

SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 2, 2004

COMMUNITY REINVESTMENT AND PERFORMANCE EVALUATION

**The First National Bank of Hamilton
Charter Number 16579**

**341 Military Street South
Hamilton, AL 35570**

**Comptroller of the Currency
100 Concourse Parkway Suite 240
Birmingham, AL 35244**

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

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision; to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of The First National Bank of Hamilton prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of August 2, 2004. The agency rates the CRA performance of an institution consistent with the provisions set forth in appendix A to 12 CFR § 25.

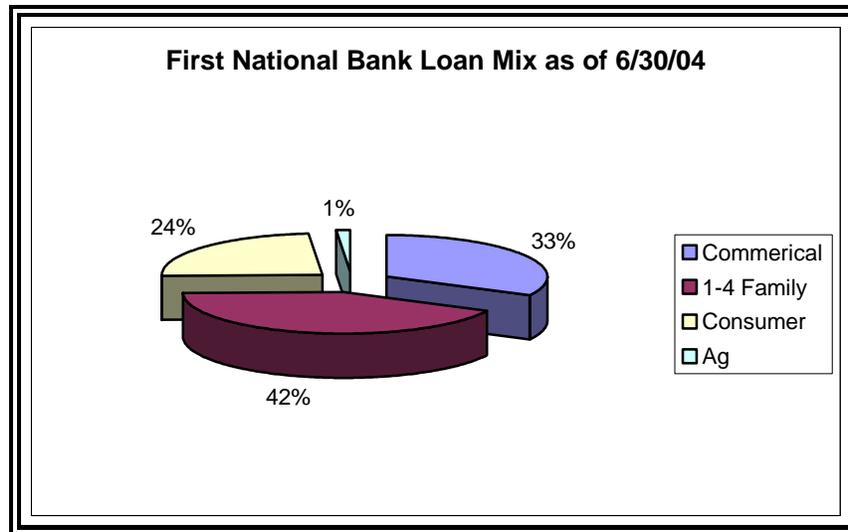
This institution is rated Satisfactory.

- The bank maintains a reasonable loan to deposit ratio. The ratio averaged 60.24% over the twenty-two quarters since the previous CRA examination and compares favorably to similarly situated banks in the assessment area (AA).
- A substantial majority (95%) of the loans were made within the bank's assessment area (AA.)
- The bank's loan portfolio is largely composed of residential real estate and business loans, which have been identified as primary lending needs in the AA.
- Loan analysis indicates that the bank lends to borrowers of all income levels. Lending to low and moderate-income borrowers is commensurate with the AA benchmarks.
- The level of lending to small businesses demonstrates satisfactory performance.

DESCRIPTION OF INSTITUTION

The First National Bank (FNB) is a \$222 million bank headquartered in the county seat of Marion County, AL. In addition to the main office and a branch in Hamilton, AL, the bank has branches located in Detroit, Sulligent, Lynn, Haleyville, Carbon Hill, Parrish, and Berry. Of these locations, the Carbon Hill, Berry, and Parrish branches have been opened since the previous examination through the merger of a multi bank holding company. ATMs are located at all branches with the exception of the Hamilton South branch, the Detroit branch, and the Lynn Branch. There is also an ATM located at Watha's Inc (convenience store) in Hamilton, AL.

The bank, chartered in 1976, is 100% owned by Marion Bancshares, Inc., a one-bank holding company. The bank's business focus is to meet the financial needs of the community via deposit acceptance and loan offerings. The bank's loan mix based on the 6/30/2004 Call Report is as follows:



FNB is in sound financial condition with no legal impediments, which would prevent it from meeting the credit needs of the community. The bank’s previous CRA rating was “Satisfactory” (3/15/99). The evaluation period for this performance report is April 1, 1999 through August 2, 2004 and includes commercial and home mortgage loans. Conclusions for this public evaluation are based on a random sample of 60 home mortgage and commercial loans originated between January 1, 2000 and December 31, 2002.

DESCRIPTION OF ASSESSMENT AREA

The bank’s AA includes the entire geographies of Marion and Lamar County, Alabama, six block-numbering areas (BNA) in Walker County, Alabama, four BNAs in Winston County, Alabama, two BNAs in Fayette County, Alabama, two BNAs in Franklin County, Alabama and two BNAs in Monroe County, Mississippi. The AA meets the requirements of the regulation and does not arbitrarily exclude low or moderate-income areas. The AA consists of twenty-five tracts with a total population of 96,754. The median family income for the AA is \$24,084 with a HUD adjusted median family income for 2002 of \$39,300. Twenty-two percent of households live below the poverty level. Table 1 below shows the demographic makeup of the AA by census tract and family income.

