house home improvement loan product. The bank offers SBA loans but has not made many of these loans since the previous examination because the bank can offer a loan package better than that offered by the SBA. As a result, loan customers prefer the bank's product over the SBA's loan product. Although Tri-City Bank and Trust Company does not offer VA and FHA loans, it does refer applicants requesting such loans to the First Virginia Mortgage Company in Blountville, Tennessee. In 1995, First Virginia Mortgage Company originated 32 loans totaling \$2 million in various government-backed loans such as FHA, VA, and the Tennessee Housing Development Authority (THDA), in the bank's local community.

The table below lists the governmentally insured, guaranteed, or subsidized lending by product type for 1994 and 1995 according to the CRA data collected by management.

PRODUCT TYPE	1994		1995	
	NUMBER OF LOANS	DOLLAR AMOUNT	NUMBER OF LOANS	DOLLAR AMOUNT
TITLE I HOME IMPROVEMENT	3	\$27,612	6	\$73,243
SMALL BUSINESS ADMINISTRATION (SBA)	1	\$155,000	4	\$402,500
GOVERNMENT STUDENT LOANS	61	\$166,590	88	\$251,358
TOTAL	65	\$349,202	98	\$727,101

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

Tri-City Bank and Trust Company has delineated its local community to include all of Sullivan, Greene, Hawkins, and Washington Counties. The area includes the cities of Bristol, Kingsport, Greeneville, Johnson City, and the community of Blountville. The delineation is based on existing county boundaries for those counties where a bank branch is located.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

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

A review of the bank's 1994 and 1995 HMDA data was performed to verify the reasonableness of the bank's delineation. According to the HMDA statements, 287 (84.7 percent) of 339 loan originations were within the bank's delineated community for 1994, and 139 (79.9 percent) of 174 loan originations were within the bank's community for 1995. Figures for loan originations in Greene County, which is not in the metropolitan statistical area (MSA), were extracted from the bank's loan application registers (LARs) and are included in the figures above.

Tri-City Bank management performed an analysis to determine if its delineation was reasonable. This analysis included all loans originated by the bank in 1994 and 1995. According to management's analysis of loans for 1994, 3,726 (63 percent) of the 5,917 total loan approvals were within the delineated community. An analysis of loans made in 1995 revealed that 2,886 (65 percent) of the 4,473 approvals were within the delineated community. In addition, a review of the location of the bank's branches was performed. The bank's 12 branches are located throughout the four-county area, with most of the branch locations in Sullivan County. Based on the above analysis and the location of the bank branches, the bank's delineation is considered reasonable.

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

The table below depicts demographic information regarding the bank's delineated community. The demographic information is used to determine if the bank is adequately serving the credit needs of its community.

INCOME SUMMARY

INCOME LEVEL	HOUSEHOLDS		FAMILIES	
	NUMBER OF HOUSEHOLDS	PERCENT OF TOTAL	NUMBER OF FAMILIES	PERCENT OF TOTAL
LOW ¹	30,093	22.9%	18,688	19.1%
MODERATE	19,605	15.0%	16,858	17.3%
MIDDLE	22,734	17.3%	19,882	20.3%
UPPER	58,773	44.8%	42,288	43.3%
TOTAL	131,205	100.0%	97,716	100.0%

¹Approximately 16.2 percent of the households and 11.6 percent of the families live below the poverty level.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

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

HOUSING MARKET SUMMARY

HOUSING UNITS	NUMBER OF UNITS	PERCENT OF TOTAL UNITS
OWNER OCCUPIED	96,449	68.4%
RENTAL	34,752	24.6%
VACANT	9,849	7.0%
TOTAL	141,050	100.0%

AFFORDABILITY SUMMARY

SPECIFIED OWNER- OCCUPIED UNITS BY VALUE IN DOLLARS	NUMBER OF HOUSING UNITS	PERCENT OF TOTAL HOUSING UNITS
\$25,000 OR LESS	6,994	10.1%
\$25,001 TO \$60,000	34,384	49.4%
\$60,001 TO \$100,000	20,746	29.8%
OVER \$100,000	7,435	10.7%
TOTAL	69,559	100.0%

MEDIAN HOUSING VALUE IS \$53,027. AFFORDABILITY RATIO IS 44.5 PERCENT.¹

As indicated by the tables above, over 37 percent of the households and 36 percent of the families within the bank's delineated community are classified as low- to moderate-income (earning less than 80 percent of the median income). According to the affordability summary chart, 44.5 percent of the households in the bank's community cannot afford the average priced home. As a result, low- and moderate-income individuals have difficulty purchasing a home because of the lack of affordable housing within the area.

