



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

July 9, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Mountain National Bank
Charter Number 23631**

**300 East Main Street
Sevierville, TN 37862**

**Comptroller of the Currency
Nashville Field Office
5200 Maryland Way, Suite 104
Brentwood, TN 37027**

NOTE: This document is an evaluation of this 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. 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.

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

Mountain National Bank's (MNB) performance under the Community Reinvestment Act is considered satisfactory given the bank's size, financial condition, and the credit needs in its assessment area (AA). Our evaluation covers the period from August 8, 2000, the date of the last exam through July 9, 2005, although we focused on lending activity from January 1, 2003 through July 9, 2005. In determining the overall conclusion, more weight was placed on MNB's lending distribution.

The primary factors supporting the bank's rating include:

- A strong loan-to-deposit ratio. The bank's average ratio since the last exam is 82.4% and exceeds the combined average of three similarly situated local banks.
- A significant majority of loans were made in the AA. Ninety percent by number and 88% by dollar amount of the loans we reviewed are within the bank's AA.
- A reasonable distribution of loans to borrowers of different income levels and businesses of difference sizes.

DESCRIPTION OF INSTITUTION

Mountain National Bank (MNB) is an intrastate community bank wholly owned by Mountain National Bancshares, Inc., a one-bank holding company. Both the bank and the holding company are located in Sevierville, Tennessee. As of March 31, 2005, the bank had \$304 million in total assets while the holding company had \$305 million. We evaluated the bank's performance using small bank examination procedures, as the bank's total assets had not exceeded \$250 million for the last two consecutive year-ends.

MNB has six offices all located within Sevier County, which is approximately 20 miles east of Knoxville, Tennessee. Sevierville serves as the county seat and is the largest city located in Sevier County. The bank has five automated teller machines (ATMs) located at branch office locations and seven cash only ATMs located in other areas of the county. MNB offers a broad range of banking services. Additional information on branches, products, and services can be found in the bank's CRA public file.

The bank's primary lending focus is on commercial and residential real estate lending. As of March 31, 2005, the bank's net loan portfolio totaled \$218 million and represented 71% of the average assets. Commercial real estate loans totaled \$77.7 million (35%), construction and land development \$64.6 million (29%), and residential real estate \$59 million (27%). Based on this loan distribution, we reviewed commercial/construction loans and loans reported by the bank under the Home Mortgage Disclosure Act during our lending analysis.

MNB opened for business on November 23, 1998 and has grown steadily since that time. There are no financial or legal impediments that would impair the bank's performance under the Community Reinvestment Act. The bank's CRA performance was last evaluated as of August 8, 2000 and was rated Satisfactory.

DESCRIPTION OF SEVIER COUNTY TENNESSEE

The bank's assessment area (AA) consists of all census tracts in Sevier County, TN and eleven tracts in Knox and Blount Counties. During 2003, all three of these counties were part of the Knoxville MSA. Due to changes in the boundaries of metropolitan statistical areas (MSA) in 2004, Sevier County became a non-MSA county. Both Knox and Blount Counties remained as part of the MSA. Although all of the bank's branches are located in Sevier County, one branch borders and serves parts of both Knox and Blount Counties which is why a limited number of tracts in these counties are included in the bank's AA. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas.

Sevier County is a major tourist destination with the cities of Sevierville, Pigeon Forge, and Gatlinburg all experiencing growth and new development. During 2003, more than nine million people visited the Smokey Mountain National Park, which is located in this area, and two million people visited other local attractions. Sevier County is the second fastest growing county in Tennessee and provides the third or fourth highest tax revenue to the state. The county's economic base is 95% tourism and 5% manufacturing.

There is strong competition in the AA with three local community banks headquartered here, two regional banks with branches in the area, and one local savings and loan headquartered here.

We completed one community contact with a local economic development organization. This contact reported that loans for speculative buildings and land acquisition are needed to help attract new businesses to the area. He also stated that all the local banks were active in helping to meet this need.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our review of the bank's lending performance was based on the bank's 2003 and 2004 HMDA lending and a sample of 40 commercial loans. In forming our conclusions, more weight was given to the bank's commercial lending performance based on the bank's lending focus and the make-up of its loan portfolio as of March 31, 2005.

Loan-to-Deposit Ratio

MNB has a strong loan-to-deposit ratio and meets the standards for satisfactory performance. The quarterly average ratio for the eighteen quarters since the last CRA exam (October 1, 2000 through March 31, 2005) is 82.4%. This ratio has ranged from a low of 71.3% as of December 31, 2001 to a high of 91.1% as of March 31, 2004. The bank's loan-to-deposit ratio has fluctuated within this range, but the average is still appreciably higher than the combined

average (74.3%) of three similarly situated local banks during the same period. However, two of the three comparable institutions have standalone quarterly average loan-to-deposit ratios near or above MNB's average of 82.4%.

Lending in Assessment Area

MNB extended a significant majority of the total loans reviewed, by both number and dollar in the AA. Therefore, MNB exceeds the standards for satisfactory performance. More than 85% by both number and dollar of HMDA and commercial loans were extended within the AA. On a combined basis, 90% of the loans reviewed by number and 88% by dollar were within the AA.

