



PUBLIC DISCLOSURE

April 11, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number 16579

341 Military Street South
Bull Mountain Streets
Hamilton, AL 35570

Office of the Comptroller of the Currency

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

First National Bank (Bank) is rated **Outstanding**.

The following statements provide support for the outstanding performance rating.

- The Bank's loan-to-deposit ratio level and trend is reasonable given its size, financial condition, economic environment, and assessment area (AA) credit needs.
- The Bank originated a substantial majority of loans inside its two AAs.
- The Bank had excellent penetration for lending to borrowers of different incomes within its AAs.
- The Bank had an excellent dispersion of residential real estate and consumer loans throughout its AAs.
- The Bank shows excellent responsiveness to Community Development lending and service opportunities.
- The Bank did not receive any consumer complaints regarding its CRA performance during this evaluation period.

SCOPE OF EXAMINATION

The OCC assessed First National Bank's CRA performance using the Small Bank examination procedures. These procedures include a Lending Test to evaluate the Bank's record of meeting its AAs credit needs. The Bank's previous CRA rating, dated July 29, 2013, was "Outstanding." This performance evaluation starts from the Bank's previous CRA examination date, covering the period from July 30, 2013 through April 11, 2016.

The Bank primarily originates residential real estate and consumer loans. At December 31, 2015, residential real estate loans represented 34 percent of all loans by dollar volume and 16 percent by the number of loans. Consumer loans represented 24 percent of total loans by dollar volume and 77 percent by number. The OCC analyzed these two portfolios to form its Lending Test conclusions. The Bank is a Home Mortgage Disclosure Act (HMDA) reporter, and the OCC performed a data integrity examination in February 2016 to validate the accuracy of the HMDA data, with no issues noted. The OCC used HMDA data from 2013, 2014, and 2015 to form its conclusions on residential lending. To evaluate the Bank's consumer lending performance, the OCC sampled consumer loans originated between January 1, 2013 and December 31, 2015. We also reviewed information regarding community development loans, investments, and Bank services during the evaluation period.

DESCRIPTION OF INSTITUTION

First National Bank is a national bank with total assets of \$284 million at December 31, 2015. The Bank is wholly owned by Marion County Bancshares, Inc., a one-bank holding company located in Hamilton, AL. The Bank operates its main office in a moderate-income census tract in Hamilton, AL. The Bank operates seven additional branches. Two of these additional branches are in moderate-income census tracts, with locations in Hamilton and Carbon Hill, AL. Three of

the branches are located in middle-income census tracts that are considered distressed or underserved. These locations are in Berry, Double Springs, and Sulligent, AL. Of the remaining two branches, one is located in Parrish, AL, in a middle-income census tract, and the other is located in Haleyville, AL, in an upper-income census tract. Seven of the eight branches have automatic teller machines (ATMs), and the ATM at the main office location accepts deposits. Since the 2013 Performance Evaluation, the Bank closed two branch locations, in Lynn and Detroit, AL. No legal or financial factors impede the Bank's ability to meet the credit needs of its community.

First National Bank focuses on consumer lending, specifically, real estate loans and installment loans to individuals. The Bank offers 1-4 family residential mortgages for home construction, purchase, and refinance. The Bank offers various deposit products, including personal checking, savings, money market, certificates of deposit, Individual Retirement Accounts, business checking accounts, merchant services, and cash management services. The Bank also offers online and mobile banking to its customers.

The table below provides details of the Bank's loan composition as of December 31, 2015.

Loan Portfolio Composition as of December 31, 2015		
Loan Type	Dollar Amount (000's)	Percent of Total Loans
Commercial Real Estate	\$27,664	24%
Commercial and Industrial	\$7,584	6%
Total Commercial Loans	\$35,248	30%
Residential Real Estate	\$39,396	34%
Consumer	\$27,953	24%
Municipal Loans	\$12,910	11%
Other	\$1,017	1%
Agricultural	\$450	0.38%
Total Loans	\$116,974	100%

Source: December 31, 2015 Call Report

DESCRIPTION OF ASSESSMENT AREA(S)

First National Bank has two AAs in Alabama, which are described below.

