



**Comptroller of the Currency
Administrator of National Banks**

Public Disclosure

May 5, 1997

**Community Reinvestment Act
Performance Evaluation**

**Citizens National Bank
Charter #16076**

**P. O. Box 6410
Sevierville, Tennessee**

Comptroller of the Currency

**5200 Maryland Way, Suite 104
Brentwood, Tennessee 37027**

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.

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 CRA performance of **Citizens National Bank, Sevierville, Tennessee** prepared by **Office of Comptroller of the Currency**, the institution's supervisory agency, as of **May 5, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

INSTITUTION'S CRA RATING: This institution is rated **"Outstanding"**.

- o The distribution of credit throughout the assessment area reflects reasonable dispersion among borrowers of different income levels and excellent penetration of businesses of different sizes.
- o The average loan-to-deposit ratio is more than reasonable and exceeds standard.
- o A substantial majority of loans and other lending activities are in the bank's assessment area.
- o We found no evidence of discrimination or other illegal credit practices.
- o The bank put substantial money and time into the development and construction loan funding of the Riverpark Apartments in Sevierville, Tennessee.

The following table indicates the performance level of **Citizens National Bank** with respect to each of the five performance criteria.

Small Institution Assessment Criteria	Citizens National Bank Performance Levels		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-deposit ratio	X		
Lending in assessment area	X		
Lending to borrowers of different incomes and to businesses of different sizes	X		
Geographic distribution of loans	X		
Response to complaints	No complaints were received from the prior examination.		

DESCRIPTION OF INSTITUTION

Citizens National Bank (CNB) had total assets of \$244 million as of March 31, 1997. CNB is wholly-owned by CNB Bancshares, Inc., a one bank-holding company. As of March 31, 1997, loans comprised \$175 million, or 72%, of the bank's total assets. Of this amount, commercial and commercial real estate loans totaled \$115 million (66%), residential real estate loans totaled \$52 million (30%), and instalment loans totaled \$8 million (4%).

CNB's main office is located in Sevierville. In addition to the main office, there are six branches located within Sevier County. The Seymour Branch serves the eastern portion of nearby Knox County. Sevierville is located approximately 40 miles southeast of Knoxville, Tennessee and straddles the western entrance to Pigeon Forge/Gatlinburg/The Great Smoky Mountains National

Park. Tourism is the major industry and dominates the local economy. The area is home to Dollywood Theme Park, numerous tourist attractions (includes a growing live county music theater venue), and an abundance of outlet malls.

The competitive environment is intense. At December 31, 1996, CNB competed with three, local community banks and branches of two regional banks. CNB was the largest institution. Its total assets of \$244 million exceeded that of its nearest competitor by \$9 million. The remaining two competitors reported total assets of \$195 and \$210 million. There was no comparable information available on the two regional bank branches. CNB offers a full range of products including business, consumer and mortgage loans. Also, the bank has free standing Automatic Teller Machines (ATM) at each location. Historically, the bank has been supportive of community credit needs.

There are no concerns that would effect CNB's ability to meet various credit needs based on their financial condition and size. The last Community Reinvestment Act (CRA) examination was dated May 12, 1994.

DESCRIPTION OF SEVIER COUNTY

CNB has identified their assessment area as Sevier County which includes all census tracts number 801 through 811 and small portions of two other counties. These other areas include the contiguous census tracts 55 and 56.02 for adjoining Knox County and census tract 113 for Blount County. Sevier County census tracts 804, 807, and 810 are identified as low-to-moderate tracts. The population of the assessment area is 66,174 and the median household income is \$23,409. The assessment area does not arbitrarily exclude any low-or moderate-income areas and meets the legal requirements of the regulation. The assessment area is part of the Knoxville Metropolitan Statistical Area (MSA).

Sevier County is the fastest growing county in East Tennessee. During 1996, average unemployment was 8.3% which exceeded both the state and national average of 5.2% and 5.4%, respectively. However, bank management indicates there are currently many jobs available in the local service industries. Salaries for these jobs are typically at the lower end of the wage scale.