In the bank's delineated community, there are 86 census tracts (CTs) and block numbering areas (BNAs). The low-income areas include four BNAs and two CTs. Five of the low-income areas have low or no population and no income information. These five low-income areas are BNAs 916.98, 917.98, 918.97, and 918.98, and CT 620.98. Moderate-income areas include 2 BNAs and 14 CTs; middle-income areas include 11 BNAs and 30 CTs; and upper-income areas include 2 BNAs and 21 CTs.

¹The affordability ratio measures the percentage of people who can afford a home at the median value. This ratio is calculated by dividing the median household income by the median housing value.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

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

According to the bank's analysis of loans made in 1994 and 1995, no loan activity was reported in CTs 602.00 and 607.00 or in BNAs 902, 910, 981, 911, 907, and 914. In addition, limited activity was noted in CT 401.00, a low-income tract located in a commercial area comprised of a small population residing in a government housing development. This census tract has a median household income of \$6,055 and a median family income of \$4,999. The lack of loan activity is indicative of the inability of the individuals to qualify for residential loans based on their income. Furthermore, CT 607.00, a moderate-income tract, had no activity because it includes East Tennessee State University and the Veterans Administration Center. CT 602.00 in Washington County is sparsely populated and has four families or eight households and also had no activity.

The lack of lending in the BNAs mentioned previously can be attributed to strong competition from the local county bank, which is the main lender in Greene County. In addition, Tri-City Bank and Trust Company has not been in the Greene County market for a long period of time. The bank entered this market through the purchase of a failed savings and loan institution. While the name of the failed savings and loan institution has changed, the negative impressions made on the residents of the community have remained and may be hampering the bank's ability to attract business.

An analysis of the bank's residential lending by CT income level indicates that the bank lends to all areas of its delineated community. It seems that low- to moderate-income areas are receiving loans at a rate close to the rate that they are submitting loan applications. Applicants from low- to moderate-income CTs submitted 13.1 percent of the HMDA applications in 1994 and 12.1 percent in 1995. 12.5 percent of the originations in 1994 and 12.2 percent in 1995 were in these tracts.

A review of the bank's applications and loan distribution by income of applicants indicates that low- and moderate-income applicants submitted approximately 28 percent of the applications in 1994 and 35 percent in 1995. Low- to moderate-income applicants received approximately 23 percent of the loans in 1994 and 35 percent in 1995. A review of population data indicates that low- and moderate-income households and families constituted approximately 38 percent and 36 percent, respectively, of the population. Based on the percentages of applications received from and loans originated for low- to moderate-income applicants compared with their representation in the community, the bank is actively serving the low- to moderate-income market.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

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

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

The bank operates 12 offices in its community. All of the offices have staff that can assist credit applicants with questions about the bank's credit products. The bank is open every weekday and on Saturdays to provide customers convenient access to banking services. Additionally, the bank has automated teller machines to provide bank customers 24-hour access to their deposit accounts. The bank currently has no plans to close any of its existing branches and has not closed a branch since the previous examination. A formal branch closing policy has been adopted as required by section 42 of the Federal Deposit Insurance Act.

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 generally solicits credit applications from all segments of the local community, including low- and moderate-income neighborhoods. The examination revealed no policies or practices that would discourage individuals from applying for any of the types of credit listed in the CRA Statement. Bank management has developed complete written policies, procedures, and training programs to ensure fair treatment of all applicants. Senior management has implemented several practices to ensure compliance with the Equal Credit Opportunity and Fair Housing Acts. These practices include analyzing HMDA data annually to detect lending disparities that could be viewed as discriminatory, conducting a second review of rejected loan applications to ensure that the bank's credit standards have been followed, and providing ongoing training to bank employees to enhance their knowledge of antidiscriminatory statutes and regulations.

Evidence of prohibited discriminatory or other illegal credit practices.

Although limited violations of technical aspects of HMDA were identified, the institution is in compliance with the substantive provisions of antidiscrimination laws and regulations. A fair lending analysis of the bank's real estate loans on the basis of gender was performed. No evidence of discrimination was noted.

