



## **PUBLIC DISCLOSURE**

January 20, 2015

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

The First National Bank of Pontotoc  
Charter Number 9040

19 South Main  
Pontotoc, MS 38863

Office of the Comptroller of the Currency

Birmingham Field Office  
3595 Grandview Parkway, Suite 655  
Birmingham, AL 35243

**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.

## **INSTITUTION'S CRA RATING: This institution is rated Satisfactory**

The First National Bank of Pontotoc has an overall satisfactory record of meeting community credit needs. This is based on the following:

- The average loan-to-deposit ratio is reasonable given the bank's size, financial condition, economic environment, and assessment area (AA) credit needs.
- A substantial majority of loans are originated within the Bank's AA.
- The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- The Bank did not receive any consumer complaints regarding Community Reinvestment Act (CRA) performance during this evaluation period.

## **SCOPE OF EXAMINATION**

We evaluated the First National Bank of Pontotoc (FNBP) under the Small Bank examination procedures, comprised of a Lending Test, to assess its performance under the Community Reinvestment Act (CRA). The Lending Test evaluates the Bank's record of meeting the credit needs of its assessment area (AA) through its lending activities. The Bank's previous CRA rating, dated June 15, 2009, was "Satisfactory." This performance evaluation starts from the date of the bank's previous CRA examination, covering the period from June 16, 2009 through January 20, 2015.

FNBP's primary loan products are residential real estate loans, consumer loans, and loans to businesses. Because these loan types represent a significant portion of FNBP's lending activity, conclusions regarding the Lending Test were weighted equally on these loan products. We selected and tested a sample of loans to draw conclusions. Due to changes in the census data as of 2010, the loans considered in the Lending Test were originated between January 1, 2012 and December 31, 2014. FNBP is not a Home Mortgage Disclosure Act (HMDA) reporter.

FNBP has one assessment area (AA) is a non-metropolitan statistical area (non-MSA) comprised of census tracts in Pontotoc County, MS.

## **DESCRIPTION OF INSTITUTION**

FNBP is a \$257 million community bank located in Pontotoc, MS, approximately 20 miles west of Tupelo, MS and 90 miles southeast of Memphis, TN. The bank is wholly owned by Pontotoc Bancshares Corp, a one-bank holding company located in Pontotoc, MS. In addition to the main office, FNBP has one full-service branch location in Pontotoc, MS. In 2011, FNBP opened a third full-service branch in nearby Ecu, MS. The Bank operates ten automated teller machines (ATMs) in its AA.

FNBP offers convenient banking hours and a variety of loan and deposit products to meet the needs of the AA. No legal or financial factors impede the Bank's ability to meet the credit needs of its AA.

The Bank's primary lending focus is real estate lending for both consumer and business purposes, in addition to other consumer loans. The table below provides details regarding FNBP's loan composition as of December 31, 2014.

<b>Loan Portfolio Composition as of December 31, 2014</b>		
<b>Loan Type</b>	<b>Dollar Amount (000's)</b>	<b>Percent of Total Loans</b>
Construction and Land Development	15,589	13.90%
Secured by Farmland	1,624	1.45%
One-to-Four Family Residential	44,822	39.97%
Commercial Real Estate	22,047	19.66%
<b>Total Real Estate Loans</b>	<b>84,082</b>	<b>74.99%</b>
Agricultural	1,844	1.64%
Commercial and Industrial	6,604	5.89%
Consumer	12,965	11.56%
Other	6,633	5.92%
<b>Total Loans</b>	<b>112,128</b>	<b>100.00%</b>

*Source: December 31, 2014 Report of Condition*

## **DESCRIPTION OF ASSESSMENT AREA(S)**

FNBP has one AA, comprised of six census tracts in Pontotoc County, MS. The AA has a population of 29,957 according to the 2010 census data. All six census tracts are in middle-income geographies. The AA meets the requirements of the regulation, and does not arbitrarily exclude low- and moderate-income geographies. The AA is heavily dependent upon the furniture and related product manufacturing industries. The nearby Toyota plant in Blue Springs, MS also provides a significant number of jobs in the AA. Several furniture manufacturers and local trucking companies ceased operations within the past five years, putting a strain on the local economy. However, two new furniture manufacturing plants have opened since 2012.

Competition in the AA is strong given the presence of several large regional banks: Renasant Bank, BancorpSouth Bank, and Woodforest National Bank. Nonetheless, FNBP holds 58 percent of the deposit share within the AA. The AA is impacted by elevated unemployment and poverty rates.

We discussed community lending needs with a representative of the Three Rivers Planning and Development District (TRPDD), a certified development company under the Small Business Administration that receives funding from the State. The organization covers an eight county area, including Pontotoc County, and is involved in financing small and/or minority businesses. The contact indicated there is a need for affordable housing loan products in the area. The contact revealed that local banks are meeting the small business needs in the area.

The following table shows the demographic and economic characteristics of the AA.