Characteristics of the demographic data by income level of tracts in the assessment area are:

Families*	Census Tract Count	Low Income Families	Moderate Income Families	Middle Income Families	Upper Income Families	Total Families
Low Income Tracts	0	0	0	0	0	0
Moderate Income Tracts	3	1,136	952	933	848	3,869
Middle Income Tracts	11	3,262	3,379	4,016	5,045	15,703
Upper Income Tracts	0	0	0	0	0	0
Total	14	4,398	4,331	4,949	5,893	19,572

* Based on updated MSA's Median Family Income of \$37,400.

Two local community leaders were contacted by other regulatory agencies in November 1996 and December 1995 to identify community credit needs. Leaders contacted included a county government representative and director of a business development organization. Contacts agreed that general credit needs of the business community are being met. One contact noted an absence of affordable housing for low-to-moderate income individuals. It was also noted that the high cost of living within the area excluded many low-to moderate-income workers from residing within the county.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-To-Deposit Analysis

- ▶ **The loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs. .**

The bank's loan-to-deposit ratio averaged 78% for the five quarters since the previous examination dated September 30, 1995. The ratio was 79% on December 31, 1995, declined to 74% as of September 30, 1996, and increased to 80% as of March 31, 1997. There was no information available on the bank's competitors as of March 31, 1997. However, as of December 31, 1996, the three local independent banks loan-to-deposit ratios were 59%, 74%, and 79%.

Residential real estate mortgages originated by the bank but sold in the secondary market averaged \$1.5 million per quarter during 1996. This increased to \$1.9 million during the first quarter of 1997. Had these loans been retained by the bank, the average loan-to-deposit ratio for the five quarters would have been 79%. Also not included in the bank's loan-to deposit ratio is approximately \$50 million in loans originated by the bank but participated (sold) to other financial institutions. Had these loans been retained by the bank, the average loan-to-deposit ratio would exceed 100%.

Comparison of Credit Extended Inside and Outside the Bank's Assessment Area

- ▶ **A substantial majority of loans and other lending related activities are in the bank's assessment area.**

The following table illustrates the bank's lending activities within its assessment area. When taken in total for the periods identified, CNB loaned 94% of the number and 89% of the dollar amount of its loans within its assessment area. A substantial majority of loans and other lending related activities were in CNB's assessment area during 1996.

Type of Loan	1996 Originations Inside		Outside		1995 Originations Inside		Outside	
	\$ in 000's	% of Total	\$ in 000's	% Total	\$ in 000's	% Total	\$ in 000's	% Total
Consumer	# 628 \$ 4,832 94	95	# 31 \$ 306	5 6	Not Available for Prior Period		Not Available for Prior Period	
Mortgage*	# 194 \$ 13,934	95 95	# 10 5 \$ 716 5		# 250 90 \$ 17,851 91		# 28 10 \$ 1,680 9	
Business	# 266 \$ 24,484	92 86	# 24 8 \$ 4,142 14		Not Available for Prior Period		Not Available for Prior Period	
Farm**	N/A**		N/A**		N/A**		N/A**	

* Loans originated by CNB but later sold in the secondary market are not included in these percentages.

** Loans to farms represent less than 1% of the total loan portfolio.

- ▶ **Penetration of moderate income census tracts is good.**

In general, loans are equitably distributed throughout the assessment area. Limited penetration was noted in several middle income census tracts. No loans of any kind were made in census tracts #55 and #56.02 (Knox County) during 1996. The Seymour Branch services loan demand in these two census tracts as well as census tracts #113 and #803. This office's deposits (\$11 million) were purchased from a regional holding company in 1992. However, CNB declined to purchase the existing \$1 million dollar loan portfolio. The former branch manager who was also an employee of

the regional bank holding company retired at year end 1996. As of May 30, 1997, the new branch manager had generated 29 loans totaling \$483,000 in census tract #55, #113, and #803. To date, no loans have been generated in census tract #56.02, however. Intense competition by branches of other

community banks and several regional bank holding companies has been difficult to overcome per management. Management committed to correcting this situation and is optimistic that the new branch manager will generate loan growth within the four census tracts which surround the Seymour Branch. Penetration has improved since the beginning of the year.

