

PUBLIC DISCLOSURE

August 4, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Reelfoot Bank
9199**

**1491 South First Street
Union City, Tennessee 38261**

**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 **Reelfoot Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **August 4, 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 defined assessment area. The following supports the bank's rating:

- A substantial majority of bank loans were originated within the institution's defined assessment area.
- An analysis of the bank's residential real estate loans revealed an acceptable penetration of lending among individuals of different income levels (including low-and moderate-income) in the assessment area. A review of commercial and agriculture loans indicated that a substantial majority of the bank's loans were made to small businesses.
- The overall geographic distribution of loans reflects reasonable dispersion throughout the assessment area. Low- or moderate-income geographies were not located in the area.
- The bank's lending levels, represented by an 82 percent average loan-to-deposit ratio, are good given the institution's size, financial condition, and assessment area credit needs.

DESCRIPTION OF INSTITUTION

Reelfoot Bank is a \$147 million commercial bank headquartered in Union City, Tennessee. The institution is located approximately 110 miles northeast of Memphis, Tennessee and consists of a main office and four branches located in Union City, Martin and Hornbeak, Tennessee. Also, two more branches are located in Fulton, Kentucky due to the bank's merger with Fulton Bank on November 9, 2001. Prior to the merger, Fulton Bank was owned by the subject bank's holding company. The bank operates drive-up teller facilities at all locations and Automated Teller Machines (ATMs) at the Main Office, Data Center, Wal-Mart Supercenter, Martin, and Fulton Stateline office locations. Additional cash-disbursing ATM's are located at the E W James Supermarkets in Union City, Martin, and in the Boling University Center at University of Tennessee, Martin, Tennessee. A branch facility located in Dukedom, Tennessee closed on April 19, 2002. This closing occurred since the last evaluation on June 15, 1999. The institution offers reasonable hours of operation. Alternative banking systems are also available to assessment area residents, including telephone banking and computer online banking.

The bank is wholly owned by Reelfoot Bancshares, Inc., a multi-bank holding company also located in Union City, Tennessee.

The bank's major asset categories as of June 30, 2003, were net loans at \$102 million (69%) and securities and federal funds sold at \$17 million (12%). The remaining 19 percent consisted of other assets, cash, premises, and other real estate owned.

The loan portfolio consisted of the following loan types, as of June 30, 2003.

LOAN TYPE	AMOUNT	PERCENT
Construction and Land Development	3,634,000	3
Farmland	4,868,000	5
1-4 Family Residential	31,471,000	30
Multi-Family	816,000	1
Non-farm Non-residential (commercial)	14,788,000	14
Total Real Estate Loans	\$55,577,000	53
Agricultural Production	2,220,000	2
Commercial and Industrial	30,206,000	29
Consumer	16,571,000	16
Other	158,000	0
Total Loans	\$104,732,000	100
(Less Loans and Leases held for sale)	710,000	N/A
(Less Allowance for loan and lease losses)	1,470,000	N/A
(Less unearned income)	540,000	N/A
Net Loans	\$102,012,000	N/A

Source: Statement of Condition and Income

As depicted in the above table, the bank's primary lending focus is residential and commercial lending. Residential real estate loans comprise 30 percent of the portfolio, while commercial-related loans (construction/land development, non-farm non-residential, and commercial/industrial loans) compose 47 percent, agricultural-related loans (farmland and agricultural production) comprise seven percent, and consumer loans (i.e. unsecured, automobile, etc.) account for 16 percent.

A variety of mortgage loan products are offered, including loans for home purchase, refinance, and improvement. Residential loans are extended both in variable and fixed rate, depending upon the terms of the loan.

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

DESCRIPTION OF *Obion and Weakley Counties, Tennessee and Fulton County, Kentucky*

The bank has defined its assessment area as Obion and Weakley counties in Tennessee and Fulton County in Kentucky. This assessment area includes two upper-income and 18 middle-income Block Numbering Areas (BNAs).