Marion, Winston, Lamar, and Fayette County AA

This AA comprises four counties, Marion, Winston, Lamar, and Fayette Counties and two census tracts from adjoining Franklin County. These counties are not located within a metropolitan statistical area (MSA). According to the 2010 United States Census, this AA has a combined population of 94,756. The AA has no low-income, 1 moderate-income, 22 middle-income, and 2 upper-income census tracts. The AA meets the regulation's requirements, and does not arbitrarily exclude low- and moderate-income geographies.

Competition in the AA is strong given the presence of several large institutions, including Regions Bank and Wells Fargo Bank. First National Bank holds 12.75 percent of the AA's deposit share. The AA is impacted by elevated unemployment and poverty rates.

Local employers in the area include 3M Corporation, Georgia Pacific, and Tiffin Motor Homes. School districts and local hospitals also provide employment for the area. Employment is not dependent upon a single industry.

We discussed the AA lending needs with a community contact that funds programs to support the general welfare of citizens within the community. The contact identified a need for financial stability within the area, including financial education and affordable mortgages for low- and moderate-income individuals.

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

Demographic Information for Marian, Winston, Lamar, and Fayette County Assessment Area						
Demographic Characteristics	# Total	Low % of #	Moderate % of #	Middle % of #	Upper % of #	N/A* % of #
Geographies (Census Tracts)	25	0.00%	4.00%	88.00%	8.00%	0.00%
Population by Geography	94,756	0.00%	4.70%	84.31%	10.99%	0.00%
Owner-Occupied Housing by Geography	28,837	0.00%	4.71%	83.75%	11.54%	0.00%
Businesses by Geography	4,498	0.00%	4.45%	81.97%	13.58%	0.00%
Farms by Geography	245	0.00%	2.45%	86.94%	10.61%	0.00%
Family distribution by Income Level	27,503	0.00%	4.63%	84.07%	11.30%	0.00%
Distribution of Low and Moderate Income Families throughout AA Geographies	11,057	0.00%	6.31%	84.36%	9.32%	0.00%
Median Family Income, last Census 2010		\$43,011				
HUD Adjusted Median Family Income for 2014		\$46,300				
Households Below Poverty Level		20%	Unemployment Rate		4.24%	
% Businesses with Revenues <\$1 million		77%	% Farms with Revenues <\$1 million		99%	
% Businesses with Revenues >\$1 million		5%	% Farms with Revenues >\$1 million		0%	

Source: 2010 U.S. Census data; 2014 HUD updated income data; Bureau of Labor Standards.

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

Walker County AA

The Walker County AA is located within the Birmingham-Hoover, AL MSA. The AA includes seven of the eighteen census tracts in Walker County, and consists of no low-income, 5 moderate-income, and 2 middle-income census tracts. Population within this AA totals 26,652. The AA meets the regulation’s requirements, and does not arbitrarily exclude low- and moderate-income geographies.

Competition in the AA is strong given the presence of several large institutions, including Regions Bank, Wells Fargo Bank, and BB&T Bank. First National Bank holds 5.29 percent of the deposit share within the AA.

The service industry drives local employment in the Walker County AA. Major employers in the area include Walker Baptist Medical Center, Bevil State Community College, and Reed Mining Company, all located in Jasper, AL.

A community contact, which provides housing resources for low-income individuals within the Walker County AA, identified a need for lending to low-income individuals, credit counseling, and credit education.