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

- ▶ **The distribution of credit reflects reasonable penetration among individuals of different income levels (including low- and moderate-income) and excellent penetration of businesses of different sizes.**

Lending to Small Businesses Within the Assessment Area

Type	1996 Small Loan Originations (Annual Revenues \$1 million or less) \$ in 000's		1996 Large Loan Originations (Annual Revenues more than \$1 million) \$ in 000's	
	Total	% of	Total	% of
Business	# 388 \$ 22,289	88 57	# 42 12 \$ 16,714 43	
Farm	N/A*		N/A*	

*Farm loans represent less than 1% of the total loan portfolio.

We tested income information provided by businesses during our examination. CNB's commercial and commercial real estate loan volume to small businesses is very strong with 88% of the number and 57% of the dollars generated during 1996. Information for 1995 was not available for comparison. Farm loans are insignificant and not considered in this comparison.

Given the nature of the local economy (tourism) and demographics of the assessment area, the bank's overall efforts to lend to borrower's of different income and to businesses of different sizes is excellent. The economy continues to grow and new businesses starts are high. Small business lending supports a local community need.

Mortgage Lending Activity

1996 Home Mortgage Disclosure Act Loan Activity Report (HMDA-LAR)

1995 Home Mortgage Disclosure Act Loan Activity Report (HMDA-LAR)

Income Levels*	\$ in 000's	% of Total	Income Levels	\$ in 000's	% of Total
Low Income (<49%)	# 10 \$ 262	5 2	Low Income (<49%)	# 17 \$ 432	6 2
Moderate Income (50%-79%)	# 37 \$ 1,515	18 10	Moderate Income (50%-79%)	# 43 \$ 1,710	16 9
Middle Income (80%-119%)	# 61 \$ 3,722	30 25	Middle Income (80%-119%)	# 65 \$ 3,411	23 17
Upper Income (120%)	# 96 \$ 9,151	47 63	Upper Income (120%)	# 153 \$13,978	55 72
Total	# 204 \$14,650	100	Total	# 278 \$19,531	100

A sample of the HMDA-LAR loans was taken and information provided by applicants was verified to the report. Of the mortgage loans generated during 1996, 23% of the number and 12% of the dollars were to low- and moderate- income individuals. This is an overall increase over 1995 originations to low- and moderate income individuals. Overall, these percentages are considered reasonable given the nature of mortgage loans. Applicants tend to be those individuals with higher income.

Consumer Lending Activity

Income*	1996 Consumer Loan Originations		% of Families Within Assessment Area
	\$ in 000's Total	% of	
Low Income (<49%)	# 147 \$ 692	17 6	23
Moderate Income (50%-79%)	# 215 \$ 1,928	25 17	22
Middle Income (80%-119%)	# 184 \$ 2,271	21 20	25
Upper Income (120%)	# 330 \$ 6,389	37 57	30
Total	# 876 \$ 11,280	100	100

*Calculations based on updated MSA's Median Family Income of \$37,400.

We verified bank information on a random sample of consumer loans generated during 1996 to low- and moderate- income individuals. Loans funded during the period aggregated 42% by number and 23% by dollar. This is reasonable given the economy and demographics of the assessment area.

Response to Complaints

No CRA related credit complaints were received since the prior examination.

Institution's Record of Complying with Antidiscrimination Laws

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

The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations including the Equal Credit Opportunity Act and the Fair Housing Act. During our examination, we tested automobile purchase loans to determine if equally situated applicants had an equal chance of obtaining a loan. This testing disclosed no evidence of disparate treatment on a prohibited basis.

Community Development, Investments and Other Services

During the third quarter of 1996, CNB began working with a local Community Development Corporation (CDC) to address the identified community need of affordable housing. Initially, this

project, known as the Riverpark Apartment Complex, required a substantial investment in time and bank resources. The compliance officer devoted about one half of her time over a six month period to assist the CDC in developing their proposal, filing all necessary forms, and beginning construction of the project. CNB made an equity investment of \$1.2 million to purchase a 99% limited partnership interest in the apartment complex. Repayment is long term and will come through tax credits and rental income.

At the time of construction, the bank funded 100% of a \$2 million, 47 unit apartment construction loan. Funding was obtained through the Federal Home Loan Bank, Cincinnati, Ohio under its Affordable Housing Program. At the time, this was the largest loan subsidy granted to a Tennessee institution and, according to management, this project is the first of its kind in Tennessee.