

PUBLIC DISCLOSURE

March 22, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**National Bank of Newport
Charter # 14828**

**262 East Broadway
Newport, Tennessee 37821**

**Office of the Comptroller of the Currency
Nashville Field Office
5200 Maryland Way, Suite 104
Brentwood, Tennessee 37027**

NOTE: 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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GENERAL INFORMATION

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 National Bank of Newport prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **March 22, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING

This institution is rated **SATISFACTORY**. The National Bank of Newport's CRA rating is based upon the institution's:

- C good loan-to-deposit ratio
- C adequate proportion of lending in its assessment area
- C excellent distribution of lending to borrowers of different income levels and businesses of different sizes
- C adequate geographic distribution of loans.

The following table indicates the performance level of *National Bank of Newport* with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	National Bank of Newport PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No complaints have been received by National Bank of Newport during this evaluation period.		

DESCRIPTION OF INSTITUTION

National Bank of Newport (NB of Newport) is a wholly-owned subsidiary of NBN Corporation, a two-bank holding company located in the bank's main office in Newport, Tennessee. NBN Corporation has total assets of \$183 million. NB of Newport is a community banking institution that serves Cocke County, Tennessee. The bank's financial condition is characterized by total assets of \$111 million, net loans of \$64 million (fifty-eight percent (58%) of total assets), total deposits of \$100 million and a net income of \$903 thousand, as of the quarter ended December 31, 1998. NB of Newport's primary focus is on nonfarm and residential real estate lending, consumer lending, and deposit services. The bank offers a full range of credit products including Tennessee Housing Development Authority (THDA), Veterans Administration (VA), Federal Housing Authority (FHA), and student loans.

As indicated above, NB of Newport's loan portfolio is centered in loans secured by nonfarm nonresidential properties, loans secured by 1-4 family residential properties, and other types of consumer loans. This is based on December 31, 1998, call report information and is summarized below in *Table 1*. At that date, approximately sixty percent (60%) of the bank's loan portfolio was centered in loans secured by 1-4 family residential properties and loans secured by nonfarm nonresidential properties.

Types of Loans Outstanding as of December 31, 1998		
Loan Type	Amount (000's)	Percent
Nonfarm Nonresidential Properties	\$19,835	30.73%
1-4 Family Residential Properties	\$19,099	29.59%
Single Payment, Installment, & Student Loans	\$12,971	20.09%
Commercial & Industrial Loans	\$5,397	8.36%
Construction & Land Development	\$4,429	6.86%
Other	\$2,824	4.37%
TOTAL LOANS	\$64,555	100.00%

Table 1

NB of Newport operates five full service offices, including the main office located at 262 East Broadway, Newport, Tennessee 37821. Three of the branch offices are located within the city limits of Newport and the fourth branch office is located in Cosby in the southern part of the county. Three of the bank's offices

include automated teller machines (ATM) and the bank has two additional ATMs located at local convenience stores. During the review period, NB of Newport opened and closed a branch office. The office, which was located in Parrottsville, Tennessee, was opened on April 21, 1997, and closed on February 27, 1999. According to bank management, the branch office was closed due to a lack of loan demand and deposits.

NB of Newport received a Satisfactory CRA Rating as a result of the preceding OCC performance evaluation as of June 28, 1996. The current evaluation revealed that NB of Newport complies with the Community Reinvestment Act. No known legal or financial circumstances exist that would impede the bank's ability to help meet the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA

NB of Newport's assessment area encompasses all of Cocke County, located in eastern Tennessee on the North Carolina border. Cocke County is approximately 45 miles east of Knoxville and is bisected by Interstate 40. Cocke County has seven block numbering areas (BNAs), of which three were designated moderate-income and four were designated middle-income as a result of the 1990 Census. Cocke County does not contain any low- or upper-income BNAs. The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- and moderate-income (LMI) BNAs. According to the Department of Housing and Urban Development, 1998 nonmetropolitan statewide median family income for the state of Tennessee was \$34,500.

COCKE COUNTY - According to estimates by the Newport/Cocke County Economic Development Commission, the 1995 population of the county was 31,400. The city of Newport, the county seat, was estimated to have a population of 7,123 as of 1995. The local economy continues to be depressed with the unemployment rates above and the per capita income below state and national averages. Cocke County's 1998 unemployment rate was 7.77 percent compared with the state unemployment rate of 4.19 percent and the national unemployment rate of 4.49 percent. County per capita income was \$15,553 for 1996 (the most recent information available) and was \$21,808 for the state and \$24,169 for the nation. Primary industries in Cocke County include food processing, light manufacturing, and agriculture. Major employers are Hunt Foods Company, Falcon Products, Spring Arbor Distributors, Sonoco Products Company, and Detroit Gasket.

