

PUBLIC DISCLOSURE

December 9, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Nation Bank
Covington, Georgia**

RSSD ID Number: 304034

**FEDERAL RESERVE BANK OF ATLANTA
1000 PEACHTREE STREET, N.E.
ATLANTA, GEORGIA 30309-4470**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to the 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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DEFINITIONS

Income Definitions

Throughout this evaluation, the following definitions are used for the various income levels. These levels are defined in the CRA.

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

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

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

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

Other Definitions

ATM - Automated Teller Machine

HMDA- Home Mortgage Disclosure Act

HUD - Department of Housing and Urban Development

MSA - Metropolitan Statistical Area

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 Community Reinvestment Act (CRA) performance of First Nation Bank prepared by the Federal Reserve Bank of Atlanta, the institution's supervisory agency, as of December 9, 2002. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The bank's average loan-to-deposit ratio for the fourteen quarters ended June 30, 2002, meets the standards for satisfactory performance given the institution's size, financial condition, and competition within its assessment area. The bank's small business and residential real estate lending were evaluated. Because the bank is primarily a commercial lender, more weight was given to the bank's small business lending in analyzing the bank's CRA performance. Additionally, data quality issues regarding HMDA lending was factored into the examiner's analysis. A **MAJORITY** of the bank's loans were extended to individuals and small businesses inside its assessment area. Lending to borrowers of different income levels and to businesses of different revenue size is **REASONABLE**. The geographic distribution of residential real estate loans and small business loans is **EXCELLENT** considering the percentages of families and businesses in the various types of census tracts. The bank has received no CRA-related complaints since the previous examination. In addition, the bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations.

DESCRIPTION OF INSTITUTION

First Nation Bank operates 10 offices in the assessment area. The main office and four branches are located in Newton County, three branches are in Henry County, and two branches are in Rockdale County. Two of the ten branches are located in Wal-Mart stores and offer full-service banking as well as a walk-up ATM. All other locations are full-service facilities with a drive-through window and either a drive-through or walk-up ATM. Since the preceding Consumer Reinvestment Act (CRA) examination dated November 16, 1998, four offices have opened, two have closed, and one has relocated. The branch closings have not had an adverse impact on low- to moderate-income families or businesses. The bank is a wholly owned subsidiary of FNB Newton Bankshares, Covington, Georgia. First Nation Bank received a satisfactory rating at its previous CRA examination. From March 1999 to June 2002, total assets grew from \$216.9 million to \$337.8 million. As of June 2002, net loans totaled \$266.5 million and total deposits totaled \$284.4 million.

First Nation Bank is a full-service community bank that offers a wide variety of credit products to meet community credit needs. These credit products include residential mortgage, consumer, business, and commercial real estate loans. The bank's business strategy encourages all types of lending.

The composition of the loan portfolio according to the June 30, 2002 Consolidated Reports of Condition and Income (Call Report) is as follows:

COMPOSITION OF LOAN PORTFOLIO								
Loan Type	6/30/2002		12/31/2001		12/31/2000		12/31/1999	
	\$ (000s)	Percent	\$ (000s)	Percent	\$ (000s)	Percent	\$ (000s)	Percent
Construction and Development	\$128,248	48.3%	\$131,375	51.6%	\$103,074	45.8%	\$76,618	43.2%
Secured by One- to Four- Family Dwellings	\$24,634	9.3%	\$29,647	11.6%	\$29,239	13.0%	\$22,534	12.7%
Other Real Estate: Farmland	\$5,959	2.2%	\$7,495	2.9%	\$7,520	3.3%	\$4,486	2.5%
Multifamily	\$2,921	1.1%	\$465	0.2%	\$1,129	0.5%	\$568	0.3%
Nonfarm Nonresidential	\$63,814	24.1%	\$43,195	17.0%	\$35,320	15.7%	\$32,188	18.2%
Commercial and Industrial	\$29,134	11.0%	\$31,045	12.2%	\$33,789	15.0%	\$24,807	14.0%
Loans to Individuals	\$10,620	4.0%	\$11,504	4.5%	\$14,549	6.5%	\$15,822	8.9%
Agricultural Loans	\$0	0.0%	\$0	0.0%	\$362	0.2%	\$162	0.1%
Total	\$265,330	100.0%	\$254,726	100.0%	\$224,982	100.0%	\$177,185	100.0%

This table does not include the entire loan portfolio. Specifically, it excludes loans to depository institutions, bankers acceptances, lease financing receivables, obligations of state and political subdivisions, and other loans that do not meet any other category. Contra assets are also not included in this table.

