

PUBLIC DISCLOSURE

July 16, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Foothills Bank & Trust
Maryville, TN**

RSSD ID Number: 3597592

**FEDERAL RESERVE BANK OF ATLANTA
1000 Peachtree Street, N.E.
Atlanta, Georgia 30309-4470**

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.

Major factors supporting the institution's rating include:

- The net loan-to-deposit ratio is reasonable.
- A majority of loans were made in the assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects reasonable penetration among businesses of different sizes and borrowers of different incomes.
- There have been no CRA-related complaints.

SCOPE OF EXAMINATION

The CRA performance evaluation assesses the bank's record of meeting the credit needs of its community, including low- and moderate-income neighborhoods, within the context of information such as asset size and financial condition of the institution, competitive factors, and the economic and demographic characteristics of its defined assessment area. This CRA performance review was based on lending performance within the Foothills Bank and Trust's (Foothills) assessment area, defined as Blount and Knox Counties, Tennessee, using the Interagency Small Institution Examination Procedures. Blount and Knox Counties are part of the Knoxville Tennessee metropolitan statistical area (MSA). The rating was assessed under the following five core criteria developed for evaluating CRA lending performance for small banks:

- Net Loan-to-Deposit Ratio
- Assessment area concentration
- Borrower profile
- Geographic distribution of loans
- Responsiveness to substantiated complaints

Given the bank's asset size and branch office located in an MSA, it submits annual reports about its residential real estate loan originations and applications, pursuant to the Home Mortgage Disclosure Act (HMDA). The evaluation included an analysis of HMDA¹ loans and commercial loans from January 1, 2010 through December 31, 2011.

As part of this evaluation, two community contact interviews were conducted with local community representatives who are familiar with the local housing needs and economic and community development opportunities within the bank's assessment area. Information obtained from these contacts was used to establish a context for the communities in which the bank operates and to gather information on the bank's performance. Specific information obtained from the community contacts is included in the applicable section of the evaluation for the assessment area.

DESCRIPTION OF INSTITUTION

Foothills Bank & Trust is a community bank located in Maryville, Tennessee. The bank operates two banking offices in Blount County, Tennessee, both located in middle-income tracts, and one in Knox County, Tennessee,

¹ Home mortgage loans are reported by institutions on the Home Mortgage Disclosure Act (HMDA) Loan Application Register (LAR). The register includes home purchase, home refinance, home improvement, and multi-family loans originated and purchased by the institution.

which is located in an upper-income tract. All branches include drive-thru services and ATMs. The bank maintains a website (www.fhbank.com) as well as a 24-hour access line available for its customers. The bank offers a variety of services and products to meet the needs of its assessment area. The types of products offered include demand deposit accounts; money market and savings accounts; purchase, refinance, and home improvement loans; consumer loans; and small business and commercial loans. No new loan products have been introduced since the previous CRA evaluation.

Loan Portfolio

According to the March 31, 2012 Report of Condition (ROC), the bank’s assets totaled \$152.3 million, an increase of approximately 205.8 percent since the bank’s previous CRA evaluation conducted on July 14, 2008. During the same time period, the bank’s deposits totaled \$124.3 million, an increase of 292.1 percent. In addition, the bank’s loans totaled \$104.2 million, an increase of 240.5 percent.

The following table and chart show the composition of the loan portfolio according to the Consolidated Reports of Condition and Income.

| COMPOSITION OF LOAN PORTFOLIO | | | | | | |
|---|------------------|----------------|------------------|----------------|-----------------|----------------|
| Loan Type | 3/31/2012 | | 12/31/2011 | | 12/31/2010 | |
| | \$ (000s) | Percent | \$ (000s) | Percent | \$ (000s) | Percent |
| Construction and Development | 11,114 | 10.7% | 11,806 | 11.1% | 8,777 | 9.4% |
| Secured by One- to Four- Family Dwellings | 33,598 | 32.3% | 32,532 | 30.7% | 28,969 | 30.9% |
| Other Real Estate: Farmland | 1,543 | 1.5% | 1,562 | 1.5% | 1,339 | 1.4% |
| Multifamily | 5,948 | 5.7% | 6,057 | 5.7% | 6,563 | 7.0% |
| Nonfarm nonresidential | 41,869 | 40.2% | 41,567 | 39.2% | 36,224 | 38.6% |
| Commercial and Industrial | 7,905 | 7.6% | 10,184 | 9.6% | 9,827 | 10.5% |
| Loans to Individuals | 2,077 | 2.0% | 2,230 | 2.1% | 2,031 | 2.2% |
| Agricultural Loans | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| Total | \$104,054 | 100.00% | \$105,938 | 100.00% | \$93,730 | 100.00% |

* 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 illustrated above, the loan portfolio consists primarily of loans secured by nonfarm nonresidential loans (40.2 percent) and one-to-four family dwellings (32.3 percent), followed by construction and development loans (10.7 percent). During the time period shown above, the composition of the bank’s loan portfolio has not changed substantially.



RESPONSE TO SUBSTANTIATED COMPLAINTS

The bank has not received any CRA-related complaints since the previous evaluation.