NB of Newport's competition in Cocke County consists of four financial institutions: a branch office of a multinational bank, a branch office of a regional state bank, one thrift institution, and one credit union.

COMMUNITY CONTACTS - As part of our examination, we obtained information from community leaders regarding local economic conditions and community credit needs. According to our contacts, general banking and credit needs are being adequately met by local banks in Cocke County.

INCOME DEFINITIONS

Throughout this evaluation, we use the following definitions for the various income levels. These levels are defined in the Community Reinvestment Act.

Low-Income - An individual income, or median family income for geographies, that is less than 50% of the area median income.

Moderate-Income - An individual income, or median family income for geographies, that is at least 50% but less than 80% of the area median income.

Middle-Income - An individual income, or median family income for geographies, that is at least 80% but less than 120% of the area median income.

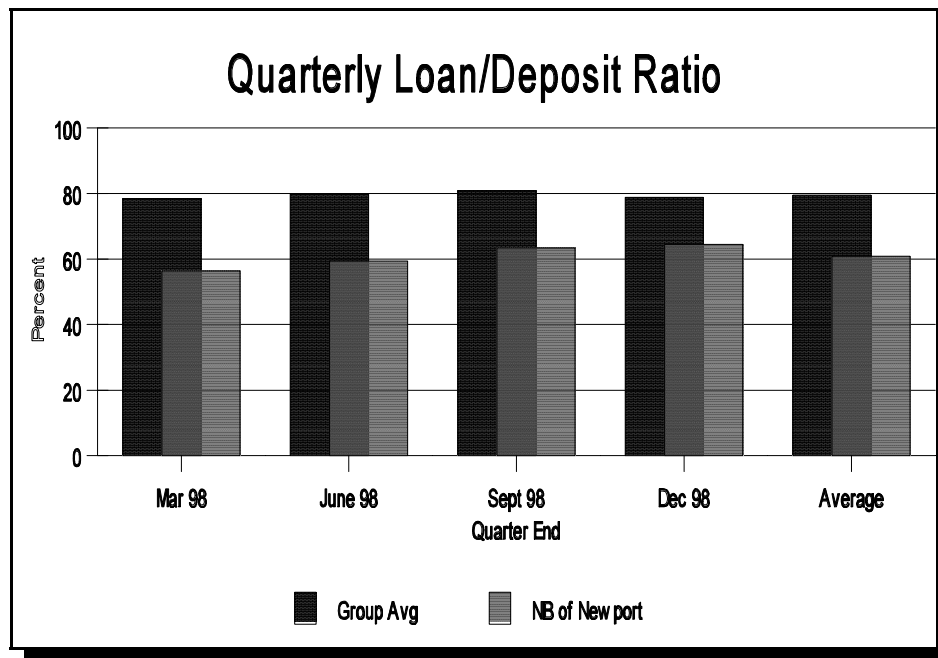
Upper-Income - An individual income, or median family income for geographies, that is 120% or more of the area median income.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

NB of Newport's loan to deposit (LTD) ratio is reasonable considering the institution's size and local economic conditions. For the eleven quarters since the preceding CRA Performance Evaluation (June 28, 1996), NB of Newport's quarterly average LTD ratio was fifty-nine percent (59%). There were no banks of similar size with the same assessment area as the subject institution. Therefore, we selected five state chartered banks of similar size that were located in surrounding counties and considered those to be NB of Newport's peers for the purposes of this evaluation. For calendar year end 1998, the bank's quarterly LTD ratio was sixty-four percent (64%), lower than the seventy-nine percent (79%) of the five peer group banks.

As *Graph 1* below shows, the bank's quarterly LTD ratio generally increased during 1998. While the quarterly LTD ratio continues to be lower than peer, it indicates a positive trend and the ratio continued to exceed fifty percent (50%).



Graph 1

Lending in Assessment Area

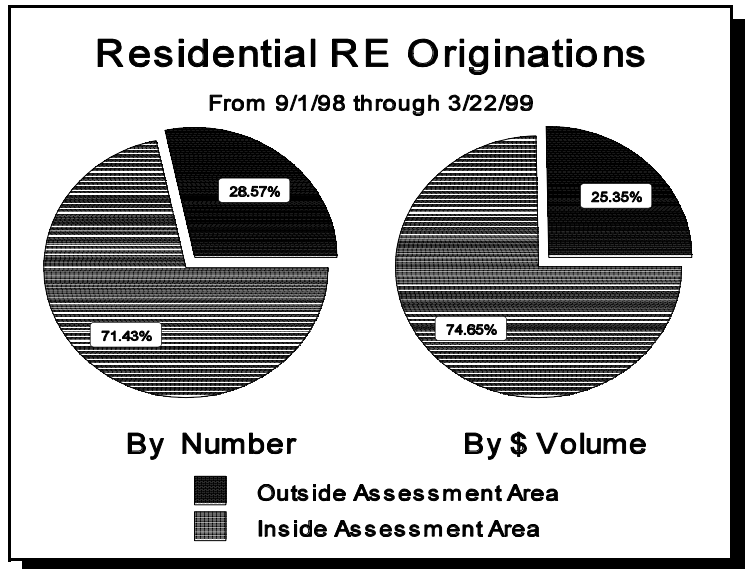
Overall lending levels reflect an adequate responsiveness to community credit needs. We reviewed loans secured by 1-4 family residential properties (35 loans for \$1.3 million) originated by NB of Newport from September 1, 1998, through March 22, 1999. We also reviewed loans secured by nonfarm nonresidential properties (31 loans for \$7.7 million) originated and purchased by NB of Newport from March 1, 1998, through March 22, 1998. The following represents the findings of that review:

Residential Real Estate

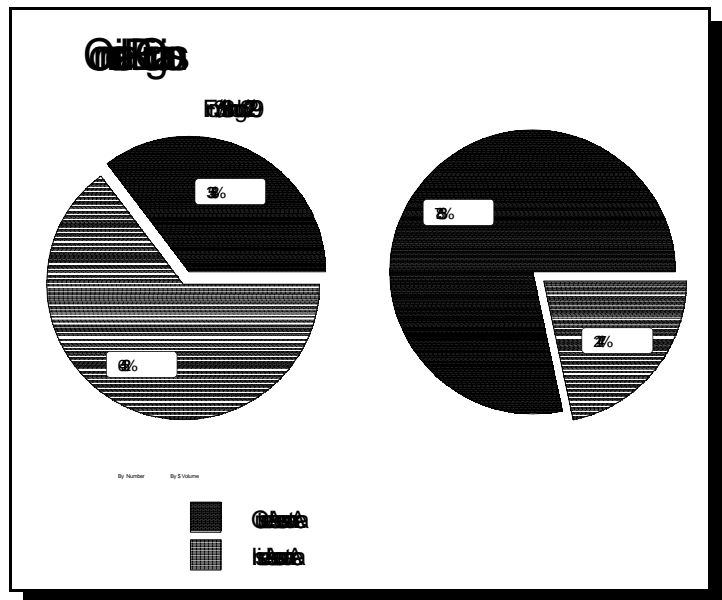
Seventy-one percent (71%) by number of originations and seventy-five percent (75%) by dollar volume of originations were for loans secured by 1-4 family residential real estate located within the bank's assessment area. This is illustrated in *Graph 2*.

Commercial Real Estate

Sixty-five percent (65%) by number of originations and twenty-one percent (21%) by dollar volume of originations were for loans secured by nonfarm nonresidential real estate located within the bank's assessment area. This is illustrated in *Graph 3*. Three loans accounted for \$4 million, or sixty-seven percent (67%) of the bank's dollar volume originated and purchased outside its assessment area. When these three loans are removed from the sample, the bank's dollar volume of originations within its assessment area increases to forty-five percent (45%).



Graph 2



Graph 3

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

As discussed in-depth below, NB of Newport exceeds the standards for satisfactory performance in this category. The bank lends to individuals of all income groups and businesses of different sizes.

To analyze NB of Newport's lending patterns we reviewed the bank's primary product lines. This consisted of the subset of loans located within the bank's assessment area based upon the "Lending in Assessment Area" review discussed on page seven of this report. This sample consisted of twenty-five (25) loans totaling \$1.3 million originated from September 1, 1998, through March 22, 1999, and secured by 1-4 family residential real estate. This sample also included and twenty (20) loans totaling \$1.6 million originated from March 1, 1998, through March 22, 1999, and secured by nonfarm nonresidential real estate.

Lending to Borrowers of Different Incomes

We reviewed the twenty-five (25) residential real estate loans originated by the bank during the above time period to determine the income level classifications of borrowers. Borrower income classifications were assigned in accordance with the definitions outlined earlier in this report using the Department of Housing and Urban Development's 1998 median family income figure for nonmetropolitan areas of Tennessee (\$34,500).