The area is rural, with the economy diversified between agriculture and manufacturing. The largest manufacturer is the Goodyear Tire & Rubber Company in Union City, Tennessee employing approximately 3,000 workers. Tyson Foods, Inc. is also located in the assessment area and employs 900 workers according to Dun & Bradstreet. The First Quarter, 2003 unemployment rates for Obion and Weakley Counties was 7.1 percent and 6.7 percent, respectively, compared to 5.1 percent for the State of Tennessee. The First Quarter, 2003 unemployment rate for Fulton County, Kentucky was 9.5 percent compared to 6.3 percent for the State of Kentucky.

Financial competition within the assessment area consists of three independent commercial banks and various branches of banks headquartered outside the assessment area. Also, various credit unions are located within the assessment area.

The following table details selected 2000 U.S. Census 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
75,097	30,041	20,775	63	28	17	12

Source: 2000 Census

The 2000 State of Tennessee Non-MSA Median Family Income (MFI) of \$37,145 was used for calculations concerning geographic distribution in the assessment area. The State of Kentucky MFI was not used due to the small number of loans originated in this part of the bank's assessment area. The following table displays the income levels, percent of MFI used to determine ranges, and the income ranges.

INCOME LEVEL	PERCENTAGE OF MFI	2000 RANGE
Low	Less than 50%	Less than \$18,573
Moderate	50% to less than 80%	\$18,573 to less than \$29,716
Middle	80% to less than 120%	\$29,716 to less than \$44,574
Upper	120% and over	\$44,574 and over

Based on the above data, two geographies in the bank's assessment area are considered upper-income and the remaining 18 geographies are considered middle-income.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope of Evaluation

The bank's lending performance evaluation is based upon a review of the bank's residential real estate, agriculture, and small business loans. The residential real estate loans were originated between June 30, 2002, and June 30, 2003 and the agriculture and small business loans were originated between August 1, 2001 and June 30, 2003. The residential real estate loan sample consisted of 40 loans totaling \$2,117,103 from a universe of 320 loans totaling \$17,960,444. Small business loans reviewed consisted of 42 loans totaling \$4,094,601 from a universe of 496 loans totaling \$33,659,092. Agriculture loans reviewed consisted of 32 loans totaling \$1,522,961 from a universe of 112 loans totaling \$6,720,340.

A local community leader was interviewed during the evaluation to obtain current information concerning the assessment area.

Lending in the Assessment Areas

As the following tables illustrate, the bank originates a substantial majority of its loans within the institution's defined assessment area. Specifically, 85 percent by number and 80 percent by dollar amount of the bank's residential loans were within the assessment area. In addition, 86 percent by number and 56 percent by dollar amount of the bank's small business loans were in the assessment area and 94 percent by number and 97 percent by dollar amount of the bank's agriculture loans were in the assessment area.

RESIDENTIAL REAL ESTATE LOANS				
LOCATION	NUMBER	PERCENT	AMOUNT	PERCENT
Inside Assessment Area	34	85	1,698,200	80
Outside Assessment Area	6	15	418,903	20
TOTAL	40	100	\$2,117,103	100

Source: Bank Files

SMALL BUSINESS LOANS				
Location	Number	Percent	Amount	Percent
Inside Assessment Area	36	86	2,278,962	56
Outside Assessment Area	6	14	1,815,639	44
TOTAL	42	100	\$4,094,601	100

Source: Bank Files

AGRICULTURE LOANS				
Location	Number	Percent	Amount	Percent
Inside Assessment Area	30	94	1,479,505	97
Outside Assessment Area	2	6	43,456	3
TOTAL	32	100	\$1,522,961	100

Source: Bank Files

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

Overall, the bank exhibits a reasonable penetration of lending among individuals of different income levels (including low-and moderate-income) and to businesses and farms of different sizes.

The 2003 HUD estimated Tennessee statewide Non-MSA Median Family Income of \$39,800 was used for the borrower distribution analysis. Again, the State of Kentucky MFI was not used due to the small number of loan originations in this part of the bank's assessment area. The following table provides information on how each income level is defined.

