



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 21, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank Of The Carolinas
Charter Number 23073**

**217 North Granard
Gaffney, SC 29342**

**Comptroller of the Currency
ADC - Carolinas (Columbia)
6100 Fairview Road Suite 1154
Charlotte, NC 28210**

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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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The institution exhibits a reasonable loan-to-deposit ratio. The institution's record of lending to borrowers within its assessment area is satisfactory. The institution's record of lending to borrowers' of different income levels and businesses of different sizes is also satisfactory. The bank has not received any CRA related complaints since the last evaluation.

DESCRIPTION OF INSTITUTION

First National Bank of the Carolinas (FNB) is \$54 million commercial bank headquartered in Gaffney, SC. The bank operates two full service offices in Gaffney and one office in Blacksburg, SC. Each banking office has an ATM and drive-through facility. FNB is a wholly owned subsidiary of FNB Bancshares, Inc., a one-bank holding company, also headquartered in Gaffney, SC. The assets and scope of the holding company mirror those of the bank.

FNB offers a full range of banking services to individuals and businesses, including the taking of time deposits, making loans, and offering non-deposit investment services. As of March 31, 2002, loans totaled \$42 million and deposits totaled \$46 million. Loans represent 78% of total assets. The bank is primarily a commercial and real estate lender. The distribution of the loan portfolio as of March 31, 2002, was as follows: commercial (including commercial real estate) (54%); 1-4 family residential properties (26%); consumer loans (15%) and real estate construction (5%). FNB's Tier 1 capital is \$5 million and their ratio of risk-based capital to risk weighted assets is 12%. There are no legal, financial or other factors impeding the bank's ability to help meet the credit needs in the assessment area.

FNB's CRA performance was rated "Satisfactory" in the last public evaluation dated July 22, 1998.

DESCRIPTION OF CHEROKEE COUNTY

The bank has designated all of Cherokee County as their Assessment Area (AA). The bank's delineation meets the legal requirements of the regulation as they have adopted the entire county and not excluded any geography. The AA consists of 1 moderate (14%) and 6 middle (86%) income census tracts. There are no low-or upper-income geographies in the AA. All of FNB's banking offices are located in middle-income census tracts.

Approximately 12,456 families reside in the AA. Of this total, 23% are classified low-income, 20% are moderate-income, 27% are middle-income and 30% are upper-income. The population of the AA is approximately 44,506. The 2001 updated HUD, median family income for the AA is \$50,400. 2001 Business Demographic Data reflects 1699 reported businesses in the AA. Most were small businesses as 88% reported revenues under \$1MM and 76% of them had fewer than 10 employees.

The AA is has been impacted by job losses as a result of the continued decline of the textile and manufacturing industries. The Outlet Shops have helped to stimulate the growth of retail and service businesses in the area. As of July 2002, the unemployment rate of the AA was 7.5%, which is above the statewide average of 5.5% for the same period. Major Cherokee County employers include; Nestle Frozen Foods Company (1583 employees), The Timkin Company (1000 employees), Encompass, Inc. (700 employees) and Milliken & Company (600 employees).

Competition in the AA is moderate. There are 6 other financial institutions with 8 banking offices in the AA. Major competitors in the AA include a diverse mix of community, regional and multinational banking companies.

During our review, we made a community contact to ascertain the credit needs of the AA. The contact indicated the primary credit needs were small business loans (start-up and working capital) and a combination of single family and multifamily affordable housing.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Based on our review the bank's loan mix, we determined the bank's primary loan products were home mortgage loans and commercial loans. Our borrower and geographic lending analyses were based on review of a sample of 36 home mortgage loans originated in the AA during 2000 and 2001. Our evaluation of commercial lending performance was based on a sample of 20 commercial loans originated in the AA since our last examination. Our evaluation period was from December 31, 1999 through December 31, 2001.

Loan-to-Deposit Ratio

FNB's quarterly average loan-to-deposit ratio since the last examination is 84%. This ratio is more than reasonable in light of the bank's capacity to lend and the volume of lending opportunities in the bank's AA. FNB's loan-to-deposit ratio consistently exceeds that of similarly situated banks in the local market.

Lending in the Assessment Area

A high percentage of FNB's loans were made within the AA. During the period under review FNB made 80% of their loan originations within the AA. By loan product, 80% of the number and 78% of the dollar volume of home mortgage loans were inside the bank's AA. In terms of commercial loans, 77% of the number and 72% of the dollar volume were made in the AA.

Lending to borrowers of different incomes and businesses of different sizes

FNB's distribution of home mortgage loans is reasonable. The bank made 6% and 31% of their home mortgage loans to low- and moderate-income borrowers, respectively. Demographic information reflects 23% of the families in the AA are low-income and 20% are moderate income. The bank's performance to low-income borrowers is mitigated by the fact that 17% of the low-income families in the AA live below the poverty level, which makes it difficult for them to afford and maintain a home. In addition, there is an identified need for affordable housing in the AA. Performance above the demographic data in the moderate-income tract also supports the bank's efforts to make loans to borrowers of different incomes.

FNB's distribution of commercial loans is reasonable. The bank made 50% of their commercial loans to small businesses (businesses annual revenues of \$1 million or less). This compares reasonably to demographic information, which indicates small businesses represent 88% of the businesses in the AA. The bank's performance in comparison to the demographic is mitigated by the fact that 76% of the businesses reported fewer than 10 employees. In many cases businesses of this size obtain funding from private sources or internally. Our analysis also reflected 40% of FNB's commercial loan originations were for amounts of \$100 thousand or less, evidencing the bank's efforts to be responsive to small business credit needs.

Geographic Distribution of Loans

FNB's geographic distribution of home mortgage loans is satisfactory. Based on our review of the loan sample, 5% of the bank's home mortgage loans were made in the moderate-income census tract.

In terms of commercial loans, FNB made 11% of their loans in the moderate-income geography. This performance compares reasonably to demographic data, which indicates 13% of the businesses in the AA are located in the moderate-income geography.

Response to Complaints

FNB did not receive any CRA related consumer complaints during this evaluation period.

Fair Lending Review

Analyses of public comments and the 1998, 1999 and 2000 HMDA-LAR reports were performed according to the OCC's risk based fair lending approach. The institution has a reasonable record of complying with anti-discrimination laws and regulations. No violations of the substantive provisions of the anti-discrimination laws and regulations were identified. The last comprehensive fair lending review was performed in July 1998.