<b>Demographic Information for Pontotoc County AA</b>						
Demographic Characteristics	# Total	Low % of #	Moderate % of #	Middle % of #	Upper % of #	N/A* % of #
Geographies (Census Tracts/BNAs)	6	0	0	100	0	0
Population by Geography	29,957	0	0	100	0	0
Owner-Occupied Housing by Geography	7916	0	0	100	0	0
Businesses by Geography	443	0	0	100	0	0
Farms by Geography	2	0	0	100	0	0
Family distribution by Income Level	12,084	0	0	100	0	0
Distribution of Low and Moderate Income Families throughout AA Geographies	2,356	0	0	100	0	0
Median Family Income, last Census 2010		\$43,800				
HUD Adjusted Median Family Income for 2014		\$50,800	Unemployment Rate			
Households Below Poverty Level		16%				8.8%
% Businesses with Revenues < \$1 million		72%	% Farms with Revenues < \$1 million			99%
% Businesses with Revenues > \$1 million		4%	% Farms with Revenues > \$1 million			1%

Source: 2010 U.S. Census data; 2008 HUD updated income data; Bureau of Labor Standards.

\* The N/A category consists of geographies that have not been assigned an income classification.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FNBP's loan-to-deposit (LTD) ratio is reasonable given the Bank's size, financial condition, and AA credit needs. The Bank's LTD averaged 47.95 percent over the 22 quarters since the previous CRA examination, with a quarterly low of 42.98 percent and a quarterly high of 54.06 percent. In 2008, the Bank's loan portfolio declined by approximately \$10 million while deposits grew \$6 million. Since then, deposits have risen steadily, while the loan portfolio remained stagnant. The Bank has experienced low loan demand due to the increasing market share of larger regional banks. There are no similarly situated institutions by which to compare the Bank's LTD ratio.

### Lending in Assessment Area

FNBP originates a substantial majority of loans inside the AA. We reviewed a sample of 60 residential real estate loans, consumer loans, and loans to businesses originated from January 1, 2012 through December 31, 2014. Approximately 93 percent of the number and 87 percent of the dollar volume of our sample were to borrowers located within the Bank's AA. This exceeds the standards for satisfactory performance. Table 1 details the Bank's lending within the AA by number and dollar amount of loans originated during the evaluation period.

<b>Table 1 - Lending in Pontotoc County AA</b>										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage	20	100.00	0	0.00	20	1,400	100.00	0	0.00	1,400
Consumer Auto	19	95.00	1	5.00	20	199	99.00	1	1.00	200
Commercial	17	85.00	3	15.00	20	740	67.46	357	33.54	1,097
Totals	56	93.33	4	6.67	60	2,339	86.73	358	13.27	2,697

Source: Loan sample; 2010 US Census Data; Dunn and Bradstreet data.

**Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

**Lending to borrowers of different incomes and businesses of different sizes reflects reasonable penetration and meets the standards for satisfactory performance.** Based on the demographics of the AA, the bank’s distribution of loans reflects reasonable penetration among individuals of different income levels (including low- and moderate-income) and small businesses.

*Home Loans*

The distribution of home loans to borrowers of different incomes reflects reasonable penetration. Low- and moderate-income families represent 15.45 percent and 17.88 percent of the AA, respectively. The Bank’s penetration of lending to low-income borrowers is significantly lower than the demographic comparator, representing only 5 percent of the number of loans sampled. However, 16 percent of the AA population lives below the poverty level, which impedes the bank’s ability to make loans to qualified borrowers. The Bank’s penetration of lending to moderate-income borrowers exceeds the demographic comparator at 20 percent of the number of loans sampled. Table 2 shows the distribution of home loans among borrowers of different income levels, as compared to the percent of families in each income category.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Pontotoc County AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Mortgage	15.45	5.00	17.88	20.00	20.69	5.00	45.99	70.00

Source: Loan sample; 2010 US Census Data; Dunn and Bradstreet data.

*Consumer Loans*

The distribution of consumer loans to borrowers of different incomes reflects reasonable penetration. Low- and moderate-income households represent 21.35 percent and 13.49 percent of the AA, respectively. The Bank’s penetration of lending to low-income borrowers is reasonable, representing 20 percent of the number of loans sampled. The Bank’s penetration of lending to moderate-income borrowers exceeds the demographic comparator at 25 percent of the

number of loans sampled. Table 2A shows the distribution of consumer loans among borrowers of different income levels, as compared to the percent of households in each income category.

<b>Table 2A - Borrower Distribution of Consumer Loans in Pontotoc County AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	21.35	20.00	13.49	25.00	15.63	15.00	49.53	40.00

Source: Loan sample and 2010 US Census Data.

**Business Loans**

The distribution of loans to businesses of different sizes reflects excellent penetration. In the AA, 72.30 percent of businesses are small, generating revenues of less than \$1 million. Ninety-five (95) percent of the number of FNBP’s commercial loan originations were to small businesses. The dollar volume of commercial loans made to small businesses represents 96.97 percent. Both ratios exceed the percentage of small businesses in the AA. Table 2B shows the distribution of commercial-related loans made to businesses of different sizes, as compared to the percent of businesses in each revenue category.

<b>Table 2B - Borrower Distribution of Loans to Businesses in Pontotoc County AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	72.30	4.44	23.26	100
% of Bank Loans in AA by #	95.00	5.00	0.00	100
% of Bank Loans in AA by \$	96.97	3.03	0.00	100

Source: Loan sample; 2010 US Census Data; Dunn and Bradstreet data.

**Geographic Distribution of Loans**

An analysis of the geographic distribution of the Bank’s lending was not performed as part of this evaluation. The analysis would not be meaningful, as no census tracts in the Bank’s AA are designated as low- or moderate-income.

**Responses to Complaints**

FNBP has not received any CRA-related complaints since the previous CRA examination.

**Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