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

Demographic Information for Walker County Assessment Area						
Demographic Characteristics	# Total	Low % of #	Moderate % of #	Middle % of #	Upper % of #	N/A* % of #
Geographies (Census Tracts)	7	0.00%	71.43%	28.57%	0.00%	0.00%
Population by Geography	26,652	0.00%	73.18%	26.82%	0.00%	0.00%
Owner-Occupied Housing by Geography	8,052	0.00%	74.14%	25.86%	0.00%	0.00%
Businesses by Geography	796	0.00%	77.01%	22.99%	0.00%	0.00%
Farms by Geography	34	0.00%	82.35%	17.65%	0.00%	0.00%
Family distribution by Income Level	7,243	0.00%	73.71%	26.29%	0.00%	0.00%
Distribution of Low and Moderate Income Families throughout AA Geographies	3,986	0.00%	77.50%	22.50%	0.00%	0.00%
Median Family Income, last Census 2010		\$42,848				
HUD Adjusted Median Family Income for 2014		\$61,000				
Households Below Poverty Level		19%	Unemployment Rate		5.61%	
% Businesses with Revenues <\$1 million		82%	% Farms with Revenues <\$1 million		100%	
% Businesses with Revenues >\$1 million		3%	% Farms with Revenues >\$1 million		0%	

Source: 2010 U.S. Census data; 2014 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 (LTD)

First National Bank's average LTD ratio is reasonable given its size, financial condition, and AA credit needs, and meets the standards for satisfactory performance. The LTD ratio averaged 48.06 percent over the ten quarters since the previous CRA examination, with a quarterly low of 44.6 percent and quarterly high of 50.2 percent. The LTD ratio is reasonable when compared to eight similarly situated institutions, which had an average LTD ratio of 50 percent over the review period.

Lending in Assessment Area

During the review period, First National Bank originated a substantial majority of its residential and consumer loans inside the two AAs. The Bank originated approximately 92 percent of the number, and 88 percent of the dollar volume, of loans originated from January 1, 2013 through December 31, 2015, to borrowers inside the Bank's AA.

The following table details lending within both AAs by number and dollar amount during the evaluation period.

Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	162	92.05	14	7.95	176	9,056	86.03	1,471	13.97	10,527
Home Improvement	28	93.33	2	6.67	30	1,232	90.46	130	9.54	1,362
Refinance	166	94.32	10	5.68	176	9,619	89.50	1,129	10.50	10,748
<i>Total Residential</i>	<i>356</i>	<i>93.19</i>	<i>26</i>	<i>6.81</i>	<i>382</i>	<i>19,907</i>	<i>87.94</i>	<i>2,730</i>	<i>12.06</i>	<i>22,637</i>
Consumer Loans	52	86.67	8	13.33	60	321	77.54	93	22.46	414
Totals	408	92.31	34	7.69	442	20,228	87.75	2,823	12.25	23,051

Source: HMDA Data; Consumer Loan Sample

Lending to Borrowers of Different Incomes

Lending to borrowers of different incomes reflects excellent penetration in both AAs, reflecting outstanding performance.

Performance in the Marion, Winston, Lamar, and Fayette County AA

Lending to borrowers of different incomes within the Marion, Winston, Lamar, and Fayette County AA reflects excellent penetration of residential and consumer loans to low- and moderate-income borrowers.

Home Loans

Low- and moderate-income families represent 22.22 percent and 17.99 percent of the AA, respectively. The Bank's penetration of lending to low-income borrowers is below the demographic comparator, representing 12.33 percent, 15.79 percent, and 14.20 percent of loans for Home Purchase, Home Improvement, and Refinance, respectively. However, 14 percent of

the AA families live below the poverty level, which impedes the Bank’s ability to make loans to qualified borrowers. In addition, competition for qualified borrowers within the AA is also very strong. The Bank’s penetration of lending to moderate-income borrowers exceeds the demographic comparator, representing 24.20 percent, 28.95 percent, and 23.86 percent for Home Purchase, Home Improvement, or Refinance loans, respectively.

The following table shows the distribution of residential loans among borrowers of different incomes, within the Marion, Winston, Lamar, and Fayette County AA.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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 Purchase	22.22	12.33	17.99	24.20	21.34	27.40	38.45	36.07
Home Improvement	22.22	15.79	17.99	28.95	21.34	23.68	38.45	31.58
Refinance	22.22	14.20	17.99	23.86	21.34	25.57	38.45	36.36

Source: HMDA Data; 2010 Census Data; Income NA for 0.00% of home purchase and 0.00% of refinancing loans.