Foothills Bank & Trust complies with the CRA. No known legal or other impediments exist that would hinder the bank from meeting the needs of its assessment areas. This is the bank’s second CRA examination since its inception. The bank received a “Satisfactory” rating at its previous evaluation conducted by the Federal Reserve Bank of Atlanta dated July 14, 2008, under the FFIEC Small Institution Examination Procedures.

DESCRIPTION OF ASSESSMENT AREA

Overview

The bank has defined its assessment area as Knox and Blount Counties in Tennessee. The assessment area includes all of both counties, which are located in the Knoxville, Tennessee MSA. HMDA and commercial loans were reviewed to determine the bank’s performance under the CRA.

Demographic data from the 2000 census was used to define the Bank’s assessment area, which is comprised of 15 (14.9 percent) low-income tracts, 21 (20.8 percent) moderate-income tracts, 44 (43.6 percent) middle-income tracts, and 20 (19.8 percent) upper-income tracts.

Population Information

According to the 2000 census, the bank’s assessment area population was 487,855, with 21.7 percent residing in Blount County and 78.3 percent residing in Knox County. The total population of the bank’s assessment area accounts for approximately 8.6 percent of the state of Tennessee’s population of 5,689,283 persons. Estimated census data for 2010 indicates that the total population of the bank’s assessment area increased by 13.8 percent to 555,236 since the 2000 census.

Income Characteristics

For purposes of classifying borrower income, this evaluation uses the Department of Housing and Urban Development’s (HUD) estimated 2010 and 2011 median family income for the Knoxville MSA. It also provides a breakdown of the estimated annual income based on income-level.

Borrower Income Levels
Knoxville MSA

| HUD Estimated Median Family Income | | Low | Moderate | Middle | Upper |
|------------------------------------|-----------------|--------------|---------------------|---------------------|--------------------|
| | | 0 - 49.99% | 50% - 79.99% | 80% - 119.99% | 120% - & above |
| 2010 | \$59,700 | 0 - \$29,849 | \$29,850 - \$47,759 | \$47,760 - \$71,639 | \$71,640 - & above |
| 2011 | \$61,300 | 0 - \$30,649 | \$30,650 - \$49,039 | \$49,040 - \$73,559 | \$73,560 - & above |

The 2010 and 2011 HUD estimated median family income for the assessment area was \$59,700 and \$61,300 respectively. According to the 2000 census data, there were 131,822 families in the assessment area. Of those families, 19.4 percent were low-income, 17.5 percent were moderate-income, 21.6 percent were middle-income, and 41.6 percent were upper-income. Of the total families, 8.1 percent had incomes below the poverty level.

Demographic Data by Census Tracts

The following table provides demographic characteristics of the bank’s assessment area based on the 2000 census. Certain components of the data in the table are discussed in this evaluation as they apply to specific parts of the analysis.

Assessment Area Demographics

Assessment Area : Knoxville

| Income Categories | Tract Distribution | | Families by Tract Income | | Families < Poverty Level as % of Families by Tract | | Families by Family Income | |
|--|---------------------------|------------------------------------|--------------------------|------------------|--|----------------------|---------------------------|--------------|
| | # | % | # | % | # | % | # | % |
| Low-income | 15 | 14.9 | 7,629 | 5.8 | 2,670 | 35.0 | 25,526 | 19.4 |
| Moderate-income | 21 | 20.8 | 15,508 | 11.8 | 2,241 | 14.5 | 23,085 | 17.5 |
| Middle-income | 44 | 43.6 | 75,388 | 57.2 | 4,935 | 6.5 | 28,433 | 21.6 |
| Upper-income | 20 | 19.8 | 33,297 | 25.3 | 846 | 2.5 | 54,778 | 41.6 |
| Unknown-income | 1 | 1.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Total Assessment Area | 101 | 100.0 | 131,822 | 100.0 | 10,692 | 8.1 | 131,822 | 100.0 |
| | Housing Units by Tract | Housing Types by Tract | | | | | | |
| | | Owner-Occupied | | Rental | | Vacant | | |
| | | # | % | % | # | % | # | % |
| Low-income | 18,096 | 5,061 | 3.7 | 28.0 | 10,587 | 58.5 | 2,448 | 13.5 |
| Moderate-income | 33,317 | 15,199 | 11.0 | 45.6 | 14,539 | 43.6 | 3,579 | 10.7 |
| Middle-income | 116,961 | 80,693 | 58.5 | 69.0 | 27,176 | 23.2 | 9,092 | 7.8 |
| Upper-income | 50,124 | 37,023 | 26.8 | 73.9 | 10,261 | 20.5 | 2,840 | 5.7 |
| Unknown-income | 0 | 0 | 0.0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Total Assessment Area | 218,498 | 137,976 | 100.0 | 63.1 | 62,563 | 28.6 | 17,959 | 8.2 |
| | Total Businesses by Tract | Businesses by Tract & Revenue Size | | | | | | |
| | | Less Than or = \$1 Million | | Over \$1 Million | | Revenue Not Reported | | |
| | | # | % | # | % | # | % | # |
| Low-income | 2,208 | 8.7 | 1,769 | 7.9 | 262 | 15.8 | 177 | 14.0 |
| Moderate-income | 3,449 | 13.6 | 2,981 | 13.3 | 243 | 14.7 | 225 | 17.8 |
| Middle-income | 11,801 | 46.5 | 10,701 | 47.7 | 633 | 38.3 | 467 | 36.9 |
| Upper-income | 7,898 | 31.1 | 6,987 | 31.1 | 516 | 31.2 | 395 | 31.3 |
| Unknown-income | 5 | 0.0 | 5 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Total Assessment Area | 25,361 | 100.0 | 22,443 | 100.0 | 1,654 | 100.0 | 1,264 | 100.0 |
| Percentage of Total Businesses: | | | 88.5 | | 6.5 | | 5.0 | |

Based on 2000 Census Information.

