

PUBLIC DISCLOSURE

April 4, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Mountain State Bank
57507
6602 Highway 53 East
Dawsonville, Georgia 30534**

**Federal Deposit Insurance Corporation
10 Tenth Street, NE
Suite 800
Atlanta, GA 30309-3906**

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. On 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 performance of **Mountain State Bank**, prepared by the **Federal Deposit Insurance Corporation (FDIC)**, the institution's supervisory agency, as of **April 4, 2005**. 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 record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The following supports this rating.

- The bank's average net loan-to-deposit ratio since the bank opened demonstrates a good willingness to lend.
- The bank is helping to meet the credit needs of its assessment area by making a majority of its loans in the assessment area.
- The bank is adequately serving businesses of different sizes, including smaller operations.
- None of the census tracts in the bank's assessment area are low- or moderate-income; therefore, this performance criterion was not evaluated.
- The bank has not received any CRA-related complaints since the last evaluation; therefore, this performance criterion was not evaluated.

DESCRIPTION OF INSTITUTION

Mountain State Bank operates from its main office near Dawsonville and a branch location near Cumming. Both towns are in northern Georgia—Dawsonville is in Dawson County, and Cumming is in Forsyth County. The bank offices are along the Highway 400 corridor as opposed to in the towns of Dawsonville and Cumming. The bank is owned by Mountain Bancshares, Inc. and opened for business on April 15, 2003. This is the bank's first evaluation for CRA performance.

As reported in the December 31, 2004, Reports of Income and Condition (Call Report), the bank had total assets of approximately \$81 million, total loans of approximately \$60 million, and total deposits of approximately \$70 million. Other than the legal lending limit, there are no financial or legal impediments that would restrict the bank's ability to meet the credit needs in its assessment area.

Bank management said they would focus on commercial lending. The loan portfolio reflects this decision, with construction loans as the largest category at 45 percent. Most of the construction loans are to builders and developers, so those loans are commercial in nature. Commercial loans (other than construction) comprise 40 percent of the loan portfolio. Residential real estate lending is primarily limited to home equity lending, including through lines of credit, and accounts for 13 percent of the bank's loans. Consumer lending is relatively small at 3 percent of the portfolio. The bank offers other products and loan services. The bank's products are consistent with its size, financial capacity, and geographic location. The bank has an active residential mortgage brokerage and referral department to assist customers in obtaining long-term residential real estate loans. While the bank does not originate or hold such loans, it referred 77 loans for approximately \$14 million in 2004.

DESCRIPTION OF MOUNTAIN STATE BANK'S ASSESSMENT AREA (DAWSON AND FORSTYH COUNTIES)

The Community Reinvestment Act of 1977, as amended, requires banks to identify one or more Assessment Areas within which its regulatory agency will evaluate the bank's performance. The area(s) defined by the bank must include its main office, branches, and other deposit-taking remote service facilities, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans. The assessment area always consists of one of more whole geographies identified as census tracts (CTs).

The bank has identified Dawson and Forsyth Counties as its assessment area, which consists of 10 CTs. The entire assessment area is in the Atlanta-Sandy Springs-Marietta Metropolitan Statistical Area (the Atlanta MSA). Six of the CTs are classified as middle-income¹, and four are upper income. According to the U.S. Census, the assessment area's 2000 population was approximately 114,000, and Dawson and Forsyth Counties' populations increased 70 and 123 percent, respectively, from 1990 to 2000.

Management made the following comments about the assessment area.

Population—The population is growing in Forsyth and Dawson Counties due to a large influx of retirees from the Miami area trying to escape hurricane alley. Additionally, the increase is due to population shifting north along the Highway 400 corridor, trying to escape various big city issues. Dawson and Forsyth Counties are currently two of the top ten fastest growing counties in the State. Forsyth County has been one of the fastest growing counties for the last ten years.

Economic Trends—Significant economic growth has been seen in these areas as businesses are following the population. Economic growth also attributed to the attraction of lower taxes in Forsyth County. Several businesses have relocated from adjacent counties due to lower taxes.

