

PUBLIC DISCLOSURE

June 1, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Farmers Bank
8661**

**101 East Main Street
Parsons, Tennessee, 38363**

**Federal Deposit Insurance Corporation
Division of Compliance and Consumer Affairs
5100 Poplar Avenue, Suite 1900
Memphis, Tennessee**

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 Community Reinvestment Act (CRA) performance of **Farmers Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **June 1, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

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

The bank's lending performance demonstrates a responsiveness to community credit needs with an average loan-to-deposit ratio of 63 percent and a majority of loans within its assessment area. The bank's record of lending to individuals of different income levels (including low-and moderate-income borrowers) is reasonable, and the bank's lending to businesses and farms of different sizes, particularly to very small businesses, is considered reasonable. No meaningful conclusions could be derived from the bank's geographic distribution of loans originated, given the homogeneous income level of the assessment area.

DESCRIPTION OF INSTITUTION

Farmers Bank, Parsons, Tennessee, is a wholly-owned subsidiary of Townsend Financial Corporation, Parsons, Tennessee, a one-bank holding company. The bank is a full service community bank that operates from a single office with a drive-up facility in Parsons. The bank does not operate any automated teller machines.

As of March 31, 1998, the bank had total assets of \$36,253,000. Major asset categories include loans and securities, which represent 61 percent and 23 percent of total assets, respectively. Gross loans of \$23,048,000 are comprised of the following:

Loan Type	Amount	Percent
Residential	\$ 8,337,000	36
Business	6,900,000	30
Consumer	6,434,000	28
Agriculture	1,211,000	5
Other	166,000	1
Total	\$23,048,000	100

As shown in the table above, the primary focus of the bank is residential mortgage lending, followed closely by commercial lending and consumer related lending.

The bank offers the following types of loans:

Home Purchase	Automobiles	Furniture and Fixtures
Home Refinance	Trucks	Inventory
Home Construction	Appliances	Equipment
Home Improvement	Personal	Land Acquisition
Home Equity	Student	Land Development
Mobile Homes	Working Capital	Livestock
Multi-Family	Business Lines of Credit	Agricultural Production

The bank does not participate in governmentally insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

There are no legal impediments that would prevent the bank from servicing its designated assessment area.

DESCRIPTION OF DECATUR COUNTY, TENNESSEE

The bank's assessment area includes Decatur County, Tennessee, which is comprised of block numbering areas (BNAs) 9550 and 9551. Both BNAs are middle-income geographies. The assessment area is not part of a metropolitan statistical area (MSA); therefore, the income designation for each BNA is based on the 1990 median family income (MFI) for the Tennessee non-metropolitan areas, which is \$24,935. The MFI of each BNA is categorized as low-, moderate-, middle-, or upper-income in comparison to the overall MFI for the non-metropolitan areas of Tennessee. The 1990 MFI is used because income tract designations are derived from the 1990 Census. The assessment area does not arbitrarily exclude any low- or moderate-income areas.

The income designation for borrowers is based on HUD's 1997 and 1998 estimated MFI figures for Tennessee's non-metropolitan areas, which are \$33,200 and \$34,500 respectively. The 1997 and 1998 MFIs were used to categorize consumer and mortgage loan borrowers from the loans included in this evaluation.

The following table shows the income ranges and the corresponding income designations:

Income Level	Percent of MFI	1990 Income Range	1997 Income Range	1998 Income Range
Low	Less than 50%	Under \$12,468	Under \$16,600	Under \$17,250
Moderate	50 to < 80%	\$12,468 to \$19,947	\$16,600 to \$26,559	\$17,250 to \$27,599
Middle	80 to < 120%	\$19,948 to \$29,921	\$26,560 to \$39,839	\$27,600 to \$41,400
Upper	120% or more	Over \$29,921	Over \$39,839	Over \$41,400

According to the 1990 Census, the population of Decatur County is 10,472. This figure was estimated by the Tennessee Economic Development Center to have risen to 10,731 in 1996, but is expected to decline to 10,064 in the year 2000, and further decline to 9,557 by the year 2010.