Housing Characteristics

According to 2000 census data, there were 218,498 housing units in the assessment area, and 63.2 percent are owner-occupied units. In addition, 76.6 percent of the housing units in the assessment area are one-to-four family units and the median age of the housing stock is 26 years. The median housing value in the assessment area is \$95,912, which is 9.0 percent above the median housing value for the state of Tennessee at \$88,300. The affordability ratio of the assessment area is 39, while for the state of Tennessee it is 41. The affordability ratio is defined as the median household income divided by the median housing value. A higher ratio means the housing is considered more affordable while a lower ratio means the housing is considered less affordable. Based on the affordability ratio, housing within the bank’s assessment area is slightly less affordable than housing in the state of Tennessee as a whole.

The home ownership rate in Blount and Knox Counties increased slightly from 75.9 percent and 66.9 percent in 2000 to an estimated average of 76.8 percent and 67.2 percent, respectively, in 2009. Additionally, the median housing value for Blount County increased 16 percent from \$129,875 in 2000 to \$150,500 in 2009; and the median housing value for Knox County increased 20 percent during the same time period, from \$123,125 to \$147,200.

Employment Statistics

According to the 2010 Regional Economic Information Systems (REIS) data, employment in Blount County was concentrated in state and local government; retail trade and manufacturing; and government enterprises. Knox County employment was concentrated in government enterprises; state and local government; healthcare and social assistance; and retail trade. The following table shows the unemployment rates according to the Bureau of Labor Statistics (BLS) for Blount and Knox Counties and the state of Tennessee for 2010 and 2011.

Unemployment Rates
Assessment Area: Knoxville

| Area | Years - Annualized | |
|------------------|--------------------|------------|
| | 2010 | 2011 |
| Blount Co. | 8.4 | 7.7 |
| Knox Co. | 7.5 | 6.9 |
| Knoxville MSA | 7.9 | 7.3 |
| Tennessee | 9.8 | 9.2 |

Not Seasonally Adjusted
 Source: Bureau of Labor Statistics

Competition

The banking environment in the assessment area is highly competitive. A total of 38 other financial institutions operate 207 offices in Blount and Knox Counties. According to the June 30, 2011 FDIC Market Share Report for Blount and Knox Counties, Foothills accounted for just 1.0 percent of the market share in deposits. The institutions with the largest market share in the area are First Tennessee Bank, NA; SunTrust Bank; and Regions Bank, with shares of 22.6 percent, 18.3 percent and 13.5 percent, respectively.

Community Contacts

As a part of the CRA examination, information was obtained from two community contacts regarding local housing issues, as well as small business growth, trends, and credit needs. The housing community contact in Knoxville stated that area financial institutions are active in both Blount and Knox counties; however, the smaller local banks seemed more willing to work with customers and be creative with housing financing options. The larger institutions have been more receptive to clients applying for the Home Affordable Modification Program (HAMP) and the Home Affordable Refinance Program (HARP).

The contact also noted increased interest in foreclosure prevention education as opposed to new home buyer education. In addition, the contact noted a shortage of affordable housing in Blount County; Knox County had the third highest number of foreclosure filings (485) within the state of Tennessee during the second quarter of 2012, which is a 1.0 percent increase in foreclosure filings compared to the previous quarter². According to the contact, the largest employers in the Knoxville area are The University of Tennessee; Scripts; Oakridge Defense; and Ruby Tuesday's corporate office.

² Tennessee Housing Development Agency; Tennessee Foreclosure Trends Q2 2012.

The small business community contact stated that the economy of the greater Maryville-Alcoa-Knoxville area is stable from a business perspective. The contact stated that the cities enjoy an excellent school system, new businesses are coming into the area, and a new small business incubator is being developed in Knoxville that will provide services to both Blount and Knox Counties. The largest private employers include DENSO Manufacturing (automotive parts); ALCOA (aluminum products); Clayton Homes (manufactured housing); and I.J. Company (wholesale food distribution).

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Overview

For this analysis, HMDA and commercial loans originated from January 1, 2010 to December 31, 2011 were reviewed. HMDA lending represented the largest loan volume by number and dollar amount; therefore, these loans were given greater consideration in determining the performance rating.

