

PUBLIC DISCLOSURE

April 7, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Bells Banking Company
1469**

**32 East Main Street
Bells, Tennessee 38006**

**Federal Deposit Insurance Corporation
Division of Supervision and Consumer Protection
5100 Poplar Avenue, Suite 1900
Memphis, Tennessee 38137**

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 **Bells Banking Company** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **April 7, 2003**. 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 CRA performance depicts a satisfactory practice of providing for the credit needs of its Assessment Area. The following supports the bank's rating:

- A majority of bank loans were originated within the defined Assessment Area.
- An analysis of loan originations revealed an excellent record of residential real estate lending to low- and moderate-income borrowers. All of the bank's commercial loans were to small businesses, which are defined as those businesses with gross annual revenues of \$1 million or less.
- Overall, the geographic distribution of the bank's residential real estate and commercial lending was reasonable, based upon the demographics of the Assessment Area geographies and the competition within the Assessment Area.
- The bank's lending levels, represented by a 54 percent average loan-to-deposit ratio, reflects an acceptable responsiveness to community credit needs.

DESCRIPTION OF INSTITUTION

The Bells Banking Company is a \$35 million community bank headquartered in Bells, Tennessee. The institution is located approximately 90 miles northeast of Memphis, Tennessee in Crockett County. The main office is improved with drive-up teller facilities. Automated Teller Machine's (ATM's) are provided at two grocery/market locations in Bells.

The bank is a subsidiary of Crockett County Bancshares, Inc., a one-bank holding company, also headquartered in Bells, Tennessee.

The bank's major asset categories as of December 31, 2002, were net loans at \$13 million (37%) and securities and federal funds sold at \$20 million (57%). The other six percent of assets were comprised primarily of cash and premises.

The loan portfolio consisted of the following loan types, as of December 31, 2002.

LOAN TYPE	AMOUNT	PERCENT
Construction and Land Development	20,000	0
Farmland	1,059,000	8
1-4 Family Residential	4,744,000	36
Multifamily (5 or more) Residential	0	0
Commercial (nonfarm, nonresidential)	1,545,000	12
Total Real Estate Loans	\$7,368,000	56
Agricultural Production	1,582,000	12
Commercial and Industrial	1,828,000	14
Consumer	2,393,000	18
Other	7,000	0
Total Loans	\$13,178,000	100
(Less Allowance for loan and lease losses)	182,000	N/A
(Less Unearned income)	5,000	N/A
Net Loans	\$12,991,000	N/A

The bank offers a variety of loan products, including mortgage, business, agricultural and general-purpose consumer loans. As a result, the bank's loan portfolio is relatively diversified with 1-4 family residential loans constituting 36 percent, consumer loans 18 percent, commercial related loans including construction and land development 26 percent, and agricultural production and farmland related loans 20 percent. Commercial and residential real estate loans, the bank's two largest loan products, were sampled for this evaluation.

Other than competition, there are no known circumstances or legal impediments, which would hinder the bank’s performance under the Community Reinvestment Act.

DESCRIPTION OF CROCKETT COUNTY, TENNESSEE

The bank has defined its assessment area as all of Crockett County, Tennessee. This assessment area is primarily rural and consists of seven Block Numbering Area’s (BNA’s) overall. Two of the BNAs in Crockett County appear to be “corrective” BNAs as they have no population. Corrective BNAs are the result of last minute corrections to the U.S. Census maps, and usually are the result of changes in the county line due to shifting rivers, etc. These two BNAs were not considered in any of the analyses in this evaluation. All of the remaining assessment area BNAs are middle-income geographies. The assessment area is adjacent to the Jackson, Tennessee Metropolitan Statistical Area, and many of the area residents commute to work in the MSA.

The Assessment Area economy is dependent upon agriculture, retail trade and services. In addition to Jackson, many local residents commute to larger nearby communities such as Dyersburg, Humboldt, and Brownsville, Tennessee for employment. United Foods, Inc. (PictSweet) is the largest local employer with approximately 900 employees. The unemployment rate for Crockett County in the third quarter of 2002 (latest figures available) was 6.9 percent compared to 4.8 percent for the State of Tennessee in the same time frame.

Financial competition within the Assessment Area consists of three other independent banks and branches of larger regional banks.

The following table details selected demographic and housing information regarding the Assessment Area.

Population	Households (HH)	Families	Housing Units: % Owner Occupied	Housing Units: % Renter Occupied	HH % Public Assistance	Families % Below Poverty
13,378	5,182	3,879	72	22	14	13

Source: 1990 U.S. Census

The 1990 Tennessee Statewide Non-MSA Median Family Income (MFI) of \$24,935 was used for calculations, concerning geographic distribution. The following table displays the income levels, percent of MFI used to determine ranges, and the income ranges.

INCOME LEVEL	PERCENTAGE OF MFI	1990 INCOME RANGE
Low	Less than 50%	Less than \$12,468
Moderate	50% to less than 80%	\$12,468 to less than \$19,948
Middle	80% to less than 120%	\$19,948 to less than \$29,922
Upper	120% and over	\$29,922 and over

Based on the above data, the seven geographies in the bank's assessment area are considered middle-income.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's lending performance evaluation is based upon a review of the bank's residential real estate and commercial loans (the bank's two largest loan categories) originated between April 1, 2002, and April 1, 2003. The residential real estate loan sample consisted of the entire universe of 18 loans totaling \$1,007,176. Commercial loans reviewed consisted of the entire universe of 25 loans totaling \$968,154. A local community leader was interviewed during the evaluation to obtain current information concerning the Assessment Area.