As indicated by the table above, the bank's loan portfolio as of June 30, 2002, consisted primarily of construction and development loans followed by nonfarm nonresidential loans. The volume of construction lending has increased since the last examination as a result of a continued strong market for residential construction in Newton and Rockdale counties. This is consistent with the bank's strategy. No known legal impediments exist that would restrain the bank from meeting the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA: Newton, Henry, and Rockdale Counties

Overview

First Nation Bank's assessment area consists of Newton, Henry, and Rockdale Counties, which are part of the Atlanta MSA. The assessment area consists of 27 census tracts, of which eight are moderate-income, 17 are middle-income, and two are upper-income. First Nation Bank has not arbitrarily excluded any low- or moderate-income census tracts from its assessment area. In the examiner's judgement, the assessment area meets the requirements of the CRA regulation.

Demographic Data by Census Tract

The table on the following page provides demographic information that was used in analyzing the bank's CRA performance. Certain components of the data in the table are discussed in the report as they apply to particular parts of the analysis.

DESCRIPTION OF ASSESSMENT AREA: Newton, Henry, and Rockdale Counties (Continued)

FIRST NATION BANK ASSESSMENT AREA									
DEMOGRAPHICS									
2002 HUD Median Family Income (MSA): \$71,200 Income Categories	Tract Distribution		Families by Tract		Families		Families by Family Income		
					Families < Poverty as a % of Families by Tract				
	#	%	#	%	#	%	#	%	
	Low	0	0.0%	0	0.0%	0	0.0%	7,787	18.0%
	Moderate	8	29.6%	9,786	22.6%	1,318	13.5%	9,201	21.3%
	Middle	17	63.0%	29,552	68.3%	1,283	4.3%	11,875	27.4%
	Upper	2	7.4%	3,940	9.1%	75	1.9%	14,415	33.3%
	NA	0	0.0%	0	0.0%	0	0.0%	-	-
	Total	27	100.0%	43,278	100.0%	2,676	6.2%	43,278	100.0%
	Housing Units by Tract								
	Total Units	Owner Occupied		Rental Occupied		Vacant			
		#	%	%	#	%	#	%	
Low	0	0	0.0%	0.0%	0	0.0%	0	0.0%	
Moderate	14,401	7,704	18.9%	53.5%	5,355	37.2%	1,342	9.3%	
Middle	37,821	29,002	71.3%	76.7%	6,374	16.9%	2,445	6.5%	
Upper	4,510	3,981	9.8%	88.3%	334	7.4%	195	4.3%	
NA	0	0	0.0%	0.0%	0	0.0%	0	0.0%	
Total	56,732	40,687	100.0%	71.7%	12,063	21.3%	3,982	7.0%	
Total Businesses by Tract			Businesses by Tract and Revenue Size						
	#	%	Under \$1 Million		Over \$1 Million		Revenue not Reported		
			#	%	#	%	#	%	
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
Moderate	4,122	26.3%	2,881	27.4%	214	32.6%	1,027	22.8%	
Middle	10,607	67.6%	7,015	66.6%	416	63.3%	3,176	70.4%	
Upper	969	6.2%	632	6.0%	27	4.1%	310	6.9%	
NA	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
Total	15,698	100.0%	10,528	100.0%	657	100.0%	4,513	100.0%	
Percentage of Total Businesses:				67.1%	4.2%	28.7%			

Sources: 1990 Census Data, 2002 Dun & Bradstreet business demographic data.
 NA Tracts are tracts without household or family income.

Population

According to the 2000 U.S. Census, the total population of Henry, Newton, and Rockdale Counties combined was 251,453 persons. According to estimated 2000 U.S. Census data, Newton County was identified as the 11th fastest growing county in the nation from April 2000 to July 2001.

Income Characteristics

At the time of the 1990 U.S. Census there were 43,278 families in the assessment area. 18.0 percent were low-income, 21.3 percent were moderate-income, 27.4 were middle-income, and 33.3 percent were upper-income. Compared to other tracts, a high level of poverty exists in the moderate-income census tracts, where 13.5 percent of the families have incomes below the poverty level. Typically, families with incomes below the poverty level have difficulty qualifying for residential mortgage loans without flexible or innovative loan underwriting standards. According to HUD, the 2002 median family income for the Atlanta MSA is \$71,200.

DESCRIPTION OF ASSESSMENT AREA: Newton, Henry, and Rockdale Counties (Continued)

Housing Data

According to 1990 Census data, the majority (71.7 percent) of the housing units in the bank's assessment area were owner-occupied and the median housing value for owner-occupied units in the assessment area was \$78,782. Housing in the assessment area was primarily composed of one- to four-family units (85.4 percent) and the median age of the housing stock was 12 years.

As reflected in the preceding demographic table, a significantly higher number of owner-occupied housing units are in the middle-income census tracts than are in the moderate-income census tracts. Because of this, the majority of consumer mortgage lending would be expected in these census tracts.