The county is primarily rural with a median family income of \$22,140. Approximately 41 percent of the 1990 population was either below the age of 18 or above the age of 64. The county had 4,200 households with 10 percent receiving public assistance income, 37 percent receiving social security income, and 24 percent below the poverty level.

According to the 1990 Census, Decatur County's housing units are 67 percent owner occupied, 15 percent renter occupied, and 18 percent vacant. Approximately 19 percent of the occupied housing units are mobile homes. The median age of the housing is 35 years, and the median value is \$35,000.

As of April 1998, Decatur County has an unemployment rate of 9.8 percent, which compares to a rate of 4.8 percent for the State of Tennessee and 4.3 percent for the national average. The local economy has historically been plagued with limited employment opportunities as many employers have relocated to other areas. The county's economic base is primarily centered on manufacturing and health care services.

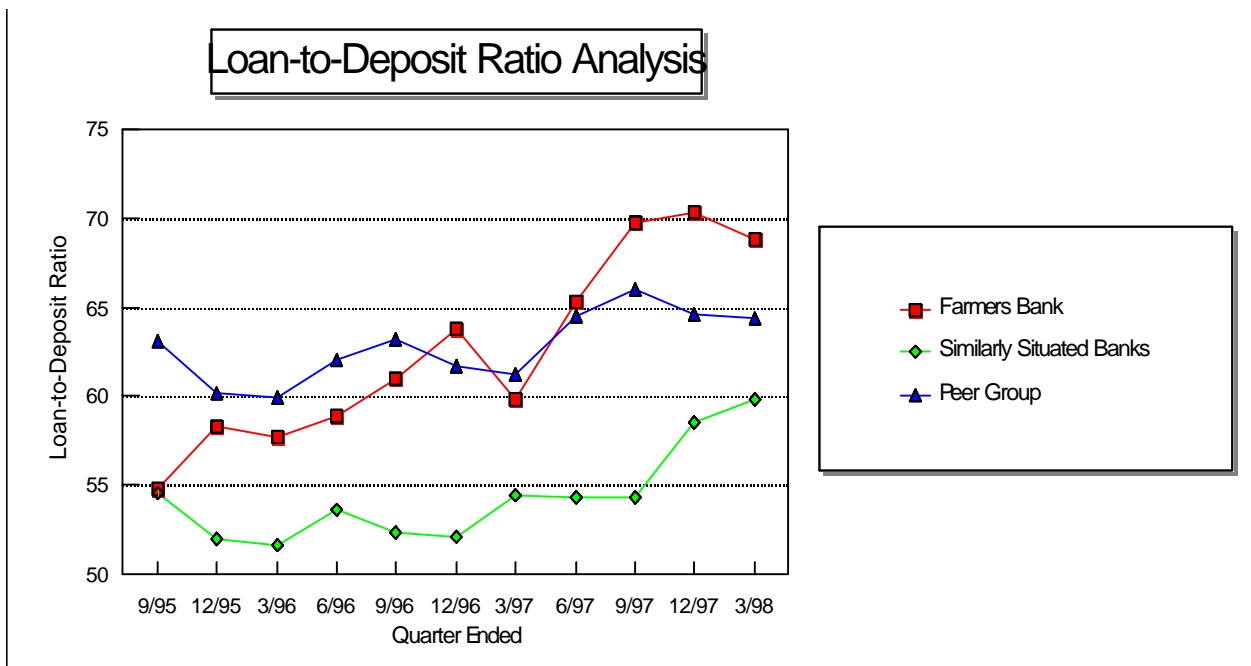
Banking competition in Decatur County consists of four commercial banks, with a total of seven offices. As of June 30, 1997, Farmers Bank held approximately 26 percent of the total deposits in the county.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Farmers Bank is responding to the credit needs of its community at a reasonable level. The bank's average net loan-to-deposit ratio for the 11 calendar quarters since the last examination is 63 percent, which is the same as its peer group's ratio, and exceeds the ratio of 54 percent reported by similarly situated banks in the assessment area. The similarly situated banks reported loan-to-deposit ratios ranging from 51 percent to 71 percent for the quarter ending March 31, 1998, compared to Farmers Bank's ratio of 69 percent.