Table 1 - Lending in Sevier County, TN										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
HMDA	214	89%	27	11%	241	\$50,537	85%	\$8,621	15%	\$59,158
Commercial	38	95%	2	5%	40	\$21,372	95%	\$1,050	5%	\$22,422
Totals	252	90%	29	10%	281	\$71,909	88%	\$9,670	12%	\$81,580

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

We reviewed HMDA loans separately for years 2003 and 2004. The bank's entire AA was part of the Knoxville MSA in 2003 so the median family income used to determine low, moderate, middle, and upper income classifications was the Knoxville MSA. In 2004, Sevier County became a non-MSA county while the remainder of the bank's census tracts in the AA were included in the Knoxville MSA. The table for 2004 shows only the bank's lending in Sevier County and uses the statewide non-metropolitan median family income to determine low, moderate, middle, and upper income classifications. MNB made no home mortgage loans in the Knox and Blount County census tracts in 2004.

MNB also made very few home improvement loans in either year; therefore, performance in this loan type was given limited weight in the lending distribution conclusion. The bank's performance in lending to businesses of different sizes was compared to the demographic information for Sevier County as all of the loans in the sample were within the county.

MNB's lending to borrowers of different income levels and to businesses of different sizes meets the standards for satisfactory performance.

The bank's lending to businesses with revenues of less than \$1 million was excellent. The percentage of the bank's loans by number exceeded the percentage of small businesses in the AA and was near to the demographic comparator by dollar. (See Table 2A) As noted earlier in this evaluation, the bank's performance in commercial lending received the most weight in determining the overall conclusion for this performance criterion.

Our review of HMDA lending showed the bank's lending to borrowers of different income

levels was weak. In 2003, home purchase lending performance was poor with a limited number of loans made to either low- or moderate-income borrowers. Refinance lending was stronger in that year, with the bank's percentage of lending to low-income borrowers near to the percentage of low-income families in the AA and below the demographic comparator for lending to moderate-income borrowers. (See Table 2B) In 2004, the bank's performance was also poor with no home mortgage loans made to moderate-income borrowers and a very limited number to low-income borrowers. The bank's performance in making refinance loans declined in 2004 with the bank making no refinance loans to low-income borrowers and only a limited number to moderate-income borrowers. (See Table 2C) A mitigating factor that affects the bank's ability to lend, particularly to low-income borrowers in their AA, is the level of poverty in the region. In the Knoxville MSA, 15.7% of the households are below the poverty level and in Sevier County 16.7% are below the poverty level. At this level of poverty, it is difficult for low-income individuals to buy a home so the opportunities for the bank to lend to this segment of the community are somewhat limited. The bank also noted that the availability of affordable housing may be limited in this area due to the high cost of land.

The bank offers several home loan programs geared specifically to low- and moderate-income individuals but these loans are not reported on the bank's HMDA-LAR. These program loans are underwritten using investor parameters and sold into the secondary market. While not specifically reviewed, the existence of these programs helps strengthen the bank's home mortgage lending performance. Since these loans are not reported on the bank's HMDA-LAR, they are not included in the tables below.

Table 2A - Borrower Distribution of Loans to Businesses/Farms in Sevier County, TN				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	66.4%	4.07%	29.6%	100%
% of Bank Loans in AA by #	77.5%	22.5%	*	100%
% of Bank Loans in AA by \$	62.6%	37.4%	*	100%

Source: *Loan sample, all revenues were known; Dunn and Bradstreet data.

Table 2B - Borrower Distribution of Residential Real Estate Loans in the Knoxville, TN MSA (2003)								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	17.62	4.76	18.83	2.38	24.02	7.14	39.52	85.71
Home Improvement	17.62	0.00	18.83	20.00	24.02	50.00	39.52	30.00
Refinance	17.62	16.28	18.83	9.30	24.02	4.65	39.52	69.77

Source: Data reported under HMDA; U.S. Census data.

Table 2C - Borrower Distribution of Residential Real Estate Loans in Sevier County, TN (2004)								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	14.89	2.50	17.43	0.00	24.68	12.50	43.00	85.00
Home Improvement	14.89	26.67	17.43	20.00	24.68	13.33	43.00	40.00
Refinance	14.89	0.00	17.43	7.14	24.68	14.29	43.00	78.57

Source: Data reported under HMDA; U.S. Census data.

Geographic Distribution of Loans

We did not perform an analysis of the bank’s geographic distribution of loans due to the limited number of low or moderate-income tracts in the AA, the bank’s limited presence in that market, and the limited lending opportunities in those tracts.

The bank’s assessment area contains only one low-income tract and two moderate-income tracts, all of which are located in Knox County where the bank has no branches. According to the 2000 census data, the low-income tract has only 750 units of owner-occupied housing and 272 businesses which means opportunities to make either home mortgage or business loans are very limited. While there are more opportunities in the two moderate-income tracts, there is strong competition from local and regional banks for all types of loans.

Responses to Complaints

There have been no consumer complaints relevant to the bank’s performance under the Community Reinvestment Act since the last examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.