Major Area Employers—The construction industry employs the largest number of people (both commercial and residential construction). Forsyth County has a number of white-collar technology jobs, including State Farm and New York Life. Forsyth County also has a large business, Scientific Games, which develops games for nationwide lotteries. In addition, both county government and local school districts have many employees. The retail industry employees many people, but these are more seasonal-type jobs which draw younger as well as retirement age employees. Many residents commute 50 to 70 miles for work. Unemployment is less than four percent in the area.

Main Street Businesses—Businesses in "Old Dawsonville" are holding their own. Most of the new business development in Dawsonville has been along the Highway 400

¹ A geography's income level is determined by comparing the 2000 median family income (MFI) for the geography with the applicable 2000 MFI for the MSA in which it is located. According to the U.S. Census, the Atlanta MSA 2000 MFI was \$58,537. Low-income is defined as less than 50 percent of that MFI, moderate-income is defined as 50 to less than 80 percent, middle-income as 80 to less than 120 percent, and upper-income as 120 percent and over.

corridor. Fifteen years ago, the only business at the intersection of Highways 400 and 53 was a convenience store (the bank is now adjacent to this convenience store).

Availability of affordable housing, single and multi-family housing—Land prices are increasing so significantly that most people cannot afford a single family dwelling. Instead, many residents live in town homes. Apartment complexes are rare because of the high land values. Developers cannot obtain a high enough return on their investment to cover the cost of the land and construction materials needed for an apartment complex.

The average value of homes in Dawson County is in the low \$200,000's and in Forsyth County about \$278,000. In the lake areas (along the eastern edge of the assessment area), \$400,000 homes are reportedly being torn down and replaced with \$1,000,000 homes. Bare lake lots are selling for an average of \$250,000 to \$300,000. Some lake lots are selling for as high as \$500,000 to \$600,000.

The Georgia Department of Labor reports that the Georgia Mountains Region² unemployment rate in February 2005 was 4.3 percent. This compares with the state average of 5.3 percent.

Many other financial institutions have offices in the bank's assessment area. The bank competes for loans with these institutions and loan production offices. A member of the community contacted during the evaluation stated that local banks are very supportive of new businesses.

Table 1 displays selected demographic data of the assessment area.

| Table 1—Demographic Information | Assessment Area |
|--|------------------------|
| Population | 114,406 |
| Number Of Households | 2,923 |
| Percent Households Below Poverty | 6.0% |
| Percent Of Owner-Occupied Housing | 81.0% |
| Percent Of Renter-Occupied Housing | 12.0% |
| Median Housing Value | \$169,848 |
| Median Gross Rent | \$703 |

Source: 2000 U.S. Census

² The region is a 13 county region that includes the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Five criteria are used in evaluating a small bank's effectiveness in meeting the financing needs of consumers, agricultural borrowers, and commercial entities within the assessment area. Four of the criteria relate to lending performance, and one addresses responsiveness to CRA-related complaints. The findings for each criterion are evaluated and result in an overall rating for Community Reinvestment Act performance. Furthermore, a bank's compliance with anti-discrimination laws and regulations is considered when evaluating a bank's performance. Finally, a bank's participation in community development related investments and services can also positively impact an institution's performance. Comments supporting the conclusions for each criterion are detailed below and on the following pages.

LOAN-TO-DEPOSIT RATIO

The bank's average net loan-to-deposit ratio since the bank opened demonstrates a good willingness to lend. The bank's average net loan-to-deposit ratio is based on 7 quarter-ends since the bank opened.

Four other institutions could be identified that are somewhat similar to the bank with respect to communities served, asset size, branching, and loan products. The average net loan-to-deposit ratios for the last 7 quarter-ends for Mountain State Bank and the similarly situated institutions are shown in Table 2.

| Table 2 - Total Assets and Average Net Loan-to-Deposit Ratios for the Subject Bank and Similarly Situated Institutions | | |
|---|---|--|
| Bank City, State | Total Assets (December 31, 2004) | Average Net Loan-to-Deposit Ratio (June 30, 2003 – December 31, 2004) |
| First National Bank of Forsyth County Cumming, Georgia | \$65,665 | 89% |
| The Citizens Bank of Forsyth County Cumming, Georgia | \$135,570 | 78% |
| Chestatee State Bank Dawsonville, Georgia | \$250,575 | 92% |
| Mountain State Bank Dawsonville, Georgia | \$81,040 | 84% |
| The National Bank of Gainesville Gainesville, Georgia | \$48,003 | 86% |

Source: call reports; dollars in 000s; institutions listed in alphabetical order by city

The bank's average net loan-to-deposit ratio since the bank opened is reasonable given the bank's size, financial condition, and assessment area credit needs.

