

# **PUBLIC DISCLOSURE**

**May 4, 1998**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Avery County Bank  
Certificate Number: 13191**

**125 Estatoa Street  
Newland, North Carolina 28657**

**Federal Deposit Insurance Corporation  
One Atlantic Center, Suite 1500  
1201 West Peachtree Street, N. E.  
Atlanta, Georgia 30309-3415**

**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 **Avery County Bank** prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency, as of **May 4, 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 **Outstanding**.

The bank's overall CRA performance demonstrates an outstanding effort in providing for the credit needs of its assessment area, including low- and moderate-income areas and low- and moderate-income people. This rating is supported by the following criteria:

- A substantial majority (93 percent) of the number and dollar volume of consumer loans funded since the last evaluation originate within Avery County.
- The geographic distribution of consumer loans represents an excellent penetration to all areas of Avery County, including the only moderate-income Block Numbering Area (BNA).
- The distribution of credit among borrowers of different income levels reflects a significant majority of loans extended to low- and moderate-income borrowers.
- The average loan-to-deposit ratio reflects an adequate responsiveness to community credit needs.

## DESCRIPTION OF INSTITUTION

Avery County Bank is an independent commercial bank headquartered in Newland, North Carolina, a small rural town located in the Blue Ridge Mountain Range in the western portion of the state. The bank operates a single office with a staff of fourteen full-time employees. The bank has no affiliates or holding company, and remains in control of the original founding family. Since its inception in 1913, the institution has focused upon the consumer loan market.

According to the Consolidated Report of Condition and Income, the bank's total assets as of March 31, 1998, were \$55,589,000. Loans constitute 35 percent of the bank's total assets, while 53 percent of the asset portfolio consists of investment securities available for sale and held for long term growth. Table 1 below depicts the loan portfolio distribution as of the most recent Call Report date.

*Table 1. Loan Portfolio Profile as of 03/31/98 - Avery County Bank*

Loan Type	Dollar Amount	Percent of Total Loans
Consumer (Less unearned income)	\$10,630,000	55%
Residential Real Estate (1-4 Family)	\$4,984,000	26%
Commercial	\$2,396,000	13%
Other	\$1,285,000	6%
<b>TOTAL LOANS</b>	<b>\$19,295,000</b>	<b>100%</b>

The bank extends the following types of closed-end credit to qualified applicants:

CONSUMER LOANS

- Personal
  - Secured
  - Unsecured
- Vehicles
- Mobile home

REAL ESTATE LOANS

- Residential
  - Purchase
  - Refinance
  - Home Improvement
  - Construction

COMMERCIAL LOANS

- Mercantile/Industrial
  - Machinery and Equipment

Avery County Bank maintains convenient lobby and drive-up hours for its customers. The lobby is open from 9:00 a. m. to 5:00 p.m. Monday through Friday, but closes during the lunch hours of 1:00 p.m. to 3:00 p.m. However, the drive-up window is accessible to customers continuously throughout the business day. The bank does not offer automated teller machine (ATM) transactions, and there have been no branch openings or closings since the previous evaluation.

During the past two years, the earnings performance and capital levels of Avery County Bank

have been sufficient to sustain additional loan growth. The bank reported a return on assets of 3.31 percent for year-end 1996 and 4.15 percent for year-end 1997. Leverage capital ratios of 26.80 percent and 25.91 percent were reported for the same periods, respectively. While these performance ratios may initially appear exceptional, the bank operates as a Subchapter S Corporation with a limited number of shareholders. As such, the bank pays no income taxes. Earnings are distributed to the owners for tax purposes.

There are no financial or legal impediments that would preclude the bank from reasonably meeting the credit needs of its assessment area under the guidelines of the Community Reinvestment Act. The FDIC determined the bank's CRA performance to be satisfactory at the previous evaluation conducted April 4, 1995, under former examination procedures.

## DESCRIPTION OF AVERY COUNTY

Avery County Bank has defined its assessment area in accordance with the technical requirements of the CRA regulation as the entirety of Avery County, North Carolina. Due to the rural nature and relatively low population of the mountain area, Avery County is designated as a non-metropolitan statistical area (non-MSA) comprised of block numbering areas (BNAs) as opposed to census tracts. The bank's assessment area does not arbitrarily exclude any low- or moderate-income areas.

According to 1990 U. S. Census data, the bank's assessment area consists of four BNAs: one moderate-income BNA and three middle income BNAs. There are no low-income or upper-income areas in the county. The income category of each BNA is determined every ten years in the U. S. Census by comparing the median family income of the BNA to the statewide median family income for all non-MSA counties. The following tables represent the number and percentage of BNAs by income level, as well as select demographic data for Avery County. The definitions for each level of BNA as detailed in the CRA regulation accompany the data.