Loan-to-Deposit Ratio (LTD)

The bank’s net loan-to-deposit ratio is reasonable. Lending levels show a reasonable responsiveness to meeting the overall assessment area credit needs, given the bank’s asset size, financial condition, market share, loan demand, and the economic conditions of its assessment area. The bank’s average LTD ratio for the sixteen-quarter period ended March 31, 2012, was 86.7 percent. As the bank is still fairly new in the area, it has relied on making loans to customers residing near the bank, who typically have a deposit relationship with the bank, or are known to the loan officer based on previous lending relationships. The bank’s LTD ratio was compared with three other financial institutions of similar asset size located in Blount and Knox Counties. The sixteen-quarter average LTD ratios for these institutions ranged from 81.2 percent to 83.8 percent.

Assessment Area Concentration

The bank originated a majority of the total loans reviewed to borrowers and businesses residing in or located within the bank’s assessment area. The table below shows, by product type, the number and percentage of loans reviewed that were located inside and outside of the bank’s assessment areas.

Lending Inside and Outside the Assessment Area

| Loan Type - Description | Inside | | | | Outside | | | | Total | | | |
|----------------------------------|------------|-------------|---------------|-------------|-----------|-------------|--------------|-------------|------------|--------------|---------------|--------------|
| | # | % | \$(000s) | % | # | % | \$(000s) | % | # | % | \$(000s) | % |
| CV- Home Purchase - Conventional | 24 | 68.6 | 3,772 | 62.1 | 11 | 31.4 | 2,302 | 37.9 | 35 | 100.0 | 6,074 | 100.0 |
| HI- Home Improvement | 15 | 83.3 | 799 | 88.0 | 3 | 16.7 | 109 | 12.0 | 18 | 100.0 | 908 | 100.0 |
| MF - Multi-Family Housing | 3 | 100.0 | 3,853 | 100.0 | 0 | 0.0 | 0 | 0.0 | 3 | 100.0 | 3,853 | 100.0 |
| RF - Refinancing | 54 | 88.5 | 11,390 | 92.9 | 7 | 11.5 | 866 | 7.1 | 61 | 100.0 | 12,256 | 100.0 |
| Total HMDA related | 96 | 82.1 | 19,814 | 85.8 | 21 | 17.9 | 3,277 | 14.2 | 117 | 100.0 | 23,091 | 100.0 |
| Total Commercial Loans | 75 | 86.2 | 9,066 | 87.4 | 12 | 13.8 | 1,310 | 12.6 | 87 | 100.0 | 10,376 | 100.0 |
| TOTAL LOANS | 171 | 83.8 | 28,880 | 86.3 | 33 | 16.2 | 4,587 | 13.7 | 204 | 100.0 | 33,467 | 100.0 |

By number of loans originated, 82.1 percent of the HMDA loans and 86.2 percent of commercial loans were to borrowers and businesses residing within the bank’s assessment area. Also, 86.3 percent of the dollars associated with these loans were inside the bank’s assessment area. This demonstrates the bank’s willingness to originate loans that meet the credit needs of its assessment area.

Geographic Distribution of Loans

Based on the following analysis, the overall geographic distribution of the bank's residential loans and commercial loans reflects reasonable dispersion throughout the bank's assessment area and does not reveal any unexplained gaps in lending patterns. Performance context issues including the economic climate were also taken into consideration.

Residential Real Estate (HMDA) Lending

Total HMDA lending in low-income tracts at 1.0 percent was less than the percentage of owner-occupied units in these tracts at 3.7 percent. However, total HMDA lending in moderate-income tracts at 16.7 percent was greater than the percentage of owner-occupied units in these tracts at 11.0 percent.

By product, home refinance loans were the bank's largest product, by number, during the review period. While the bank did not originate any refinance loans in low-income tracts, five loans (9.3 percent) were originated in moderate-income tracts. The aggregate also struggled to make refinance loans in low- and moderate-income tracts, at 1.4 percent and 6.0 percent, respectively. The aggregate performance, coupled with the small percentage of owner-occupied units at 3.7 and 11.0 percent, respectively, may demonstrate a lack of opportunity for refinance lending in these tracts.

For home purchase lending, 4.1 percent of the bank's loans were in low-income tracts while 16.7 percent were in moderate-income tracts; although it represents only five loans, penetration exceeds both the demographic and aggregate comparison. Five (33.3 percent) home improvement loans were originated in moderate-income tracts.

Considering the demographic and aggregate data above, and other performance context issues, the bank's HMDA lending reflects reasonable geographic distribution.

The following table shows the geographic distribution of HMDA loans for 2010 and 2011 within the Knoxville assessment area and also includes a comparison of the bank's HMDA lending in 2010 to the aggregate HMDA lenders within the assessment area. The HMDA aggregate lenders' data are the combined total of lending activity reported by all lenders subject to HMDA in the assessment area. Selected demographic information about the census tracts is included as a basis for comparison.