Employment Statistics

A review of data from the Regional Economic Information System (REIS) as of 1995 indicates that the retail trade industry is the largest employer in the assessment area. The next largest employers are in the manufacturing, services, and government sectors. According to REIS, from 1990 to 1995, the assessment area experienced a 32.5 percent increase in total full- and part-time employment, with the greatest increase (42.9 percent) in the retail trade sector. According to the U.S. Bureau of Labor Statistics, the highest annualized unemployment rate (not seasonally adjusted) was in Newton County (where the level decreased overall from 3.9 percent in 1998 to 3.5 percent in 2001), followed by Rockdale County (overall decrease from 2.9 percent to 2.7 percent), and Henry County (overall increase from 2.3 percent to 2.5 percent) for the time period from 1998 through 2001. For 2002, Newton County's monthly unemployment rates (not seasonally adjusted) ranged from a low of 4.6 percent in January and April to a high of 5.7 percent in July.

Business Size Characteristics

The demographic table earlier in this report provides key demographic business data by census tract within First Nation Bank's assessment area. The Dun and Bradstreet information for 2002 indicates that 67.1 percent of the businesses in the bank's assessment area had total revenues less than \$1 million and were therefore considered to be small businesses.

DESCRIPTION OF ASSESSMENT AREA: Newton, Henry, and Rockdale Counties (Continued)

Competition

First Nation Bank is located in a highly competitive market. There are 20 other financial institutions operating offices throughout Newton, Henry, and Rockdale Counties. The bank competes with other community banks similar in asset size to First Nation Bank, as well as with statewide, multi-regional, and national banks. Some of the banks represented in the area include Bank of America, First National Bank of Griffin, Liberty National Bank, Main Street Bank, McIntosh State Bank, Park Avenue Bank, Peoples Bank, Regions Bank, SouthTrust Bank, Suntrust Bank, and Wachovia Bank. However, the local competition does not seem to have adversely affected the bank's ability to serve the credit needs of its assessment area.

Community Contacts

As part of the CRA examination, information was obtained from two community contacts regarding local economic conditions and community credit needs. The contacts generally had positive remarks about the local banks.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio Analysis

First Nation Bank's loan-to-deposit ratio is **REASONABLE** given the bank's financial condition and assessment area credit needs. Based on the information from the bank's Consolidated Reports of Condition and Income, the bank's average LTD ratio for the fourteen quarters ended June 30, 2002, was 84.26 percent. The LTD ratio has fluctuated for the past fourteen quarters from 82.03 percent as of March 31, 1999, to 93.71 percent as of June 30, 2002. First Nation Bank's average LTD ratio was compared with the average LTD ratios of ten financial institutions of similar asset size within Newton, Henry, and Rockdale Counties. The range of average LTD ratios for the same period of time (fourteen quarters ended June 30, 2002) for these ten banks ranged from 51.24 percent to 84.95 percent.

Assessment Area Concentration

648 residential real estate loans, originated from January 1999 through August 2002 (reported HMDA lending), and a sample of 50 small business loans, originated from January 2002 to August 2002 were analyzed to determine the extent of the bank's lending inside the assessment area. As illustrated in the following table, a **MAJORITY** (by both number and dollar volume) of the bank's residential real estate loans and small business loans were originated in the assessment area.

LENDING INSIDE AND OUTSIDE ASSESSMENT AREA				
Loan Type	IN			
	#	%	\$ (000s)	%
HMDA	499	77.0%	\$27,936	69.3%
Small Business	35	70.0%	\$3,596	49.5%
<i>Total In</i>	<i>534</i>	<i>76.5%</i>	<i>\$31,532</i>	<i>66.3%</i>
	OUT			
	#	%	\$ (000s)	%
HMDA	149	23.0%	\$12,358	30.7%
Small Business	15	30.0%	\$3,664	50.5%
<i>Total Out</i>	<i>164</i>	<i>23.5%</i>	<i>\$16,022</i>	<i>33.7%</i>

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (Continued)

Borrowers' Profile

To assess First Nation Bank's performance relative to this criterion, 499 residential real estate loans and 35 small business loans from the sample that were in the assessment area were analyzed. Borrower income classifications were assigned in accordance with the definitions outlined earlier in this report. For this analysis, the distribution of residential real estate loans by borrower income levels and business loans by revenue size was compared with available demographic information. The bank's small business lending was weighted more heavily in this analysis.

Of the 499 loans originated in the assessment area during the review period, 485 had borrower income information. According to the chart below, 21.6 percent and 26.7 percent of the residential real estate loans were originated to low- and moderate-income borrowers, respectively. The aggregate lending comparison table in Appendix A, page 12, shows that in 2001, the bank's lending to low- and moderate-income borrowers was significantly above that of the aggregate.

