



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 11, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Mountain National Bank
Charter Number: 23631

300 East Main Street
Sevierville, TN 37862-0000

Office of the Comptroller of the Currency

ADC-NASHVILLE Field Office
The Parklane Building 5200 Maryland Way, Suite 104
Brentwood, TN. 37027-5018

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."

The Lending Test is rated: "Satisfactory."

The Community Development Test is rated: "Outstanding."

Mountain National Bank (MNB) has a satisfactory record of meeting community credit needs. This is based on the following:

- The bank's loan-to-deposit ratio is reasonable and averaged 81% during the evaluation period. MNB's loan-to-deposit ratio ranged from a low of 73% March 2009 to a high of 92% September 2008.
- A substantial majority of MNB loans are within the bank's Assessment Area. Approximately 87% of the number and 86% of the dollar volume of loans were to borrowers within the Assessment Area.
- MNB's distribution of loans to borrowers of different income (including low-and moderate-income) levels and businesses of different sizes is reasonable. Rural Development (RD) loans generated to low-and moderate-income individuals are also taken into consideration. Consideration was also given to the decline in the residential real estate market which negatively impacted loan demand and underwriting opportunities.
- The geographic distribution of loans reflects reasonable dispersion although the number and dollar amount of loans are below area demographics. Consideration was given to the decline in the residential real estate market which negatively impacted loan demand and underwriting opportunities.
- MNB's community development performance demonstrates excellent responsiveness to the community development needs in its Assessment Area (AA).

Scope of Examination

This Performance Evaluation is a full scope review and covers the period August 25, 2008 through October 10, 2011. Results were consolidated for comparative and analysis purposes and evaluated using 2000 Census demographic information. MNB has no bank owned affiliates. A data integrity review was conducted prior to this evaluation. The review concluded that the bank's internal data was reliable. We also reviewed the bank's community development loans and community development investments and services to ensure they met the definition of community development.

Conclusions regarding the Lending Test are based on residential loans including home purchases, home improvements, and home refinances. MNB is a Home Mortgage Disclosure Act (HMDA) reporter. All residential loans considered in the Lending Test originated from January 1, 2009 through September 30, 2011 were considered in our

analysis. A sample of small business loans originated during the same time period was also considered in the Lending Test.

Description of Institution

MNB is an independent, intrastate bank which opened for business in 1998. Effective June 2003, the bank became wholly-owned by Mountain National Bancshares, Inc., a one-bank holding company. Both the holding company and bank are located in Sevierville, Tennessee. Sevierville is approximately 20 miles east of Knoxville, Tennessee. There have not been any major changes in the bank's corporate structure, including merger or acquisition activities, since the last Community Reinvestment Act (CRA) examination dated August 25, 2008, when the bank received a "Satisfactory" rating. Due to regulatory concerns, in June 2009 the directors of MNB signed a Formal Agreement (FA) with the Office of Comptroller of the Currency (OCC), the bank's primary regulatory agency. Among other requirements, the FA requires the bank to implement a written program to reduce the bank's level of credit risk and strengthen loan workout and collection processes. The program imposes restrictions on the renewal of certain loans, requires stricter underwriting criteria on new loan requests, and requires the bank to identify, monitor and reduce certain credit concentrations. The FA may impose legal and financial impediments to the bank's ability to generate loan production and meet the credit needs of its Assessment Area (AA) including retail and community development loans, qualified investments, and community development services needs. The bank offers a full-range of loan and deposit services. MNB's primary business focus is commercial and industrial loans, including commercial real estate loans, and mortgage loans. As of June 30, 2011, the bank had total assets and loans of \$522 and \$345 million, respectively. Gross loans comprised 66% of total assets. Total assets for the holding company were \$521 million as of June 30, 2011. The following table reflects the composition of MNB's loan portfolio based on June 30, 2011 Report of Condition.

	Product Category	
	Dollar (000's)	Percent
Construction & Land Development	69,513	20.17
Commercial & Industrial Including Commercial Real Estate	155,946	45.25
Residential Mortgage Loans	114,118	33.11
Individuals	5,046	1.47
Miscellaneous	0	0
TOTAL	344,623	100.00

Source: June 30, 2011 Report of Condition.

MNB provides a wide range of traditional deposit and loan products. Branches are generally located in areas that make them accessible to bank customers. Nine offices are located in Sevier County and three offices are located in Blount County. Lobby hours and drive-up hours are set to meet customer needs. Eleven of the twelve offices

have ATM's that disburse cash and take deposits. One office has an ATM that disburses cash only. Additionally, there are seven free-standing non-deposit taking ATMs that disburse cash only.