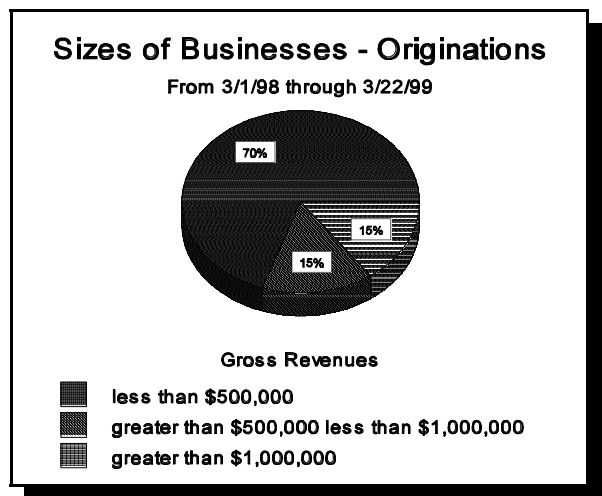
As *Table 2* indicates, NB of Newport's volume of loans to borrowers of LMI levels was forty-four percent (44%) of total residential real estate loans reviewed. Approximately forty-eight percent (48%) of families in the bank's assessment area were at those levels as of the 1990 Census, the most recent data available. Further, according to the 1990 Census, twenty-one percent (21%) of Cocke County's families were below the poverty level. The credit needs of the population below the poverty level is not being discounted. However, it is recognized that this population, that has a lower capacity for debt repayment, represents approximately one-fifth of Cocke County's population and further illustrates the depressed state of the local economy. The demographic characteristics of Cocke County when compared to the bank's 1-4 family residential real estate originations, reflect an outstanding performance with respect to the bank's lending to borrowers of different income levels.

Distribution of Loans by Borrower Income Level in Assessment Area			
Income Level	% Families in Assessment Area	# of Loans	% of Loans
Low Income	29.92%	2	8%
Moderate Income	18.35%	9	36%
Middle Income	22.09%	4	16%
Upper Income	29.64%	10	40%
Total	100%	25	100%

Table 2

Lending to Businesses of Different Sizes

NB of Newport’s performance of lending to businesses of different sizes is considered outstanding when compared to the available demographic information for the bank’s assessment area. We reviewed the twenty (20) loans secured by nonfarm nonresidential real estate originated between March 1, 1998, and March 22, 1999, to determine gross revenue levels of the businesses. For CRA purposes, small businesses are defined as those with gross annual revenues less than \$1 million. As shown in *Graph 4*, our sample indicated that eighty-five percent (85%) of NB of Newport’s loan originations secured by nonfarm nonresidential real estate were to small businesses.



Graph 4

The bank’s performance is excellent when compared to the total sales for nonfarm businesses located in Coker County. Specifically, according to the 1990 Census, seventy percent (70%) of the nonfarm businesses in Coker County had sales volume of less than \$500,000, six percent (6%) of the nonfarm businesses had sales volume of greater than \$500,000 and less than \$1 million, seven percent (7%) of the nonfarm businesses had sales volume of greater than \$1 million, and seventeen percent (17%) of the nonfarm businesses reported sales as “not applicable.”

Geographic Distribution of Loans

NB of Newport has a satisfactory record of lending to all segments of its assessment area. We utilized the same sample of loans secured by 1-4 family residential properties originated by the bank from September 1, 1998, through March 22, 1999, and loans secured by nonfarm nonresidential properties originated by the bank from March 1, 1998, through March 22, 1999, to determine the distribution of lending activity by BNA. *Table 3* illustrates this distribution by number and dollar volume of loans originated and purchased. The last row of this table also shows the distribution by income levels of the BNAs in NB of Newport's assessment area. As discussed earlier in this report, Cocke County, the bank's assessment area, does not have any BNAs designated low- or upper-income. NB of Newport originated at least one loan in each of the seven BNAs. The bank's level of penetration throughout its assessment area and distribution of credit is reasonable and consistent with the bank's ability to help meet the credit needs of its community.

NB of Newport only originated one loan in two of its seven BNAs, one designated middle-income and one designated moderate-income. The middle-income BNA is located furthest from the bank's offices and on the Hamblin County line. Discussions with bank management revealed that many of the residents of this BNA utilize banks located in Morristown (Hamblin County), a larger town than Newport, due to the shorter distance. The moderate-income BNA is located on the North Carolina line, has the fewest nonfarm businesses (less than one percent) in the county, and is the least populous BNA with only five percent (5%) of Cocke County's population residing there as of the 1990 Census.

Loans Within Each BNA / Income Level for the Assessment Area										
	Low Income*		Moderate Income		Middle Income		Upper Income*		Total	
	#/\$	%	#/\$	%	#/\$	%	#/\$	%	#/\$	%
Total Loans (#)	0	0%	15	33%	30	67%	0	0%	45	100%
Total Loans (\$)	0	0%	\$813	31%	\$1,838	69%	0	0%	\$2,651	100%
BNAs	0	0%	3	43%	4	57%	0	0%	7	100%

Table 3

*Cocke County, the bank's assessment area, does not have any BNAs designated low- and upper-income.

Response to Consumer Complaints

NB of Newport has not received any CRA-related complaints during the current evaluation period.

Record of Compliance with Antidiscrimination Laws

We conducted a concurrent compliance and fair lending examination. We did not identify any discriminatory lending practices or violations of the substantive provisions of Federal antidiscrimination laws and regulations.