Lending in Assessment Area

As illustrated in the following tables, the bank originates a majority of its loans within the Assessment Area.

As depicted below, 83 percent of the bank's residential real estate loans were originated in the Assessment Area.

RESIDENTIAL REAL ESTATE LOANS				
LOCATION	NUMBER	PERCENT	AMOUNT	PERCENT
Inside Assessment Area	15	83	731,593	73
Outside Assessment Area	3	17	275,583	27
TOTAL	18	100	\$1,007,176	100

Source: Bank Files

As depicted below, 76 percent of the bank's commercial loans were originated in the Assessment Area.

COMMERCIAL LOANS				
LOCATION	NUMBER	PERCENT	AMOUNT	PERCENT
Inside Assessment Area	19	76	782,761	81
Outside Assessment Area	6	24	185,393	19
TOTAL	25	100	\$968,154	100

Source: Bank Files

Based on the fact that an overall total of 79 percent of the bank's loans were inside the Assessment Area, the bank's lending in the Assessment Area is considered good.

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

Overall, the bank exhibits an excellent record of lending to borrowers of different incomes and to businesses of different sizes.

The 2002 HUD estimated Tennessee statewide Non-MSA Median Family Income of \$42,600 was used for the borrower distribution analysis. The following table provides information on how each income level is defined.

INCOME LEVEL	PERCENTAGE OF MFI	2002 INCOME RANGE
Low	Less than 50%	Less than \$21,300
Moderate	50% to less than 80%	\$21,300 to less than \$34,080
Middle	80% to less than 120%	\$34,080 to less than \$51,120
Upper	120% and over	\$51,120 and over

The following table reflects the lending distribution of the residential real estate loans reviewed. For comparative purposes, the table includes the percentage of families within each income level. The analysis only includes the loans that were originated within the Assessment Area.

RESIDENTIAL REAL ESTATE LOANS					
BORROWER INCOME LEVEL	PERCENT OF FAMILIES	NUMBER	PERCENT	DOLLAR AMOUNT	PERCENT
Low	27	3	20	87,212	12
Moderate	15	8	53	396,659	54
Middle	18	3	20	182,722	25
Upper	40	1	7	65,000	9
TOTAL	100	15	100	\$731,593	100

Source: 1990 U.S. Census and Bank Files

The bank's mortgage lending is distributed heavily in favor of low- and moderate-income levels. For example, 73 percent by number and 66 percent by dollar amount of the bank's loans were to low- and moderate-income borrowers. The community demographics indicated that 42 percent of Assessment Area families are considered low- and moderate-income. The bank's distribution of lending by borrower income in the Assessment Area is considered excellent based on the high percentage of lending to low- and moderate-income borrowers.

The following table depicts the bank's commercial lending within the Assessment Area to businesses of different sizes. For comparative purposes, the table includes the percentage of businesses within each gross revenue level according to Dun & Bradstreet data.

COMMERCIAL LOANS					
GROSS REVENUES	PERCENT OF BUSINESSES	NUMBER	PERCENT	DOLLAR AMOUNT	PERCENT
Less than \$500,000	76	13	68	233,729	30
\$500,000 to \$1,000,000	4	6	32	549,032	70
Over \$1,000,000	6	0	0	0	0
Revenues not reported	14	NA	NA	NA	NA
TOTAL	100	19	100	\$782,761	100

Source: Dun & Bradstreet and Bank Files

As the above data reveals, the bank's lending to small businesses (i.e. businesses with gross annual revenues of \$1 million or less) is excellent. In fact, 100 percent of the bank's commercial loans were made to small businesses. This lending is very favorable to the economic demographics of the Assessment Area in that 80 percent of local businesses have revenues of \$1 million or less. In addition, based on information obtained recently from a community contact, small business financing is needed in the county, as small businesses are a vital component of the local economy.

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area, considering the location of its banking office, assessment area demographics, and competition.

As stated previously, there are no low- and moderate-income (LMI) geographies in the assessment area; therefore, please note that the geographic distribution analysis is typically designed to analyze the bank's lending in various income geographies including LMI areas. Since the bank's assessment area consists of only middle-income geographies, the geographic distribution analysis receives less emphasis in the bank's overall CRA rating.

Loan-to-Deposit Ratio

The bank's average loan-to-deposit ratio is approximately 54 percent and indicates an acceptable responsiveness to area credit needs. This ratio is based on the 16 quarters since the last evaluation as of January 5, 1999. The bank's loan-to-deposit ratio as of December 31, 2002 stood at 44 percent. It should be noted that the low percentage at the present time is directly due to increased deposits caused by a recent bank failure in a nearby community.

There are three other banks in the Assessment Area that are similarly situated in terms of size, asset structure, branching network, and loan products. These nearby institutions had average loan-to-deposit ratios of 70 percent to 89 percent over the same 16-quarter time frame. Considering the level of competition in the Assessment Area and surrounding area, the bank's overall level of lending is considered acceptable.

Response to CRA-Related Complaints

The bank did not receive any CRA-related complaints since the previous examination.

Compliance with Anti-Discrimination Laws and Regulations

No violations of the substantive provisions of the anti-discriminatory laws and regulations were identified during the evaluation.