



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

April 11, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Erwin National Bank
Charter Number 10583**

**North Main Street
Erwin, TN 37650**

**Comptroller of the Currency
ADC - Nashville
5200 Maryland Way Suite 104
Brentwood, TN 37027**

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.

Erwin National Bank of Erwin, TN (ENB) performance rating is supported by the following:

- a reasonable loan-to-deposit ratio;
- a majority of the bank's loans are originated within its assessment area;
- the distribution of loans to borrowers of different incomes and to businesses of different sizes is reasonable given the demographics of the area; and
- the geographic distribution of loans reflects a reasonable penetration of geographies within the assessment area.

DESCRIPTION OF INSTITUTION

Erwin National Bank, headquartered in Erwin, Tennessee, serves the communities within Unicoi County, Tennessee. The bank has two offices, the main office in Erwin and a branch office in the town of Unicoi. Average assets were \$87 million as of December 31, 2002, with deposits of \$73 million and net loans of \$39 million. Lending is primarily for 1-4 family residential purposes.

There are no financial or legal impediments restricting the lending activities of the bank.

The bank's two primary loan types are home mortgage and consumer.

Product Category	Gross Loans as of March 31, 2003*	
	Dollar (000's)	Percent
Commercial & Industrial Including Commercial Real Estate	3,416	8.87
Residential Mortgage Loans	17,494	45.44
Construction & Land Development	2,349	6.10
Individuals	11,061	28.73
All Other	4,155	10.79
Farmland and Agriculture	24	.07
Total	38,499	100

* Data obtained from Call report

DESCRIPTION OF ASSESSMENT AREA

Unicoi County-Johnson City-Kingsport (UJK) Assessment Area

Characteristics of the Unicoi-Johnson City-Kingsport, TN Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	4		25%	75%		
Population by Geography	16,549		14.8%	85.2%		
Owner-Occupied Housing by Geography	5,114		14.86%	85.14%		
Businesses by Geography	549		6.56%	93.44%		
Farms by Geography	14		16.67%	83.33		
Family Distribution by Income Level	4,914		15.12%	84.88%		
Distribution of Low- and Moderate- Income Families throughout AA Geographies	2,012		18.99%	91.01%		
Median Family Income	= \$26,646					
HUD Adjusted Median Family Income for 2002	= \$27,236					
Households Below the Poverty Level	= 1,212					
			Median Housing Value			= \$48,299
			Unemployment Rate			= 4.28%

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 U.S. Census, and 2000 HUD updated MFI.

Erwin National Bank has defined its assessment area as Unicoi County in the State of Tennessee, a part of the Johnson City-Kingsport Metropolitan Statistical Area (MSA). The bank's assessment area meets the legal requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

Demographic Characteristics of the Unicoi-Johnson City-Kingsport, TN Assessment Area		
<u>Percent of Families by Income Level:</u>	Low-Income	24.56
	Moderate-Income	16.38
	Middle-Income	20.90
	Upper-Income	38.16

The assessment area contains 4 census tracts. Based on 2000 census information, census tract 0801 is considered moderate-income, and tracts 0802, 0803 and 0804 are considered middle-income.

The area continues to experience slow growth. Population in Unicoi County was 17,667 on December 31, 2000 and has increased 7.0% since 1990. The current unemployment rate in Unicoi County is approximately 4.8%.

COMMUNITY CONTACTS - One governmental representative was contacted to obtain information on community credit needs. The contact stated that community needs are being met and that the bank is active in supporting community development and participates in local projects.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The average loan-to-deposit ratio for the period from June 30, 1998 to December 31, 2002 was 53.83%. In light of the bank's performance context, this ratio is reasonable as lending opportunities are limited. This is an increase from the average loan to deposit ratio of 46.35% calculated during the previous CRA Evaluation period in 1998. The loan to deposit ratio has exhibited an increasing trend over the last two years and reached 56.29% as of June 30, 2002.

Lending in Assessment Area - Meets the Standard for Satisfactory Performance

ENB makes a majority of its loans within the assessment area (AA). Our conclusion is based upon an analysis of a sample of loans originated during the evaluation periods. The results of our analysis is reflected in the tables below:

Geographic Distribution of Residential Real Estate Loans

Evaluation Period: June 30, 1998 TO April 30, 2003										
	Total		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies	
	#	% of Total	% Owner Occ Units	% Bank Loans	% Owner Occ Units	% Bank Loans	% Owner Occ Units	% Bank Loans	% Owner Occ Units	% Bank Loans
UJK Assessment Area	1024	100			68.47	11.20	80.94	88.80		

*Loans originated and purchased in the geography as a percentage of loans originated and purchased in the rated area.

**Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by the number of owner occupied housing units in the area based on 1990 Census information.

Borrower Distribution of Residential Real Estate Loans

Evaluation Period: June 30, 1998 TO April 30, 2003										
	Total Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers	
	#	% of Total	% Families	% Bank Loans	% Families	% Bank Loans	% Families	% Bank Loans	% Families	% Bank Loans
UJK Assessment Area	1024	100	24.56	21.40	16.38	25.00	20.90	26.10	38.16	24.10

* The number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in the rated area. No information was available for 0% of loans originated and purchased.

**Percentage of Families is the number of families in a particular income level divided by the number of families in the area based on 1990 Census information.

This loan distribution is reasonable compared to the composition of the assessment area. The 2002 Department of Housing and Urban Development (HUD) updated MSA Median Family Income level of \$27,236 was used.

Erwin National Bank is very active in mortgage lending in its communities. As of March 31, 2003, there were approximately \$17,494,000 in mortgage loans to consumers. This represents nearly one half of all outstanding loans. As evidenced by the above data, loans are originated to all income levels with approximately 41% originated to low- and moderate-income borrowers.

The bank makes available loans of various amounts to businesses of different sizes. A sample of commercial loans to 10 different borrowers was reviewed. Loans ranging from \$2,500 to \$594,000 were made to business of different sizes for various purposes. The majority of the bank's commercial loans are to small businesses with less than \$1 million in revenues.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes - Meets the Standard for Satisfactory Performance

The distribution of loans, given the demographics of the assessment area, reflects reasonable penetration among individuals of different income levels (including low-and moderate income).

The distribution of families in the assessment area is based on 2000 U.S. Census Bureau data. Our analysis indicates the bank has a satisfactory record of making residential loans to low- and moderate-income individuals considering the number of loans originated.

Geographic Distribution of Loans - Meets the Standard for Satisfactory Performance

We evaluated the lending distribution in the AA to determine if any unexplained conspicuous gaps existed. We used bank's reports to compare the geographies where loans were made to the geographies in the AA. We considered loan distributions, branch locations, competition, and demographic information. No unexplained conspicuous gaps were identified.

Responses to Complaints

We reviewed complaint records maintained by our agency and those maintained by the bank. There were no complaints made relative to the Community Reinvestment Act during this evaluation period.

Fair Lending Review

An analysis of public comments and consumer complaint information for Home Mortgage Disclosure Act (HMDA), Residential, Small Business, and Small Farm lending was performed according to the OCC's risk based fair lending approach. Based on its analysis of information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.