Geographic Distribution of HMDA Loans

Assessment Area: Knoxville

| PRODUCT TYPE | Tract Income Levels | Bank Lending & Demographic Data Comparison 2010, 2011 | | | | | Bank & Aggregate Lending Comparison 2010 | | | | | |
|------------------|---------------------------|---|----------------|----------------------|---------------|---------------|--|---------------|----------------|-----------------|---------------|---------------|
| | | Bank | | Owner Occupied Units | Count | | Dollar | | | | | |
| | | Count | Dollar | | Bank | Agg | Bank | | Agg | | | |
| # | % | \$ (000s) | % | % | # | % | % | \$ (000s) | % | % | | |
| HOME PURCHASE | Low | 1 | 4.2% | \$28 | 0.7% | 3.7% | 0 | 0.0% | 2.1% | \$0 | 0.0% | 1.4% |
| | Moderate | 4 | 16.7% | \$584 | 15.5% | 11.0% | 1 | 10.0% | 9.1% | \$48 | 3.5% | 5.5% |
| | Middle | 16 | 66.7% | \$2,902 | 76.9% | 58.5% | 7 | 70.0% | 54.2% | \$1,187 | 85.6% | 47.6% |
| | Upper | 3 | 12.5% | \$258 | 6.8% | 26.8% | 2 | 20.0% | 34.5% | \$152 | 11.0% | 45.5% |
| | Unknown | 0 | 0.0% | \$0 | 0.0% | 0.0% | 0 | 0.0% | 0.0% | \$0 | 0.0% | 0.0% |
| | <i>Total</i> | <i>24</i> | <i>100.0%</i> | <i>\$3,772</i> | <i>100.0%</i> | <i>100.0%</i> | <i>10</i> | <i>100.0%</i> | <i>100.0%</i> | <i>\$1,387</i> | <i>100.0%</i> | <i>100.0%</i> |
| REFINANCE | Low | 0 | 0.0% | \$0 | 0.0% | 3.7% | 0 | 0.0% | 1.4% | \$0 | 0.0% | 0.9% |
| | Moderate | 5 | 9.3% | \$511 | 4.5% | 11.0% | 1 | 4.0% | 6.0% | \$196 | 3.1% | 3.7% |
| | Middle | 39 | 72.2% | \$5,546 | 48.7% | 58.5% | 19 | 76.0% | 53.1% | \$2,546 | 40.9% | 46.3% |
| | Upper | 10 | 18.5% | \$5,333 | 46.8% | 26.8% | 5 | 20.0% | 39.6% | \$3,481 | 55.9% | 49.1% |
| | Unknown | 0 | 0.0% | \$0 | 0.0% | 0.0% | 0 | 0.0% | 0.0% | \$0 | 0.0% | 0.0% |
| | <i>Total</i> | <i>54</i> | <i>100.0%</i> | <i>\$11,390</i> | <i>100.0%</i> | <i>100.0%</i> | <i>25</i> | <i>100.0%</i> | <i>100.0%</i> | <i>\$6,223</i> | <i>100.0%</i> | <i>100.0%</i> |
| HOME IMPROVEMENT | Low | 0 | 0.0% | \$0 | 0.0% | 3.7% | 0 | 0.0% | 3.1% | \$0 | 0.0% | 1.8% |
| | Moderate | 5 | 33.3% | \$318 | 39.8% | 11.0% | 2 | 18.2% | 10.3% | \$64 | 11.9% | 5.4% |
| | Middle | 10 | 66.7% | \$481 | 60.2% | 58.5% | 9 | 81.8% | 56.7% | \$472 | 88.1% | 47.2% |
| | Upper | 0 | 0.0% | \$0 | 0.0% | 26.8% | 0 | 0.0% | 29.9% | \$0 | 0.0% | 45.6% |
| | Unknown | 0 | 0.0% | \$0 | 0.0% | 0.0% | 0 | 0.0% | 0.0% | \$0 | 0.0% | 0.0% |
| | <i>Total</i> | <i>15</i> | <i>100.0%</i> | <i>\$799</i> | <i>100.0%</i> | <i>100.0%</i> | <i>11</i> | <i>100.0%</i> | <i>100.0%</i> | <i>\$536</i> | <i>100.0%</i> | <i>100.0%</i> |
| MULTI FAMILY | Multi-Family Units | | | | | | | | | | | |
| | Low | 0 | 0.0% | \$0 | 0.0% | 20.3% | 0 | 0.0% | 15.4% | \$0 | 0.0% | 5.8% |
| | Moderate | 2 | 66.7% | \$451 | 11.7% | 24.7% | 1 | 50.0% | 26.9% | \$245 | 6.7% | 9.0% |
| | Middle | 1 | 33.3% | \$3,402 | 88.3% | 34.4% | 1 | 50.0% | 53.8% | \$3,402 | 93.3% | 84.3% |
| | Upper | 0 | 0.0% | \$0 | 0.0% | 20.6% | 0 | 0.0% | 3.8% | \$0 | 0.0% | 0.9% |
| | Unknown | 0 | 0.0% | \$0 | 0.0% | 0.0% | 0 | 0.0% | 0.0% | \$0 | 0.0% | 0.0% |
| <i>Total</i> | <i>3</i> | <i>100.0%</i> | <i>\$3,853</i> | <i>100.0%</i> | <i>100.0%</i> | <i>2</i> | <i>100.0%</i> | <i>100.0%</i> | <i>\$3,647</i> | <i>100.0%</i> | <i>100.0%</i> | |
| HMDA TOTALS | Low | 1 | 1.0% | \$28 | 0.1% | 3.7% | 0 | 0.0% | 1.7% | \$0 | 0.0% | 1.1% |
| | Moderate | 16 | 16.7% | \$1,864 | 9.4% | 11.0% | 5 | 10.4% | 7.2% | \$553 | 4.7% | 4.4% |
| | Middle | 66 | 68.8% | \$12,331 | 62.2% | 58.5% | 36 | 75.0% | 53.6% | \$7,607 | 64.5% | 47.2% |
| | Upper | 13 | 13.5% | \$5,591 | 28.2% | 26.8% | 7 | 14.6% | 37.5% | \$3,633 | 30.8% | 47.3% |
| | Unknown | 0 | 0.0% | \$0 | 0.0% | 0.0% | 0 | 0.0% | 0.0% | \$0 | 0.0% | 0.0% |
| | <i>Total</i> | <i>96</i> | <i>100.0%</i> | <i>\$19,814</i> | <i>100.0%</i> | <i>100.0%</i> | <i>48</i> | <i>100.0%</i> | <i>100.0%</i> | <i>\$11,793</i> | <i>100.0%</i> | <i>100.0%</i> |