HMDA LOANS by Borrower Income		
Borrower Income Level	#	%
Low-Income	108	21.6%
Moderate-Income	133	26.7%
Middle-Income	90	18.0%
Upper-Income	154	30.9%
Income Not Available	14	2.8%
<i>Total</i>	<i>499</i>	<i>100.0%</i>

As indicated earlier, approximately 18.0 percent of the families in the bank's assessment area were considered low-income and 21.3 percent were considered moderate-income. 6.2 percent of the total families in the bank's assessment area have incomes below the poverty level. While these families are not ineligible for credit, it is recognized that they have a lower capacity for debt repayment and therefore, may not qualify for residential real estate loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (Continued)

Of the sample of 35 small business loans originated in the assessment area, 25 (or 71 percent) were originated to businesses with gross annual revenues of less than \$1 million. In addition, 65.7 percent of the business loans originated were for amounts of \$100,000 or less. As noted earlier, 67.1 percent of the businesses in the assessment area are considered to be small businesses.

SMALL BUSINESS LOANS by Business Revenue and Loan Size				
Business Revenue:	#	%	\$(000)s	%
\$1 Million or Less	25	71.4%	\$2,606	72.5%
Over \$1 Million	10	28.6%	\$990	27.5%
Not Available	0	0.0%	\$0	0.0%
Loan Size:				
\$100,000 or Less	23	65.7%	\$553	15.4%
\$100,001 - \$250,000	7	20.0%	\$1,132	31.5%
\$250,001 - \$1 Million	5	14.3%	\$1,911	53.1%
<i>Total</i>	35	100.0%	\$3,596	100.0%

First National Bank's small business and HMDA lending reflect **REASONABLE** penetration among individuals of different income (including low- and moderate-income) levels and businesses of different sizes.

Geographic Distribution of Loans

499 residential real estate loans and the sample of 35 small business loans inside the bank's assessment area were used to analyze the distribution of lending. For this analysis, the geographic distribution of residential real estate loans and small business loans was compared with the demographic information available.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (Continued)

As demonstrated in the next table, the bank originated 44.3 percent of its residential real estate loans in the moderate-income census tracts, which compares very favorably to total owner-occupied units in moderate-income census tracts at 18.9 percent. Also, only 22.6 percent of the total families in the assessment area live in the moderate-income census tracts, of which 13.5 percent have incomes below the poverty level. In addition, the bank significantly outperformed the aggregate in residential real estate loans in 2001 in moderate-income tracts as indicated in the aggregate lending comparison table in Appendix A, page 12.

GEOGRAPHIC DISTRIBUTION		
Tract Income Level	HMDA	
	#	%
Low-Income	0	0.0%
Moderate-Income	221	44.3%
Middle-Income	263	52.7%
Upper-Income	15	3.0%
<i>Total Assessment Area</i>	499	100.0%

As demonstrated in the table below, the bank originated 45.7 percent of its small business loans in moderate-income census tracts. 27.4 percent of small businesses are located in moderate-income census tracts. The majority of businesses in the bank's assessment area are located in the middle-income census tracts (66.6 percent). When considering the bank's performance context, the geographic distribution of residential real estate loans and small business loans reflect **EXCELLENT** dispersion throughout the assessment area.

GEOGRAPHIC DISTRIBUTION		
Tract Income Level	Small Business	
	#	%
Low-Income	0	0.0%
Moderate-Income	16	45.7%
Middle-Income	19	54.3%
Upper-Income	0	0.0%
<i>Total Assessment Area</i>	35	100.0%

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (Continued)

Complaints

No CRA-related complaints have been received since the preceding performance evaluation.

Compliance with Antidiscrimination Laws and Regulations

The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. No evidence of discrimination or the use of illegal credit practices was noted during the review of the bank policies and procedures.

APPENDIX A

FIRST NATION BANK ASSESSMENT AREA								
2001 AGGREGATE LENDING COMPARISON								
HMDA ORIGINATIONS & PURCHASES								
Income Category	By Tract Income				By Borrower Income			
	Bank		Aggregate		Bank		Aggregate	
	#	%	#	%	#	%	#	%
Low	0	0.0%	0	0.0%	27	23.7%	1,433	8.3%
Moderate	53	46.5%	2,429	14.0%	29	25.4%	3,624	20.9%
Middle	55	48.2%	13,311	76.9%	22	19.3%	3,402	19.7%
Upper	6	5.3%	1,566	9.0%	34	29.8%	3,215	18.6%
NA	0	0.0%	0	0.0%	2	1.8%	5,632	32.5%
Total	114	100.0%	17,306	100.0%	114	100.0%	17,306	100.0%