Table 1 – Assessment Area Demographics				
Income Level	# of CTs	% of CTs	# of Families	% of Families
Low	0	0%	0	0%
Moderate	1	4.00%	1,222	4.31%
Middle	24	96.00%	27,121	95.69%
Upper	0	0%	0	0%
Total	25	100%	28,343	100%

FNB of Hamilton is not the market leader, ranking 4th in deposits with a 7.10% market share. Local banking competition is aggressive and includes regional banks, numerous community banks, credit unions, and non-bank financial service providers. The top three competitors in this market include: First National Bank of Jasper, Traders & Farmers Bank, and Citizens Bank and Savings Company.

The AA has a weak economy and high unemployment. As of June 30, 2004, the average unemployment rate for all counties within the AA was 8.19% versus an Alabama statewide rate of 5.90%, a Mississippi unemployment rate of 5.4% and the US unemployment rate of 5.6%. Major employers in the AA are Beville State Community College, Marion Regional Medical Center, NTN Bower, Northwest Medical Center, Continental Conveyor, and King Kutter. The area's economy has been adversely impacted over the last few years by the loss of several manufacturing jobs including the Winfield Cotton Mill and several mobile home factories.

We discussed community-lending needs with the Community Development Foundation of Marion County. Primary needs identified in the community are affordable housing for low- and moderate-income individuals as well as financing to fund and/or attract industry to the area. The executive director of the Community Development Foundation of Marion County stated that First National Bank of Hamilton did a great job in helping to meet the needs of the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

- FNB's loan-to-deposit (LTD) ratio is satisfactory and trending upward.

The quarterly average loan to deposit ratio for the twenty-two quarters following our prior CRA evaluation is 60.24% and is reasonable considering the bank's size, competition, and market loan demand. As of 6/30/04 the LTD was 64.09%, up from 56.43% at the previous CRA examination. An analysis was performed to compare the bank's loan to deposit ratio to other banks in the AA with total dollar assets ranging from \$150MM and \$250MM. FNB's LTD compares favorably to similarly situated banks in the AA.

Lending in Assessment Area

- First National Bank of Hamilton makes a substantial portion of its loans within the AA.

The analysis included a random sample of 60 loans originated between 1/1/00 and 12/31/02. Ninety-five percent of the number and 74.39% of the dollar volume of loans sampled were made to individuals and businesses situated within the bank's assessment area. The following table demonstrates sampling results:

Table 1- Inside/Outside Analysis – Random Sample of 60 Loans

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Location	# of Loans	% of Loans (by #)	\$ Volume of Loans	% of Loans (by \$)
<i>Inside AA</i>	<i>57</i>	<i>95%</i>	<i>8,279</i>	<i>74.39%</i>
<i>Outside AA</i>	<i>3</i>	<i>5%</i>	<i>2,849</i>	<i>25.61%</i>
Total	<i>60</i>	<i>100.00%</i>	<i>11,128</i>	<i>100.00%</i>

Source: Loan Sample

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

- The bank lends to businesses of different sizes and borrowers of all income levels.

Table 2 illustrates that in the AA, 64.19% of businesses have gross revenues of less than \$1 million annually. FNB's lending patterns closely correlate, with 72.41% of the number of loans made to businesses with revenues less than \$1 million. While somewhat less than the percentage of businesses in the AA, the dollar volume of commercial loans made to businesses with revenues under \$1 million at 42.31% is reasonable considering larger businesses need larger loans.

Table 2 - Borrower Distribution of Loans to Businesses in FNB Hamilton AA		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	64.19%	5.57%
% of Bank Loans in AA by #	72.41%	27.59%
% of Bank Loans in AA by \$	42.31%	37.62%

Source: Loan sample; US Census data. * 30.03% of AA businesses did not report revenue data

Table 3 below illustrates the distribution of home mortgage loans in relation to the number of families in the AA by income level. The level of lending to low and moderate-income borrowers is satisfactory. More than twenty-eight percent of the number and almost 18% of the dollar volume of residential real estate loans were made to low-income borrowers, which is commensurate with the fact that 23.19% of families in the AA are low income. The bank's percentage of the number of loans to moderate-income borrowers is only slightly lower than the percentage of moderate-income families in the AA, 17.86% to 18.85%.

Table 3 - Home Mortgage Loans – Distribution by Borrower Income					
Income Level	% of Families in AA	# of Loans in AA	% of Total (by #)	\$ of Loans in AA (000's)	% of Total (by \$)
Low	23.19%	8	28.57%	209	17.71%
Moderate	18.85%	5	17.86%	132	11.19%
Middle	20.98%	5	17.86%	273	28.54%
Upper	36.98%	10	35.71%	566	25.46%
Total	100%	28	100%	1,180	100.00%

Source: U.S. Census data and Loan Sample.

Geographic Distribution of Loans

A geographical analysis of loan distribution within the AA is not meaningful as the assessment area contains no low-income tracts, 1 moderate-income tract, 24 middle-income tracts, and no upper-income tracts.

Responses to Complaints

The First National Bank of Hamilton has not received any complaints about its performance in helping to meet assessment area needs during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discrimination or other illegal credit practices.