INCOME LEVEL	PERCENTAGE OF MFI	2003 INCOME RANGE
Low	Less than 50%	Less than \$19,900
Moderate	50% to less than 80%	\$19,900 to less than \$31,840
Middle	80% to less than 120%	\$31,840 to less than \$47,760
Upper	120% and over	\$47,760 and over

The following table contains the distribution of the bank's residential real estate loans in the assessment area. Only loans originated in the assessment area are included in this analysis. For comparative purposes, the table includes the percentage of families within each income level.

RESIDENTIAL REAL ESTATE LOANS					
BORROWER INCOME LEVEL	PERCENT OF FAMILIES	NUMBER	PERCENT	DOLLAR AMOUNT	PERCENT
Low	18	1	3	50,532	3
Moderate	17	7	21	359,548	21
Middle	23	8	23	315,805	19
Upper	42	18	53	972,315	57
TOTAL	100	34	100	\$1,698,200	100

Source: 2000 U.S. Census and Bank Files

The bank's mortgage lending is reasonably distributed in the different income levels with the exception of low-income borrowers. For example, 24 percent by number and 24 percent by dollar amount of the bank's loans were to low- and moderate-income borrowers. The community demographics indicated that 35 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 acceptable based on the percentage of lending to low- and moderate-income borrowers.

The following tables depict the bank's small business and agriculture lending within the assessment area to businesses and farms of different sizes. For comparative purposes, the table includes the percentage of businesses and farms within each gross revenue level.

SMALL BUSINESS LOANS					
Gross Revenues	Percent of Businesses & Farms	Number	Percent	Dollar Amount	Percent
Less than \$500,000	83	29	81	779,547	34
\$500,000 to \$1,000,000	5	4	11	1,054,415	46
Over \$1,000,000	7	3	8	445,000	20
Revenues not reported	5	NA	NA	NA	NA
TOTAL	100	36	100	\$2,278,962	100

Source: Dun & Bradstreet and Bank Data

AGRICULTURE LOANS					
Gross Revenues	Percent of Businesses & Farms	Number	Percent	Dollar Amount	Percent
Less than \$500,000	83	25	83	921,293	62
\$500,000 to \$1,000,000	5	5	17	558,212	38
Over \$1,000,000	7	0	0	0	0
Revenues not reported	5	NA	NA	NA	NA
TOTAL	100	30	100	\$1,479,505	100

Source: Dun & Bradstreet and Bank Data

As shown above, a substantial majority (92 percent by number and 80 percent by dollar amount) of the commercial loans in the assessment area were made to small businesses. In addition, 100 percent of agriculture lending was to small farms and agriculture-related businesses. This lending exceeds the economic demographics of the assessment area in that approximately 88 percent of local businesses and farms have revenues of \$1 million or less. A local community leader interviewed during the examination indicated that small businesses are vital to the assessment area's economy. The bank's small business and agriculture lending in the assessment area is considered excellent.

Geographic Distribution of Loans

The bank has a reasonable geographic distribution of loans, considering the location of its banking offices and the demographics of the assessment area.

The geographic distribution analysis is typically designed to analyze the bank's lending in various income geographies including low- and moderate-income areas. Since the bank's assessment area consists of only middle- and upper-income geographies, the geographic distribution analysis receives less emphasis in the bank's overall CRA rating and will not be shown in table format.

Loan-to-Deposit Ratio

The bank's average loan-to-deposit ratio is approximately 82 percent and is considered good, given the institution's size, financial condition, and assessment area credit needs. This ratio is based on the 17 quarters since the prior CRA evaluation as of June 15, 1999. The bank's net loan-to-deposit ratio as of June 30, 2003 was 78 percent. Of the local competitors, there are no similarly situated banks in terms of size, asset structure, branching network, and loan products. Nearby institutions within the assessment area had average loan-to-deposit ratios of 50 percent to 92 percent over the same time frame.

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.