Originations & Purchases

Commercial Lending

The following table shows the geographic distribution of commercial loans compared to the distribution of small businesses in the assessment area.

Geographic Distribution of Commercial Loans

Assessment Area: Knoxville

| Tract Income Levels | Bank Lending & Demographic Data Comparison | | | | |
|---------------------------|--|-----------|---------|--------|---------------------|
| | 2010, 2011 | | | | |
| | Bank | | | | Small Businesses |
| | Count | | Dollar | | |
| # | % | \$ (000s) | \$ % | % | |
| Low | 0 | 0.0% | \$0 | 0.0% | 7.9% |
| Moderate | 22 | 29.3% | \$1,872 | 20.6% | 13.3% |
| Middle | 38 | 50.7% | \$4,601 | 50.8% | 47.7% |
| Upper | 15 | 20.0% | \$2,593 | 28.6% | 31.1% |
| Unknown | 0 | 0.0% | \$0 | 0.0% | 0.0% |
| Tr Unknown | 0 | 0.0% | \$0 | 0.0% | 0.0% |
| <i>Total</i> | 75 | 100.0% | \$9,066 | 100.0% | 100.0% |

Originations & Purchases

A significant percentage of the bank's commercial lending (29.3 percent) occurred in moderate-income tracts, where 13.3 percent of small businesses are located. The majority of commercial lending was done in middle-income tracts which is reasonable given the majority of small businesses are located in these tracts. Considering the demographic information above, and other performance context factors, the bank's geographic distribution of commercial lending is reasonable.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Based on the following analysis, the overall distribution of the bank's HMDA and commercial loans by borrower income and business revenue reflects reasonable penetration among borrowers with different incomes and businesses of different sizes. Performance context issues were also considered, including the performance of other banks.

Residential Real Estate (HMDA) Lending

The following table shows the distribution of the bank's HMDA loans by the income level of the borrowers.