Distribution of Bank Offices and ATMs by Census Tract						
Census Tract Income Level	Tracts		Full-Service Branches		Automated Teller Machines *	
	#	%	#	%	#	%
Low	0	0.00	0	0.00	0	0.00
Moderate	3	10.35	0	0.00	0	0.00
Middle	23	79.30	11	91.67	18	94.74
Upper	3	10.35	1	8.33	1	5.26
NA	0	0	0	0	0	0.00
TOTAL	29	100.00%	12	100.00%	19	100.00%

There are 12 branch offices with contiguous ATMs. 11 of the ATM machines at the branch offices accept deposits and dispense cash. One ATM does not accept deposits. There are 7 free-standing ATMs which dispense cash only.

Customers may also access their accounts through telephone banking or by the Internet (www.mountainnationalbank.com). Internet and telephone banking include transfers between MNB accounts, review of bank balances and transactions, access loan account information and bill-paying capability for the Internet banking product. The Bank also offers MasterCard debit cards that can be used to access customer accounts at point of sale (POS) or ATM locations.

MNB's business strategy includes continued marketing of commercial credit to small businesses through its products, staff, and locations. The bank is actively involved in all types of commercial real estate development and construction. Small Business Administration (SBA) loans are offered for new business startups as well as to expand existing businesses. MNB also supports the purchase and long-term financing of residential home loans through its conventional secondary market home mortgage, Tennessee Housing Development Association (THDA), and rural housing guaranteed home mortgage programs. The bank actively participates in the Rural Development home mortgage program that specifically targets low-and moderate-income individuals.

The economic downturn has impacted the bank's AAs and resulted in manufacturing plant closures and layoffs as local industries adjust to declining sales and lower demand. Business and retail loan demand have declined significantly as borrowers defer business expansion, development, residential and retail purchases. The housing downturn also significantly impacted employment in the Tennessee non-MSA (Sevier County) and Knoxville MSA (Blount County) AAs. Weaknesses in the housing market have severely curtailed independent contractors and other trades livelihood.

Description of Assessment Area(S)

The bank's AA consists of all census tracts in Sevier and Blount Counties. Sevier County is in a non-metropolitan statistical area (MSA). Blount County, however, is part of the Knoxville MSA. MNB has nine offices including its main office located in Sevier County. There are three branch offices located in Blount County. Since the previous Performance Evaluation, an office was opened in Sevier County and another in Blount County. The Sevier County office was opened in June 2009 and the Blount County office was opened in January 2009. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas.

MNB's competition consists of 19 other financial institutions. Nine are independent banks headquartered in MNB's AA or nearby. Other competition consists of branches from large Regional or National banks.

At August 31, 2011, the unemployment rates for the State of Tennessee and the United States were 9.6% and 9.1%, respectively.

Demographic Information for Assessment Area						
Sevier County (#155), Tennessee						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	11	0.00	0.00	81.82	18.18	0
Population by Geography	71,170	0.00	0.00	82.38	17.62	0
Owner-Occupied Housing by Geography	37,252	0.00	0.00	81.41	18.59	0
Businesses by Geography	7,853	0.00	0.00	87.60	12.40	0
Farms by Geography	144	0.00	0.00	82.64	17.36	0
Family Distribution by Income Level	20,952	14.89	17.43	24.68	43.00	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	6,770	46.07	53.93	-	-	0
Median Family Income (MFI)	= \$40,171	Median Housing Value		= \$106,560		
HUD Adjusted Median Family Income (MFI) for 2010	= \$46,400	Unemployment Rates		= 8.90%		
Households Below the Poverty Level	= 11.75%					

(*) The NA category consists of geographies that have not been assigned an income classification.
 Source: 2000 U.S. Census and 2007 HUD updated MFI. Unemployment rate is as of August 2011.

Sevier County is one of the fastest-growing counties in Tennessee. According to the 2010 census information, the population was 89,889 which is an increase of 26.3% since the 2000 census. The county seat is Sevierville, which is the largest city in the county. Other cities include Pigeon Forge and Gatlinburg. Also known as the

"Gateway" to the Great Smoky Mountains National Park, Sevier County is located off the major East-West connector Interstate I-40. From its beginnings as a traditional subsistence-based farming society, Sevier County has grown into a major tourist destination. Dedicated in 1940, the [Great Smoky Mountains National Park](#) dominates the southern part of the county. In 2008, 2009, and 2010 the park had 9.1, 9.5, and 9.5 million visitors, respectively. This traffic has had a positive impact on motels, restaurants, shopping, theme parks, theaters, and festivals in the cities of Sevierville, Pigeon Forge, and Gatlinburg. Tourism had also caused tremendous interest and growth in the commercial cabin rental industry. Seasonal tourism accounts for greater than 90% of the county's economic base. Overall, the county has experienced good economic and employment growth. The August 2011 unemployment rate of 8.9% was less than the State's 9.6% and US's 9.1%. Steady population growth coupled with a good tourism industry should continue to support the local economy. While the number of visitors to the Great Smokey Mountains National Park has been consistent over the last 3 years, there has been a noticeable decline in tourist dollars being spent. This decline is consistent with the economic downturn and impacts area jobs, business revenues, theme park and theater attendance, number of retail/discount store outlets, shopping volume, and tax revenues. There is a noticeable volume of vacant retail space as businesses scale back and, in many instances, close their doors and discontinue operation. The once robust cabin market has experienced significant market value and sales decline. Rental cabin foreclosures have risen significantly during this economic downturn.