LENDING IN THE ASSESSMENT AREA

The bank is helping to meet the credit needs of its assessment area by making a majority of its loans in the assessment area.

To determine the bank's performance under this criterion, commercial loans were reviewed. Commercial lending included loans classified as commercial on the bank's call report as well as construction loans to developers or builders. These loans were chosen since they represent over 80 percent of the bank's lending and based on discussions with management. A sample of loans was selected from loans extended in 2004. The sample consisted of 39 loans totaling approximately \$15,730,000 chosen from a universe of 297 loans totaling approximately \$101,562,000.

While no other loan category was considered significant, the bank reports residential real estate lending in compliance with the Home Mortgage Disclosure Act (HMDA). HMDA data is collected by any bank with an office in an MSA, allowing for comparative analysis in measuring a bank's residential real estate lending performance. Since Mountain State Bank's HMDA-reportable loans were few,³ a meaningful analysis is not possible. The HMDA loans will not be displayed in tables or discussed in the text of this Performance Evaluation. Nothing was noted in the bank's HMDA data suggesting any negative conclusion for CRA.

Table 3 shows that the bank is making a majority of its commercial loans in the assessment area when measured by number or dollar.

| <i>Table 3 – Lending in the Assessment Area (AA)</i> | | | | | | |
|--|------------------------|---------------------|--------------------------------|-------------------------------|----------------------------|--------------------------------|
| Loan Type | Number Reviewed | Number in AA | Percent by Number in AA | Dollar Volume Reviewed | Dollar Volume in AA | Percent by Dollar in AA |
| Commercial | 39 | 29 | 74% | \$15,730 | \$12,498 | 79% |

Source: loan trial balance (dollars in 000s)

The analysis presented in Table 3 demonstrates an acceptable performance given the bank's size and assessment area credit needs, and it demonstrates the bank's willingness to reinvest deposits back into the assessment area through loans.

³ The bank was not required to report in 2003, the year it began business. In 2004, only 15 applications were recorded for HMDA.

BORROWER PROFILE

The bank is adequately serving businesses of different sizes, including smaller operations.

The 29 loans in the sample that were located within the assessment area were further analyzed for this performance factor as shown in Table 4. Gross revenue was used to measure business size. The bank's lending was compared to the distribution of businesses in the assessment area as reported by D&B Corporation.

| <i>Table 4 – Lending Distribution Based on Revenue Size of Business Operation</i> | | | | |
|---|---------------------|-----------------------|-------------------------|-------------------------|
| Gross Annual Revenue | \$0 to \$250 | \$250 to \$500 | \$500 to \$1,000 | \$1,000 and over |
| <i>Percentage of Businesses by Gross Revenues*</i> | 70% | 13% | 6% | 11% |
| Number of Loans | 13 | 3 | 5 | 8 |
| Percentage by Number | 45% | 10% | 17% | 28% |
| Dollar Amount of Loans | \$3,740 | \$295 | \$6,300 | \$2,163 |
| Percentage by Dollar | 30% | 2% | 51% | 17% |

Source: D&B Corporation and FDIC sample from loan trial balance (dollars in 000s)

Table 4 demonstrates that the bank is lending to all sizes of businesses. The bank's lending to businesses with gross revenues less than \$250,000 is less than area demographics suggest it should be. Included in the sample were several businesses with no previous revenue, proving the bank is willing to help new businesses. This demonstrates that the bank is adequately serving the credit needs of businesses of various sizes, including smaller operations. Based on the information available, the bank's performance appears reasonable.

GEOGRAPHIC DISTRIBUTION OF LOANS

None of the CTs in the bank's assessment area are low- or moderate-income; therefore, this performance criterion was not evaluated.

RESPONSE TO CRA-RELATED COMPLAINTS

The bank has not received any CRA-related complaints since the last evaluation; therefore, this performance criterion was not evaluated.

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.