**Table 2. Geographic Distribution of Population and Owner-Occupied Housing Units throughout Avery County**

<b>BNA Designation</b>	<b>Number of BNAs</b>	<b>%</b>	<b>Total Population</b>	<b>%</b>	<b>Owner-Occupied Housing Units</b>	<b>%</b>
Low Income	0	0%	0	0%	0	0%
Moderate Income	1	25%	6,158	41%	1,931	43%
Middle Income	3	75%	8,709	59%	2,540	57%
Upper Income	0	0%	0	0%	0	0%
<b>Assessment Area</b>	<b>4</b>	<b>100%</b>	<b>14,867</b>	<b>100%</b>	<b>4,471</b>	<b>100%</b>

*Table 3. Geographic Distribution of Families by BNA in Avery County*

<b>BNA Designation</b>	<b>Number of BNAs</b>	<b>%</b>	<b>Total Families</b>	<b>%</b>	<b>Families Below Poverty Level</b>	<b>% Total Families</b>
Moderate Income	1	25%	1,801	44%	246	6.0%
Middle Income	3	75%	2,338	56%	175	4.2%
<b>Assessment Area</b>	<b>4</b>	<b>100%</b>	<b>4,139</b>	<b>100%</b>	<b>421</b>	<b>10.2%</b>

### **Type of BNA**

### **Definition of BNA**

Low Income	BNA income less than 50% of statewide non-MSA median family income
Moderate Income	BNA income which is at least 50% but less than 80% of statewide non-MSA median family income
Middle Income	BNA income which is at least 80% but less than 120% of statewide non-MSA median family income
Upper Income	BNA income 120% or higher than statewide non-MSA median family income

### **Avery County**

According to the 1990 U. S. Census, the total population of Avery County is 14,867 people, who represent 5,439 households. Approximately 76 percent of the households are classified as families. The county has a high population of citizens (15.8 percent) age 65 or older. The population in 1997 was estimated at 15,786 with an annual growth rate of 1.2 percent.

The unadjusted 1990 median family income of Avery County is \$24,154, which falls significantly below the unadjusted 1990 median family income for North Carolina of \$31,548. An estimated 421 families, or 10.2 percent of all families in Avery County, live below the poverty level, and 8.7 percent of all households receive public assistance. According to the Bureau of Labor Statistics, the overall unemployment rate in Avery County was 4.1 percent in 1997 compared to the state average of 3.7 percent. The unemployment rate peaked at 9.7 percent in 1992, and has since trended downward.

Avery County's median housing value rose from \$54,788 in 1990 to \$72,055 in 1997; however, the figure remains below the state median housing value of \$82,955. The median age of the county's housing stock is 22 years. Approximately 50 percent of all housing units in Avery County are owner-occupied, and 12 percent are rental units. In 1997, single family residential permit issuance in Avery County increased by 5.3 percent over 1996 levels. The issuance of multifamily construction permits also increased from 0 issued in 1996 to 17 issued in 1997.

## **Community Contacts**

One community representative contacted during the evaluation indicated that the basis of Avery County's economy is service-oriented small businesses in the tourism and ornamental shrubbery industry. There are several ski resorts in the area, and the elevation of Avery County is ideal for growing the Frasier fir, coveted as the most expensive and highest quality Christmas tree. Local government officials and the public favor controlled growth through small business development rather than heavy industry to preserve the natural environment. In fact, the potential for industrial development is severely limited by the lack of adequate infrastructure and public transportation.

The contact asserted that the large influx of seasonal residents has created a shortage of long-term rental housing. As a result, many local residents feel that they are being pushed off their land by developers catering to the seasonal residents. There are a large number of low- and moderate-income people living in the rural parts of the county.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

Based on the bank's business focus and portfolio mix, consumer debts represent a majority (55 percent) of the bank's lending activity. Therefore, examiners selected a random sample of 70 consumer loans originated in 1997 to evaluate the bank's CRA performance under the following criteria: 1) lending inside the assessment area; 2) lending to borrowers of different income levels; 3) geographic distribution of loans; and, 4) loan-to deposit ratio.

### **LENDING INSIDE THE ASSESSMENT AREA**

The bank has demonstrated that a substantial majority of consumer loans extended during 1997 benefit borrowers within the assessment area. As evidenced by the following table, approximately 93 percent of the number and dollar volume of consumer loans in the sample originated within the bank's assessment area.

**Table 4. Originations Inside the Assessment Area, 1997 - Avery County Bank**

Consumer Loans	1997			
	Number	%	Dollar	%
Inside Avery County	65	93%	467,703	93%
Outside Avery County	5	7%	34,050	7%
<b>Total</b>	<b>70</b>	<b>100%</b>	<b>\$501,753</b>	<b>100%</b>

**GEOGRAPHIC DISTRIBUTION OF LOANS**

The geographic distribution of consumer loans in the sample reflects an excellent dispersion among residents of low-, moderate-, middle-, and upper-income geographies in the bank’s assessment area. Demographic statistics from the 1990 U. S. Census relating to families and occupied housing units are included in Table 5 below to place the bank's performance in perspective with its assessment area.