Borrower Distribution of HMDA Loans

Assessment Area: Knoxville

| PRODUCT TYPE | Borrower Income Levels | Bank Lending & Demographic Data Comparison 2010, 2011 | | | | | Bank & Aggregate Lending Comparison 2010 | | | | | |
|------------------|------------------------|--|---------------|-----------------|---------------|---------------------------|---|---------------|---------------|-----------------|---------------|---------------|
| | | Bank | | Dollar | | Families by Family Income | Count | | | Dollar | | |
| | | # | % | \$ (000s) | \$ % | | % | # | % | % | \$ (000s) | \$ % |
| | | | | | | | | | | | | |
| HOME PURCHASE | Low | 2 | 8.3% | \$201 | 5.3% | 19.4% | 0 | 0.0% | 11.9% | \$0 | 0.0% | 6.2% |
| | Moderate | 1 | 4.2% | \$200 | 5.3% | 17.5% | 1 | 10.0% | 24.8% | \$200 | 14.4% | 18.0% |
| | Middle | 6 | 25.0% | \$793 | 21.0% | 21.6% | 4 | 40.0% | 22.8% | \$533 | 38.4% | 21.4% |
| | Upper | 11 | 45.8% | \$2,020 | 53.6% | 41.6% | 4 | 40.0% | 33.3% | \$627 | 45.2% | 47.1% |
| | Unknown | 4 | 16.7% | \$558 | 14.8% | 0.0% | 1 | 10.0% | 7.3% | \$27 | 1.9% | 7.3% |
| | Total | 24 | 100.0% | \$3,772 | 100.0% | 100.0% | 10 | 100.0% | 100.0% | \$1,387 | 100.0% | 100.0% |
| HOME REFINANCE | Low | 3 | 5.6% | \$138 | 1.2% | 19.4% | 2 | 8.0% | 5.8% | \$113 | 1.8% | 3.0% |
| | Moderate | 7 | 13.0% | \$969 | 8.5% | 17.5% | 1 | 4.0% | 15.2% | \$12 | 0.2% | 10.1% |
| | Middle | 10 | 18.5% | \$1,405 | 12.3% | 21.6% | 4 | 16.0% | 20.8% | \$409 | 6.6% | 16.9% |
| | Upper | 26 | 48.1% | \$6,844 | 60.1% | 41.6% | 13 | 52.0% | 41.5% | \$4,314 | 69.3% | 53.8% |
| | Unknown | 8 | 14.8% | \$2,034 | 17.9% | 0.0% | 5 | 20.0% | 16.7% | \$1,375 | 22.1% | 16.1% |
| | Total | 54 | 100.0% | \$11,390 | 100.0% | 100.0% | 25 | 100.0% | 100.0% | \$6,223 | 100.0% | 100.0% |
| HOME IMPROVEMENT | Low | 3 | 20.0% | \$62 | 7.8% | 19.4% | 3 | 27.3% | 14.1% | \$62 | 11.6% | 5.6% |
| | Moderate | 2 | 13.3% | \$208 | 26.0% | 17.5% | 2 | 18.2% | 18.5% | \$208 | 38.8% | 11.9% |
| | Middle | 2 | 13.3% | \$96 | 12.0% | 21.6% | 1 | 9.1% | 22.7% | \$11 | 2.1% | 18.4% |
| | Upper | 5 | 33.3% | \$174 | 21.8% | 41.6% | 3 | 27.3% | 37.2% | \$105 | 19.6% | 52.2% |
| | Unknown | 3 | 20.0% | \$259 | 32.4% | 0.0% | 2 | 18.2% | 7.4% | \$150 | 28.0% | 11.9% |
| | Total | 15 | 100.0% | \$799 | 100.0% | 100.0% | 11 | 100.0% | 100.0% | \$536 | 100.0% | 100.0% |
| MULTI FAMILY | Low | 0 | 0.0% | \$0 | 0.0% | 19.4% | 0 | 0.0% | 0.0% | \$0 | 0.0% | 0.0% |
| | Moderate | 0 | 0.0% | \$0 | 0.0% | 17.5% | 0 | 0.0% | 0.0% | \$0 | 0.0% | 0.0% |
| | Middle | 0 | 0.0% | \$0 | 0.0% | 21.6% | 0 | 0.0% | 0.0% | \$0 | 0.0% | 0.0% |
| | Upper | 0 | 0.0% | \$0 | 0.0% | 41.6% | 0 | 0.0% | 0.0% | \$0 | 0.0% | 0.0% |
| | Unknown | 3 | 100.0% | \$3,853 | 100.0% | 0.0% | 2 | 100.0% | 100.0% | \$3,647 | 100.0% | 100.0% |
| | Total | 3 | 100.0% | \$3,853 | 100.0% | 100.0% | 2 | 100.0% | 100.0% | \$3,647 | 100.0% | 100.0% |
| HMDA TOTALS | Low | 8 | 8.3% | \$401 | 2.0% | 19.4% | 5 | 10.4% | 8.1% | \$175 | 1.5% | 4.1% |
| | Moderate | 10 | 10.4% | \$1,377 | 6.9% | 17.5% | 4 | 8.3% | 18.5% | \$420 | 3.6% | 12.6% |
| | Middle | 18 | 18.8% | \$2,294 | 11.6% | 21.6% | 9 | 18.8% | 21.5% | \$953 | 8.1% | 18.2% |
| | Upper | 42 | 43.8% | \$9,038 | 45.6% | 41.6% | 20 | 41.7% | 38.6% | \$5,046 | 42.8% | 51.0% |
| | Unknown | 18 | 18.8% | \$6,704 | 33.8% | 0.0% | 10 | 20.8% | 13.3% | \$5,199 | 44.1% | 14.1% |
| | Total | 96 | 100.0% | \$19,814 | 100.0% | 100.0% | 48 | 100.0% | 100.0% | \$11,793 | 100.0% | 100.0% |

Originations & Purchases

Based on demographic and loan data from the review period, the bank extended 8.3 percent of its HMDA loans to low-income borrowers, which is less than the percentage of low-income borrowers in the assessment area at 19.4 percent. The bank's percentage of HMDA loans to moderate-income borrowers at 10.4 percent was also less than the percentage of moderate-income families in the assessment area at 17.5 percent. However, a significant number (18.8 percent) of the bank's HMDA loans were made to borrowers whose income was unknown. After removing these from the totals, the bank made 8 of 78 (10.3 percent) loans to low-income borrowers and 10 of 78 (12.8 percent) loans to moderate-income borrowers.

When compared to the 2010 aggregate data and adjusting for the loans to borrowers whose income was unknown, the bank made 5 of 38 (13.2 percent) of its loans to low-income borrowers, better than the aggregate at 8.1 percent, and 4 of 38 (10.5 percent) of its loans to moderate-income borrowers, compared to the aggregate at 18.5 percent. The bank's distribution of HMDA loans among borrowers of different income levels is considered reasonable.

Commercial Lending

The following table shows, by loan size, the number and dollar volume of commercial loans originated by the bank.

