



Comptroller of the Currency
Administrator of National Banks

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PUBLIC DISCLOSURE

COMMUNITY REINVESTMENT ACT PERFORMANCE
EVALUATION

August 15, 1996

First National Bank of Shelby
Charter Number 6776
106 South Lafayette Street
Shelby, North Carolina 28150

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.

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of First National Bank of Shelby prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency.

The evaluation represents the OCC's current assessment and rating of the institution's CRA performance based on an examination conducted as of June 30, 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 that 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.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

Based on the findings presented below, this institution is rated:
"Satisfactory Record of Meeting Community Credit Needs".

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - 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.

First National Bank of Shelby has identified the credit needs of its community and actively communicates the availability of its credit services through ongoing contact with a variety of community representatives.

Ascertainment of community credit needs is facilitated through the established Officer Call Program. Over the past year, almost 1,500 calls were made to a diverse group of individuals and organizations, including the Development Council, the Cleveland County Community Reinvestment Loan Group, and the Board of Realtors. Management also routinely surveys its customers to solicit feedback on bank products and services.

Through its Call Program and customer surveys, Shelby identified the following primary community credit needs: affordable housing, consumer credit, home improvement, and small business loans. To address these needs, the bank offers affordable mortgages through the Community Homebuyers Program and the Farmers Home Administration, small business loans, home improvement loans, and a variety of consumer credit products.

Assessment Factor C - 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.

The Board of Directors and senior management effectively supervise the community reinvestment program through periodic reviews of CRA activities and performance. The directors annually approve an expanded CRA statement which documents performance and communicates objectives.

The Board receives semi-annual reports on CRA performance, including a comprehensive annual self-assessment. Community reinvestment efforts are directed through a formal CRA Council, consisting of key bank officers and four directors. Specifically, the Council develops and implements action plans to meet objectives under the Community Reinvestment Act. These action plans have included the development of products and services to address community credit needs, such as affordable mortgage and small business loan programs.

Community reinvestment efforts are further enhanced by members of the Board and management actively participating in local organizations. The CRA Officer serves on the Small Cities Program and the Chairman of the Board serves as Chairman of the Cleveland County Economic Development Commission.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - 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.

Bank products and services are marketed in a variety of media to reach all segments of the population, including low- and moderate-income individuals.

Advertisements are carried in local newspapers, including The Shelby Star and the Shelby Shopper; community organization newsletters; newcomer kits; and radio and television stations. The bank's products and services are also promoted through the Officer Call Program and other outreach efforts. Over the past year, targeted marketing campaigns focused on home improvement and other consumer loan products.

Assessment Factor I - 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.

First National Bank of Shelby routinely originates residential mortgage, home improvement, and small business loans which support its local community.

The following table details residential mortgage, small business, and consumer loan activity over the past two years.

LOAN PRODUCT	1994		1995	
	NUMBER OF LOANS	DOLLAR AMOUNT	NUMBER OF LOANS	DOLLAR AMOUNT
Home Mortgage	172	\$15,596,296	169	\$14,164,874
Consumer	2,150	\$25,224,716	2,122	19,041,915
* Commercial	1,177	\$25,398,008	1,106	21,472,700

* Majority of commercial loans are made to small businesses.

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

Shelby participates in government-sponsored loan programs to enhance its service to the community.

The bank originates loans through the Small Business Administration, participating in the "low doc" and the "SBA 504" programs. Loans under these programs exceeded \$300M over the past year. Some of the SBA activity, in conjunction with the economic development commission in Cleveland County, has expanded local manufacturing and stimulated job growth.

Shelby offers mortgage loans under the "Fannie Mae 97" Community Home Buyer's Program and the Farmer's Home Administration Guaranteed Loan Program. Volume in these programs totaled \$749M and \$773M, respectively over the past year.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

The delineated community is reasonable and does not arbitrarily exclude any low- or moderate-income areas.

The bank's delineated community consists of Cleveland County, with the exception of Kings Mountain. The Kings Mountain area is not included due to sufficient banking services provided by other financial institutions. The community delineation is validated by the fact that 92% of all loans

are within the designated area.

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

The geographic distribution of Shelby's credit extensions, applications, and denials represents reasonable penetration of all segments of the community, including low- and moderate-income areas.

Formal external geo-coding of consumer loans and denials demonstrates loan activity in almost all census tracts. The following table indicates that the bank's credit distribution follows local demographic patterns. There is a reasonable correlation between the percentage of total tracts to percentage of total loans in the designated income categories. This is particularly noted in the moderate- and middle-income areas. Further, the data does not indicate a material disparity in the approval rate among the various income groups.