Consumer Loans

Low-and moderate-income households represent 25.01 percent and 16.68 percent of the AA, respectively. The Bank’s penetration of lending to low-income borrowers is comparable to the demographic comparator, representing 23.08 percent of the number of loans sampled. The Bank’s penetration of lending to moderate-income borrowers exceeds the demographic comparator at 26.92 percent of the number of loans sampled.

The following table shows the distribution of consumer loans among borrowers of different income levels in the AA.

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	25.01	23.08	16.68	26.92	16.58	23.08	41.73	26.92

Source: Consumer Loan Sample; 2010 Census Data

Performance in the Walker County AA

The Bank’s lending to borrowers of different incomes in the Walker County AA reflects excellent penetration of residential and consumer loans to low- and moderate-income borrowers.

Home Loans

Low- and moderate-income families represent 34.56 percent and 20.47 percent of the AA, respectively. The Bank’s penetration of Home Purchase and Refinance loans to low-income

borrowers is below the demographic comparator, at 19.05 and 23.81 percent, respectively. The penetration of Home Improvement loans to low-income borrowers exceeds the demographic comparator at 50 percent. The Bank’s penetration of Home Purchase and Home Improvement lending to moderate-income borrowers exceeds the demographic comparator, at 23.81 and 25 percent, respectively. The penetration of Refinance loans to moderate-income borrowers is below the demographic comparator, at 14.29 percent. Although the penetration of loans to low-income borrowers for Home Purchase and Refinance loans, and moderate-income borrowers for Refinance loans is below the respective demographic comparator, lending levels are reasonable given that 15 percent of families in the AA live below the poverty level, which impedes the Bank’s ability to make loans to qualified borrowers. In addition, there is a high level of competition from area banks.

The following table shows the distribution of residential loans among borrowers of different incomes, within the Walker County AA.

Table 2 - Borrower Distribution of Residential Real Estate Loans in AA								
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 Purchase	34.56	19.05	20.47	23.81	21.36	23.81	23.61	33.33
Home Improvement	34.56	50.00	20.47	25.00	21.36	0.00	23.61	25.00
Refinance	34.56	23.81	20.47	14.29	21.36	14.29	23.61	47.62

Source: HMDA Data; 2010 Census Data; Income NA for 0.00% of home purchase and 0.00% of refinancing loans.

Consumer Loans

Low-and moderate-income households represent 34.40 percent and 18.26 percent of the AA, respectively. The Bank’s penetration of lending to low-income borrowers is below the demographic comparator at 23.08 percent of the number of loans sampled. This is reasonable given that 19 percent of households in the AA are below the poverty level and there is strong competition from other area banks. The Bank’s penetration of lending to moderate-income borrowers exceeds the demographic comparator at 19.23 percent of the number of loans sampled.

The following table shows the distribution of consumer loans among borrowers of different income levels in the Walker County AA.

Table 2B - Borrower Distribution of Consumer Loans in AA								
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	34.40	23.08	18.26	19.23	18.00	7.69	29.34	50.00

Source: Consumer Loan Sample; 2010 Census Data

Geographic Distribution of Loans

The geographic distribution of loans in both AAs reflects an excellent dispersion throughout census tracts of different income levels, meeting the standard for outstanding performance. We gave more weight to the geographic distribution of home loans, as community contacts indicated a greater community need for home loans to low- and moderate-income borrowers.

Performance in the Marion, Winston, Lamar, and Fayette County AA

The Bank’s geographic distribution of loans in the Marion, Winston, Lamar, and Fayette County AA reflects excellent dispersion, despite the limited opportunities for lending within its one moderate-income census tract.

Home Loans

Owner-occupied housing in the moderate-income census tract represents 4.71 percent of AA housing. The Bank originated 21.88 percent, 18.42 percent, and 19.77 percent of its Home Purchase, Home Improvement, and Refinance loans, respectively, in this census tract.