The following graph illustrates these relationships:



Lending in the Assessment Area

The bank's internal loan data was tested for accuracy and was used to evaluate certain aspects of the bank's lending performance. The loan data covered the period since the previous examination on August 11, 1995. The loans were grouped into three categories for this analysis, consisting of residential mortgage, consumer, and business/farm.

An analysis of the bank's lending in the assessment area was derived from all three of the loan categories. As indicated in the following table, a majority of the bank's loans, by both number and amount, were originated in the assessment area.

	Number	Percent	Amount	Percent
Inside Assessment Area	902	76	\$14,315,714	72
Outside Assessment Area	279	24	5,676,820	28
Total	1,181	100	\$19,992,534	100

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

The bank has achieved a satisfactory record of lending to borrowers of different income levels and businesses and farms of different sizes. The following tables detail the distribution of mortgage and consumer loans by income compared to the estimated percentage of low-, moderate-, middle-, and upper-income families in the assessment area.

Mortgage Loans					
Borrower Income Designation	Percent of Families	Number	Percent	Amount	Percent
Low	26	4	3	\$ 23,571	1
Moderate	18	23	19	453,210	11
Middle	24	29	24	1,018,285	25
Upper	32	63	53	2,519,796	63
Uncoded	N/A	1	1	12,534	0
Total	100	120	100	\$4,027,396	100

This table illustrates that the bank originated only 3 percent of the number and 1 percent of the dollar volume of its mortgage loans to low-income borrowers, who represent 26 percent of the assessment area families. Similarly, 19 percent of the number and 11 percent of the dollar volume of mortgage loans were originated to moderate-income borrowers, who represent 18 percent of the assessment area families.

Consumer Loans					
Borrower Income Designation	Percent of Families	Number	Percent	Amount	Percent
Low	26	84	14	\$ 369,591	8
Moderate	18	207	34	1,087,602	25
Middle	24	144	23	989,619	22
Upper	32	173	28	1,944,462	44
Uncoded	N/A	4	1	42,390	1
Total	100	612	100	\$4,433,664	100

The preceding table illustrates that the bank originated 14 percent of the number and 8 percent of the dollar volume of its consumer loans to low-income borrowers, who represent 26 percent of the assessment area families. Similarly, 34 percent of the number and 25 percent of the dollar volume of consumer loans were originated to moderate-income borrowers, who represent 18 percent of the assessment area families.

The following table details the bank's performance in lending to businesses and farms of different sizes.

Business/Farm Loans				
Gross Annual Revenues	Number	Percent	Amount	Percent
Less Than \$100,000	114	67	\$2,571,950	44
\$100,000 to \$250,000	24	14	593,662	10
\$250,000 to \$1,000,000	19	11	1,439,659	25
Over \$1,000,000	13	8	1,249,383	21
Total	170	100	\$5,854,654	100

As shown in the previous table, the bank originated 92 percent of the number and 79 percent of the dollar volume of its business/farm loans to entities with gross annual revenues of \$1,000,000 or less, with 67 percent of the number and 44 percent of the dollar volume originated to very small businesses, with gross annual revenues less than \$100,000.

Geographic Distribution of Loans

The bank's assessment area contains only middle-income geographies; therefore, no meaningful analysis could be performed.

Response to Complaints

The bank has not received any CRA-related complaints since the last examination.

COMPLIANCE WITH ANTIDISCRIMINATORY LAWS AND REGULATIONS

No violations of the substantive provisions of the antidiscriminatory laws and regulations were identified during the evaluation.