1995 Distribution of Consumer Loan Originations			
Census Tract	% of Total Tracts	% of Total Loans	Approval Ratio
Low-Income (< 50% MHI)	0%	0%	0%
Moderate-Income (50-79.99% MHI)	11%	12%	64%
Middle-Income (80-119.99% MHI)	87%	80%	75%
Upper-Income (>120% MHI)	2%	8%	73%
TOTAL	100%	100%	

Note: MHI = 1995 Median Household Income for Cleveland County: \$26,476

Although there are no low-income designated tracts within the delineated community, the bank internally tracks its consumer loans according to income levels. This data indicated that during 1995, 35% of all consumer loans were made to low- and moderate-income borrowers. This data also indicated an approval ratio for low- and moderate-income borrowers of 77%, comparable to a 78% approval ratio for all borrowers.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

Shelby has not opened or closed any offices over the past few years. Bank location and hours of service are reasonably accessible to all areas of the community.

Shelby has eight branches, five of which are located in low- and moderate-income segments of the community. A new branch is planned for the Highland area, with a scheduled September 1996 opening. This office borders low- and moderate-income areas. Additional banking service is provided by six automatic teller machines at various locations. The bank routinely solicits feedback from customers concerning the improvement of available services and products.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

The bank does not engage in practices intended to discourage credit applications.

First National Bank of Shelby solicits credit applications from all segments of its delineated community, including low- and moderate-income neighborhoods. Fair lending policies, procedures, and training all promote fair lending. In addition, management has conducted reviews of lending activity to ensure that all applicants are treated fairly.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

First National Bank of Shelby is in compliance with the substantive provisions of fair lending laws and regulations. We did not note any instance of disparate treatment or any other illegal credit practice.

We reviewed the bank's lending activity to ensure compliance with the provisions of antidiscrimination laws and regulations. This was accomplished through a review of denied instalment loan applications to females applying individually, compared to approved instalment loans for males applying individually. Our review of instalment loans did not indicate any evidence of discriminatory lending practices. To further promote consistency in bank policy and compliance with fair lending laws, all denied applications undergo a secondary review process.

V. COMMUNITY DEVELOPMENT

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

The bank is aware of community development and redevelopment programs within the community and actively participates in those programs.

Shelby participates in the following community development organizations: Region C Development Corporation, Small Cities Program, Uptown Shelby Association, Cleveland County Community Reinvestment Loan Group, and the Cleveland County Community Development Corporation. Specific accomplishments through these groups include:

Cleveland County Community Reinvestment Loan Group: encourages home ownership by offering first mortgage home loans at reasonable rates for low- and moderate-income individuals. Ten local banks contribute \$100M each to provide \$1MM in loans to the mortgage program. First National Bank of Shelby is a founding member of this group.

Cline Street Apartments: a loan consortium provided a loan to local police officers to purchase and renovate the Cline Street Apartment complex, an abandoned property in a high-crime area. The apartments were renovated for low-income housing. Shelby purchased \$14M (10%) of the Cline Street Apartment loan.

Bank officers take a leadership role in community development programs within the bank's delineated community. The bank's Chairman of the Board serves as the chairman of the Cleveland County Economic Development Commission. Another member of senior management is active in the Small Cities Program, an economic and community development group designed to provide business development services.

The bank's investment portfolio also reflects support of the community with \$6MM in municipal bonds issued by Cleveland County and \$2.4MM in a Small Business Administration savings bond.

Assessment Factor K - 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 institution has the ability to meet various community credit needs in light of its financial condition, local economic conditions and other factors.

Shelby is well-established in its local market. There are no substantial financial, legal, or economic

barriers which would prevent the bank from serving the community. Competition for loans does remain strong in the area. Bank management is continually evaluating alternatives to expand its penetration of the local credit market.

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

Through its daily operations, the bank demonstrates a solid commitment to addressing and meeting identified community needs.

Additional services provided by the bank include:

- ◇ Construction lines of credit to several builders who construct homes for low- and moderate-income buyers through the Farmers Home Administration. The builders average 25-30 homes annually.
- ◇ Extension of home improvement loans to a substandard housing community for renovation and revitalization.
- ◇ Contributions totaling \$109M during 1995 to a variety of community organizations, supporting local schools, hospitals, and other community organizations.
- ◇ Offering a low-cost checking account called "value checking".

ADDITIONAL INFORMATION

None.