**Table 5. Geographic Distribution of Consumer Loans by BNA, 1997 - Avery County Bank**

BNA	% of Tracts	% of Families	% of Occupied Housing	1997			
				#	%	\$	%
Moderate	25%	44%	43%	38	58%	280,717	60%
Middle	75%	56%	57%	27	42%	186,986	40%
<b>Totals</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>65</b>	<b>100%</b>	<b>\$467,703</b>	<b>100%</b>

As previously noted, there are no low-income or upper-income BNAs in Avery County. Approximately 44 percent of the total number of families in the assessment area reside in the only moderate-income BNA, and 43 percent of the total number of occupied housing units are located in the moderate-income BNA. By comparison, the geographic distribution reveals that 58 percent of the number and 60 percent of the dollar volume of consumer loans benefited borrowers in the moderate-income BNA. The bank's office is also located in this moderate-income area which encompasses the town of Newland.

**LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS**

The bank has demonstrated an excellent performance of lending to borrowers of different income levels, particularly low- and moderate-income people. The analysis presented below is based on the statewide non-MSA median family income of \$35,000 estimated by the Department of Housing and Urban Development (HUD) for 1997. Since the U. S. Census is only undertaken every ten years, the median family income for each county and BNA must be adjusted annually for changes in the consumer pricing index to adequately reflect a borrower's current income status. The following table provides information on how each income level is defined:

**Table 6. Borrower Incomes Based on 1997 HUD-Adjusted Non-MSA Median Family Income of \$35,000**

Family Income Level	Percent of Median Family Income	Income Range
Low	Less than 50%	Less than \$17,500
Moderate	50% to less than 80%	\$17,500 to < \$28,000
Middle	80% to less than 120%	\$28,000 to < \$42,000
Upper	120% and over	\$42,000 and over

Of the consumer loans originated within the assessment area during 1997, management extended 75 percent of the number and 73 percent of the dollar volume to low- and moderate-income borrowers earning less than 80 percent of the HUD-adjusted median family income. By comparison, 45 percent of the families living in Avery County are considered low- or moderate-income. The bank's service to low- and moderate-income borrowers is exceptional considering the bank's size and financial resources. Refer to Table 7 below.

**Table 7. Distribution of Consumer Loans By Borrower Income Level, 1997 - Avery County Bank**

Borrower Income Level	Number of Families	% of Total Families	1997			
			#	%	\$	%
Low Income	877	21%	26	40%	134,549	29%
Moderate Income	988	24%	23	35%	206,740	44%
Middle Income	937	23%	12	19%	96,941	21%
Upper Income	1,337	32%	4	6%	29,473	6%
<b>Totals</b>	<b>4,139</b>	<b>100%</b>	<b>65</b>	<b>100%</b>	<b>\$467,703</b>	<b>100%</b>

## LOAN TO DEPOSIT RATIO

Compared with similarly-situated institutions, the level of Avery County Bank's lending activity is reasonable considering its size, financial condition, and prevailing economic factors in the non-MSA assessment area. Avery County Bank's loan-to-deposit ratio for the previous 13 quarters averages 53 percent. This figure is calculated on a net basis, excluding loan loss reserves and unearned income.

There are four other commercial banks maintaining a branch presence in Avery County. Two are large interstate national banks, one is a statewide member bank, and the other is a small community bank. However, the differences in size, business strategies, and number of branches preclude direct comparisons with Avery County Bank as similarly-situated institutions with all but the small independent bank. This competitor, Community Bank and Trust Company, is headquartered in Rutherfordton, North Carolina, and reported total assets of \$94,982,000 as of December 31, 1997.

Avery County Bank's net loan to deposit ratio at year-end 1997 was 48 percent, while the loan to deposit ratio for Community Bank and Trust Company was 74 percent for the same period. Another year-end 1997 comparison with all 21 commercial banks operating in North Carolina with total assets less than \$100 million reveals that Avery County Bank's loan to deposit ratio falls below the group average of 71 percent. However, many of these institutions are operating in metropolitan areas with greater loan demand. Despite the lower lending ratios, management demonstrates a general willingness to meet the credit needs of its assessment area.

### **COMMUNITY DEVELOPMENT SERVICES**

Avery County Bank is a major participant in the Micro-Business Loan Program promoted by WAMY Community Action, Inc. Sponsored by the state Office of Community Services, the organization serves a four-county area (Watauga, Avery, Mitchell, and Yancey) by offering small business loans to applicants that have been turned down at other local financial institutions. WAMY, Inc., is responsible for advertising its services, providing technical assistance, evaluating applications, and recommending approved applicants to the bank. Avery County Bank has agreed to provide \$30,000 annually for each program operated by WAMY and approve six loans each year for clients who qualify under the Federal poverty guidelines or meet the eligibility requirements for Aid to Families with Dependent Children (AFDC). By contract, Avery County Bank maintains the right of first refusal for any loan recommended by WAMY's loan committee.

### **RESPONSE TO COMPLAINTS**

There have been no CRA-related complaints since the previous evaluation.

### **COMPLIANCE WITH ANTIDISCRIMINATION LAWS**

Examiners evaluated the bank's compliance with antidiscrimination laws, including the Home Mortgage Disclosure Act (HMDA), the Fair Housing Act (FH), and the Equal Credit Opportunity Act (ECOA). No substantive violations of these regulations were identified during the examination.