Commercial Loans by Business Revenue & Loan Size

Assessment Area: Knoxville

| Business Revenue & Loan Size | | Bank Lending & Demographic Data Comparison | | | | |
|-----------------------------------|-------------------------------------|--|--------|-----------|--------|------------|
| | | 2010, 2011 | | | | |
| | | Bank | | \$ (000s) | | Total |
| | | Count | | | | Businesses |
| | | # | % | \$ | % | % |
| BUSINESS REVENUE | \$1million or Less | 35 | 46.7% | \$4,286 | 47.3% | 88.5% |
| | Over \$1 Million | 35 | 46.7% | \$4,716 | 52.0% | 6.5% |
| | <i>Total where Rev is available</i> | 70 | 93.4% | \$9,002 | 99.3% | 95.0% |
| | Rev. Not Known | 5 | 6.7% | \$64 | 0.7% | 5.0% |
| | <i>Total</i> | 75 | 100.0% | \$9,066 | 100.0% | 100.0% |
| LOAN SIZE | \$100,000 or Less | 36 | 48.0% | 968 | 10.7% | |
| | \$100,001 - \$250,000 | 33 | 44.0% | 5,451 | 60.1% | |
| | \$250,000 - \$1 Million | 6 | 8.0% | 2,647 | 29.2% | |
| | Over \$1 Million | 0 | 0.0% | 0 | 0.0% | |
| | <i>Total</i> | 75 | 100.0% | 9,066 | 100.0% | |
| LOAN SIZE Rev \$1 Mill or Less | \$100,000 or Less | 14 | 40.0% | 358 | 8.4% | |
| | \$100,001 - \$250,000 | 18 | 51.4% | 2,623 | 61.2% | |
| | \$250,000 - \$1 Million | 3 | 8.6% | 1,304 | 30.4% | |
| | Over \$1 Million | 0 | 0.0% | 0 | 0.0% | |
| | <i>Total</i> | 35 | 100.0% | 4,286 | 100.0% | |

Originations & Purchases

The distribution of commercial lending across business revenue sizes was compared with available demographic information. Of the 70 commercial loans in the sample where revenue was available, 50.0 percent were originated to businesses with gross annual revenues of \$1 million or less, which is significantly lower than the percentage of small businesses in the assessment area at 88.5 percent. However, it is noteworthy that 48.0 percent of the bank's commercial loans were in amounts of \$100,000 or less, indicating the bank's willingness to make loans in smaller dollar amounts to meet the needs of the small businesses in the community. In addition, 92.0 percent of the bank's commercial loans were in amounts less than \$250,000. Considering these factors, the bank's distribution of loans to businesses of different sizes is considered reasonable.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

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

APPENDIX A

SCOPE OF EXAMINATION

| | | | |
|---|-------------------------------|--|--------------------------|
| TIME PERIOD REVIEWED | | | |
| January 1, 2010 – December 31, 2011 | | | |
| FINANCIAL INSTITUTION | | PRODUCTS REVIEWED | |
| Foothills Bank & Trust, Maryville, TN | | Residential Loans Commercial Loans | |
| AFFILIATE(S) | AFFILIATE RELATIONSHIP | PRODUCTS REVIEWED | |
| None | None | None | |
| LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION | | | |
| <i>ASSESSMENT AREA</i> | <i>TYPE OF EXAMINATION</i> | <i>BRANCHES VISITED</i> | <i>OTHER INFORMATION</i> |
| Blount and Knox Counties, TN | Full-Scope Exam Procedures | Main Office- 214 Keller Lane, Maryville, TN, 37801 | None |

APPENDIX B – DEFINITIONS AND GENERAL INFORMATION

Definitions

| | |
|---------|--|
| ATM - | Automated Teller Machine |
| CDC - | Community Development Corporation |
| CDFI - | Community Development Financial Institution |
| CRA - | Community Reinvestment Act (Regulation BB) |
| FDIC - | Federal Deposit Insurance Corporation |
| FFIEC - | Federal Financial Institutions Examination Council |
| HMDA - | Home Mortgage Disclosure Act (Regulation C) |
| HUD - | Department of Housing and Urban Development |
| LMI - | Low- and Moderate-Income |
| LTD - | Loan-to-Deposit |
| LTV - | Loan-to-Value Ratio |
| MD - | Metropolitan Division |
| MSA - | Metropolitan Statistical Area |
| OMB - | Office of Management and Budget |
| REIS - | Regional Economic Information System |
| SBA - | Small Business Administration |
| USDA - | United States Department of Agriculture |

Rounding Convention

Because the percentages presented in tables were rounded to the nearest tenth in most cases, some columns may not total exactly 100 percent.

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 Foothills Bank & Trust prepared by the **Federal Reserve Bank of Atlanta**, the institution's supervisory agency, as of July 16, 2012. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

APPENDIX C - GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: All Agencies have adopted the following language. Affordable housing (including multi-family rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- I. Low-or moderate-income geographies;
- II. Designated disaster areas; or
- III. Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on
 - a. Rates of poverty, unemployment, and population loss; or
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full-scope review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

APPENDIX C – GLOSSARY (Continued)

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments and branch distribution).

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. An MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. An MD is a division of an MSA based on specific criteria including commuting patterns. Only an MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

APPENDIX C – GLOSSARY (Continued)

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.