



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

June 15, 2009

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

LITTLE ROCK (MEMPHIS) Field Office
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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 average loan-to-deposit ratio at 71% is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- The majority of the bank's loans are located in its AA.
- Although not required, the bank has made a concerted effort to participate in community development services.

SCOPE OF EXAMINATION

An onsite examination of the bank was performed to assess its performance under the Community Reinvestment Act (CRA). Loan information used for this evaluation included home loans, auto loans, small farm loans, and small business loans. The bank was rated **Satisfactory** at the previous examination. This performance evaluation starts from the date of the bank's previous CRA examination covering the period from June 7, 2004 to June 15, 2009. Contacts were made with local community agencies with knowledge of the overall needs within the bank's AA, and used in the evaluation process.

DESCRIPTION OF INSTITUTION

First National Bank of Pontotoc (FNB) had total assets of \$220.2 million and loans of \$107.9 million as of March 31, 2009. The bank is located in northeastern Mississippi approximately 90 miles southeast of Memphis, Tennessee.

FNB operates in Mississippi, with the main headquarters and two branches located in Pontotoc. The bank operates ten automated teller machines (ATM) in its AA.

The bank's primary lending focus is real estate, consumer, and small business loans with the loan portfolio representing 49% of total assets. The loan portfolio composition is as follows:

| Loan Portfolio Composition as of March 31, 2009 | | |
|--|----------------------------------|-----------------------------------|
| Loan Type | Dollar Amount (000's) | Percent of Total Loans |
| Construction and Land Development | 5,340 | 4.95 |
| Secured by Farmland | 3,154 | 2.92 |
| One-to-Four Family Residential | 43,572 | 40.37 |
| Commercial Real Estate | 28,893 | 26.77 |
| Total Real Estate Loans | 80,959 | 75.01 |
| Agricultural | 1,890 | 1.75 |
| Commercial and Industrial | 10,008 | 9.27 |
| Consumer | 13,201 | 12.23 |
| Other | 1,880 | 1.74 |
| Total Loans | 107,938 | 100% |

Source: Report of Condition

FNB offers convenient banking hours and a variety of loan and deposit products to meet the needs of the AA. There are no financial impediments that would limit the bank's ability to help meet the credit needs in its AA.

FNB is a wholly owned subsidiary of Pontotoc Bancshares Corporation a \$220.2 million one bank holding company headquartered in Pontotoc. The deposit share within the AA includes FNB with 53% and four regional bank branches with 47%. The bank's last CRA examination was performed on June 7, 2004, and was rated **Satisfactory**.

DESCRIPTION OF ASSESSMENT AREA(S)

FNB's AA is Pontotoc County, which has a population of 26,726 according to the updated 2000 census. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. There are five Block Numbering Areas (BNAs)/Census Tracts (CTs) in the AA, which three are middle-income, and two are upper-income. These BNAs/CTs are 9501 through 9505. The Median Family Income (MFI) for non-Metropolitan Statistical Areas (MSA) in Mississippi was \$39,526. The 2008 Housing and Urban Development (HUD) MFI for non-MSA in Mississippi was \$40,300. HUD estimated MFI is updated annually and is used to determine the income level of individual applicants. The income ranges for the four income levels are as follows: Low-income = \$19,399 and under; Moderate-income = \$19,400 - \$31,039; Middle-income = \$31,040 - \$46,559; and Upper-income = \$46,560 and above.

The AA has a history of low unemployment when compared to state and national averages. However, it has been impacted by the recent economic downturn in the residential real estate market, in which furniture manufacturers and distributors are the main employers in the AA. In the past few years, two furniture manufacturers have ceased operations in the AA. Presently, the county is impacted by high unemployment and a high percentage of population below the poverty line. The unemployment rate at 8.8% is slightly below the Mississippi average of 9.1% and the US average of 8.9% as of April 2009.

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

| Demographic and Economic Characteristics of the Pontotoc County | | | | | | |
|--|---------|---------------|-------------------------------------|------------------|-----------------|----------------|
| Demographic Characteristics | # Total | Low % of # | Moderate % of # | Middle % of # | Upper % of # | N/A* % of # |
| Geographies (Census Tracts/BNAs) | 5 | 0 | 0 | 60 | 40 | 0 |
| Population by Geography | 26,726 | 0 | 0 | 54 | 46 | 0 |
| Owner-Occupied Housing by Geography | 10,826 | 0 | 0 | 53 | 47 | 0 |
| Businesses by Geography | 3,269 | 0 | 0 | 56 | 44 | 0 |
| Farms by Geography | 70 | 0 | 0 | 63 | 37 | 0 |
| Family distribution by Income Level | 7,633 | 0 | 0 | 54 | 46 | 0 |
| Distribution of Low and Moderate Income Families throughout AA Geographies | 2,356 | 0 | 0 | 57 | 43 | 0 |
| Median Family Income, last Census 2000 | | \$39,526 | Median Housing Value | | | \$61M |
| HUD Adjusted Median Family Income for 2008 | | \$40,300 | Unemployment Rate | | | |
| Households Below Poverty Level | | 16% | | | | 8.8% |
| % Businesses with Revenues < \$1 million | | 93% | % Farms with Revenues < \$1 million | | | 99% |
| % Businesses with Revenues > \$1 million | | 7% | % Farms with Revenues > \$1 million | | | 1% |