The following table shows the geographic distribution of home loans within the Marion, Winston, Lamar, and Fayette County AA.

Table 3 - Geographic Distribution of Residential Real Estate Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	4.71	21.88	83.75	65.63	11.54	12.50
Home Improvement	0.00	0.00	4.71	18.42	83.75	71.05	11.54	10.53
Refinance	0.00	0.00	4.71	19.77	83.75	62.15	11.54	18.08

Source: HMDA data; 2010 Census Data

Consumer Loans

The Bank did not originate any consumer loans within the moderate-income census tract. This is reasonable dispersion, as only 5.09 percent of households are in the AA’s one moderate-income census tract and 24 percent of households in the census tract are below the poverty level.

The following table shows the geographic distribution of consumer loans within the Marion, Winston, Lamar, and Fayette County AA.

Table 3B - Geographic Distribution of Consumer Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Household s	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0.00	0.00	5.09	0.00	84.15	73.08	10.76	26.92

Source: Consumer Loan Sample; 2010 Census Data

Performance in the Walker County AA

The Bank’s geographic distribution of loans in the Walker County AA reflects excellent dispersion.

Home Loans

The Bank’s geographic distribution of home loans in this AA reflects excellent dispersion among borrowers in the moderate-income census tracts. Owner-occupied housing in the moderate-income census tract represents 74.14 percent of AA housing. The Bank originated 66.67 percent of Home Purchase loans within the moderate-income census tracts, which is near the demographic comparator. Originations for Home Improvement and Refinance loans reflect excellent dispersion, exceeding the demographic comparator, at 90.48 percent and 100 percent, respectively.

The following table shows the geographic distribution of residential real estate loans within the Walker County AA.

Table 3 - Geographic Distribution of Residential Real Estate Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	74.14	66.67	25.86	33.33	0.00	0.00
Home Improvement	0.00	0.00	74.14	100.00	25.86	0.00	0.00	0.00
Refinance	0.00	0.00	74.14	90.48	25.86	9.52	0.00	0.00

Source: HMDA data; 2010 Census Data

Consumer Loans

The Bank’s geographic distribution of consumer loans within the Walker County AA reflects reasonable dispersion. Of all AA households, none are located in a low-income census tract and 72.72 percent are located within the AA’s five moderate-income census tracts. The Bank originated 53.85 percent of consumer loans sampled in the moderate-income census tracts. This is below the demographic comparator, but is reasonable given that 18 percent of the households in moderate-income census tracts are below the poverty level.

The following table shows the geographic distribution of consumer loans within the Walker County AA.

Table 3B - Geographic Distribution of Consumer Loans in AA								
Census Tract 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	0.00	0.00	72.72	53.85	27.28	46.15	0.00	0.00

Source: Consumer Loan Sample; 2010 Census Data

Responses to Complaints

First National Bank has not received any CRA-related complaints since the previous CRA examination.

Community Development Lending

Since the preceding CRA Performance Evaluation, the Bank originated 30 community development loans, totaling \$11.9 million, to various municipalities and CRA-worthy organizations.

Community Development Services

The Bank's community development activities reflect excellent responsiveness in meeting the AA's needs. Such activities have a positive impact on the Bank's overall CRA rating. We evaluated information provided by the Bank regarding community development (CD) loans and services. We considered activity performed from July 30, 2013 to April 11, 2016.

During the examination review period, Bank personnel held five community workshops to promote financial literacy, including one presentation to a local Title I high school. The presentations included the following topics: balancing your checkbook, electronic banking fraud, using credit cards wisely, paying for college, financial goals/budgeting, and basics of borrowing.

In addition, the Bank has also increased access to financial services for low- to moderate-income students by opening the "Aggie Branch" in August 2015. The Aggie Branch is located in Hamilton High School, directly across the street from the Bank's main office, and offers minimal banking activities to students, teachers, and school organizations. The Aggie Branch is not open to the general public. Fifty-five percent of Hamilton High School's student body receives free or reduced-cost lunches.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), or 12 CFR 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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