V. COMMUNITY DEVELOPMENT

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

Because of a lack of community development and redevelopment projects and programs, Tri-City Bank has had limited opportunity to invest in these types of projects. However, Tri-City Bank and Trust Company's officers, staff, and directors are actively involved in those organizations and groups that keep them aware of most economic and community development and redevelopment projects occurring within the bank's

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

V. COMMUNITY DEVELOPMENT (CONTINUED)

delineation. Some of these organizations are Bristol Chamber of Commerce, Downtown Kingsport Association, Hawkins County Chamber of Commerce, Sullivan County Industrial Commission, Sullivan County Industrial Development Board, Sullivan County Industrial Retention and Expansion Task Force, and Washington County-Johnson City Area Chamber of Commerce.

However, one of the greatest contributions Tri-City Bank and Trust Company has made to community development in its delineation has been its involvement in educating consumers regarding banking and credit. Bank management has established an agreement with Bristol Housing Development Authority and Kingsport Housing Authority to provide credit counseling and general banking classes to low-income residents of the bank's community. Also, Tri-City Bank participates in the Partners in Education Program, a program that links local businesses with schools to serve as a resource and mentor for school children. In addition, members of the Tri-City Bank staff perform Personal Economics Program (PEP) presentations to local high school classes to discuss a wide range of topics, from obtaining credit to the history of banking. The PEP program was initiated in the Bristol, Tennessee school system as a pilot program. However, the bank expanded this program to include schools in each of the bank's locations. Bank management has continued its involvement in the Tennessee Bankers Association Young Banker's Program. This program attempts to educate school students about banking services available to them. The program also teaches the importance of maintaining a good credit record and how to manage personal finances. Additionally, the bank continues to offer its help in providing credit counseling through the local United Way offices.

The bank has recognized the need for small-dollar loans for residents of its delineation and has made loans to individuals in amounts frequently less than \$2,000. From January 1, 1995, to May 31, 1996, Tri-City Bank originated 308 unsecured loans in amounts equal to or less than \$2,000 totaling \$397,690.

To help further the efforts of community development, the bank had approximately \$3,624,000 invested in state and/or county bonds as of the March 31, 1996 Consolidated Reports of Condition and Income. Tri-City Bank and Trust Company continues to support church-related loan needs within its delineation. As of June 1996, the bank originated nine church loans totaling \$2,022,037. Also, the bank has aided nonprofit groups in their credit needs. Since the previous examination, the bank has originated five loans totaling \$2,175,796.

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.

Tri-City Bank and Trust Company operates 12 banking offices in the northeastern corner of Tennessee and had assets of approximately \$236.7 million according to the March 31, 1996 Consolidated Reports of Condition and Income. The Blountville-based bank is a subsidiary of First Virginia Banks, Inc., Falls Church, Virginia. The Tri-City area includes the cities of Bristol, Johnson City, Greeneville, and Kingsport. The major employers in the area are large manufacturing companies including Eastman Chemical and Arcata Graphics. According to the Regional Business Conditions and Outlook produced by the East Tennessee State University College of Business in Johnson City, Tennessee, the unemployment rate as of first quarter 1995 was 4.68 percent. No legal, economical, or financial impediments exist that would affect the bank's ability to meet various 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.

Not all of the bank's programs are directly credit-related. However, many of these programs do increase the quality of life in the community by addressing specific needs. In addition to the personal involvement of bank staff in many community organizations, the bank continues to be a generous supporter of local charities. In 1994 and 1995, the bank made contributions totaling over \$20,000 and \$23,315, respectively, to charitable organizations. As of April 1996, the bank had contributed \$6,175 to charitable organizations.

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

19

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)

TRI-CITY BANK AND TRUST COMPANY

(Name of Bank)

BLOUNTVILLE, TENNESSEE

(Location)

FEDERAL RESERVE BANK OF ATLANTA

Cynthia C. Goodwin
ASSISTANT VICE PRESIDENT

Board of Directors
Tri-City Bank and Trust Company
Post Office Box 277
Blountville, Tennessee 37617

Board of Directors

Enclosed is the bank's Community Reinvestment Act Performance Evaluation prepared by Federal Reserve Examiner Gary L. Clayton 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: TRI-CITY BANK AND TRUST COMPANY

City and State: BLOUNTVILLE, TENNESSEE

Date of Examination: JULY 8, 1996

FEDERAL RESERVE BANK OF ATLANTA