*Source: 2000 U.S. Census data; 2008 HUD updated income data; Dun and Bradstreet; Bureau of Labor Standards. * The N/A category consists of geographies that have not been assigned an income classification.*

A community contact with a representative of the Three Rivers Planning and Development District (TRPDD) was conducted in conjunction with this CRA examination. TRPDD is 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 revealed that local banks are meeting the small business needs in the area. However, the contact indicated there is a need for affordable housing loan products in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio (LTD) of 71% is reasonable given the bank's size, financial condition, and AA credit needs and is satisfactory. The LTD ratio was calculated using quarterly averages since the prior CRA evaluation as of June 8, 2004. There is no similarly situated institution to compare. There are two regional banks located in the AA, which are Renasant Bank and Bancorp South. Both regional banks have two branches located in the AA.

Lending in Assessment Area

A majority of FNB loans are in the bank’s AA. A sample of 20 home loans, 22 auto loans, 20 agriculture loans, and 20 commercial loans made during 2007 through 2009 was reviewed to determine lending within the AA. Lending within the AA is detailed in the following table:

| Lending in Pontotoc County | | | | | | | | | | |
|-----------------------------------|-----------------|-----|---------|---|-------|------------------|-----|---------|----|-------|
| Loan Type | Number of Loans | | | | | Dollars of Loans | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Home Loans | 20 | 100 | 0 | 0 | 20 | 614 | 100 | 0 | 0 | 614 |
| Auto Loans | 20 | 91 | 2 | 9 | 22 | 200 | 86 | 31 | 14 | 231 |
| Agriculture | 20 | 100 | 0 | 0 | 20 | 899 | 100 | 0 | 0 | 899 |
| Business | 20 | 100 | 0 | 0 | 20 | 2,023 | 100 | 0 | 0 | 2,023 |
| Totals | 80 | 98 | 2 | 2 | 82 | 3,736 | 99 | 31 | 1 | 3,767 |

Source: Sample of loans used for CRA performance analysis.

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

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 and farms. The same samples for lending within the AA were used to determine lending to borrowers of different incomes.

The following tables demonstrate the distribution of home and auto loans within the various income levels.

| Borrower Distribution of Home Loans in Pontotoc County | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| % of AA Families | 15 | | 16 | | 20 | | 49 | |
| Loan Type | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| FNB Home Loans | 10 | 11 | 15 | 6 | 30 | 19 | 45 | 64 |

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

The home loan sample consisted of home purchase loans. The above table shows that loans to low-income borrowers is somewhat lower than the number of low-income borrowers in the AA and is satisfactory. Home loans to moderate-income borrowers are near to the number of low-income borrowers in the AA and are considered good.

| Borrower Distribution of Auto Loans in Pontotoc County | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| % of AA Households | 20 | | 13 | | 18 | | 49 | |
| Loan Type | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| FNB Auto Loans | 5 | 3 | 20 | 16 | 30 | 26 | 45 | 55 |
| | | | | | | | | |

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

The above table shows that auto loans to low-income borrowers are lower than the number of low-income borrowers in the AA. U.S. Census data indicates 16% of the AA population is below the national poverty level. As a result, the bank’s ability to qualify low-income sectors is somewhat limited due to down payment and term requirements. Auto loans to moderate-income borrowers exceed the number of moderate-income borrowers in the AA and are considered outstanding.

The following table displays the distribution of business and farm loans of different sizes.

| Borrower Distribution of Loans to Businesses in Pontotoc County | | | |
|--|--------------|--------------|--------------------|
| Business Revenues(or Sales) | ≤\$1,000,000 | >\$1,000,000 | Revenues not known |
| % of AA Businesses | 30 | 2 | 68 |
| % of Bank Loans in AA by # | 45 | 10 | 45 |
| % of Bank Loans in AA by \$ | 46 | 6 | 48 |

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

The above table reflects that small business loans to businesses with revenues under \$1,000,000 exceed the number of small businesses with revenues under \$1,000,000 in the AA and are considered outstanding.

| Borrower Distribution of Loans to Farms in Pontotoc County | | | |
|---|--------------|--------------|--------------------|
| Business Revenues(or Sales) | ≤\$1,000,000 | >\$1,000,000 | Revenues not known |
| % of AA Farms | 99 | 1 | 0 |
| % of Bank Loans in AA by # | 75 | 0 | 25 |
| % of Bank Loans in AA by \$ | 74 | 0 | 26 |

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

The above table displays that small farm loans to farms with revenues under \$1,000,000, by number of loans, are somewhat lower than the number of small farms with revenues under \$1,000,000 in the AA and are considered satisfactory.

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 since none of the five BNAs in the AA are designated as low- or moderate-income.

Community Development Services

Under the small bank performance evaluation, FNB is not required to perform community development services. However, FNB has provided technical assistance to organizations that serve low- and moderate-income individuals and families and promote economic development, which include the following:

- A bank officer participates on the Loan Review Committee of TRPDD. TRPDD provides economic development financing and loan application preparation assistance to small businesses and minority-owned businesses; and
- A bank officer is a Board member of the local Habitat for Humanity.

Responses to Complaints

FNB has not received a formal CRA complaint since the previous 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 needs.