We completed one community contact with a local economic development organization. While no specific credit needs were identified, the contact noted that area banks including MNB have provided funding for new businesses and projects coming to the area. It was additionally reported that local bank members including MNB personnel also serve on committees and in Board roles. Banks including MNB also provide \$3,000 annually to fund this organization.

Demographic Information for Assessment Area						
Blount County (#009), Tennessee						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	18	0.00	16.67	77.78	5.56	0
Population by Geography	105,823	0.00	7.56	85.32	7.13	0
Owner-Occupied Housing by Geography	47,059	0.00	5.91	87.09	6.99	0
Businesses by Geography	7,266	0.00	12.07	83.99	3.94	0
Farms by Geography	262	0.00	6.49	88.93	4.58	0
Family Distribution by Income Level	30,913	19.23	19.81	24.74	36.21	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	12,071	49.26	50.74	-	-	0
Median Family Income (MFI)	= \$45,244	Median Housing Value		= \$96,675		
HUD Adjusted Median Family Income (MFI) for 2007	= \$59,700	Unemployment Rates		= 7.8%		
Households Below the Poverty Level	= 10.88%					

(*) The NA category consists of geographies that have not been assigned an income classification.
 Source: 2000 U.S. Census and 2007 HUD updated MFI. Unemployment rate is as of August 2011.

Blount County is adjacent to Sevier County and bordered on the east by the Great Smoky Mountains National Park and on the west by the great chain of lakes created by the Tennessee Valley Authority. Maryville is bordered on the north by its twin city, Alcoa, a number of small suburbs to its east and west, and Townsend to its south. The county is part of the Knoxville, TN Metropolitan Statistical Area (MSA). The county seat is Maryville. Per 2010 census, the county’s population was 123,010. This represents a 16.2% increase over 2000 census numbers. For many years lumbering was the primary industrial trade in Blount County. Today, lumbering has been replaced with many varied occupational opportunities. Over 100 manufacturing plants can be found in Blount County. The principal employers for the residents of Blount County are DENSO Manufacturing TN, Inc. (one of the world’s most respected manufacturers of automotive components) 2,500 employees, Alcoa, Inc. (aluminum manufacturing and recycling) 1660 employees, and Clayton Homes (mobile home manufacturer) 1,373 employees. Blount County’s August 2011 unemployment rate of 7.8% was less than the State’s 9.6% and US’s 9.1%.

Conclusions with Respect to Performance Tests

LENDING TEST

The bank's performance under the Lending Test is rated "Satisfactory." Based on a full-scope review, the bank's performance in the AA is satisfactory.

Loan-to-Deposit Ratio

The quarterly average loan-to-deposit ratio for MNB is reasonable at 80.82% for the twelve quarters ending June 30, 2011. MNB's average loan-to-deposit ratio compared favorably to other competitor banks in the AA for the same period. Of the seven independent banks headquartered in the AA and two banks headquartered in adjoining Knox County, MNB had the sixth highest quarterly average loan-to-deposit ratio. SmartBank (Sevierville) had the highest at 91.58%, then Citizens National Bank (Sevierville) 89.07%, Foothills Bank & Trust (Maryville) 88.21%, Citizens Bank of Blount County (Maryville) 86.24%, Tennessee State Bank (Pigeon Forge) 81.80%, MNB (Sevierville) 80.82%, BankEast (Knoxville) 79.04%, Sevier County Bank (Sevierville) 71.66%, and Home Federal Bank of TN (Knoxville) 61.68%. Other competitors are banks headquartered elsewhere. These institutions had an average quarterly loan-to-deposit ratio ranging from a high of 88.44% (Highlands Union Bank, Abington, VA) to a low of 71.54% (First National Bank, Lenoir City, TN.) MNB's highest loan-to-deposit ratio was 92.39% as of September 2008 and the lowest was 72.93% as of March 2009. During the twelve quarter period ending June 30, 2011, the highest loan-to-deposit ratio for the seven independent banks headquartered in the AA and two banks headquartered in adjoining Knox County was Citizens National Bank (Sevierville) at 101.66% as of September 2008. Home Federal Bank of TN, (Knoxville) reported the lowest loan-to-deposit ratio for the period at 56.36% as of June 2011.

Loan-To-Deposit Ratios		
Institution	Total Assets in Millions (As of 06/30/11*)	Average Loan-to-Deposit Ratio(**)
<i>Sevier County Tennessee:</i>		
SmartBank, Sevierville, TN	\$302	91.58%
Citizens National Bank, Sevierville, TN	\$842	89.07%
Highlands Union Bank, Abington, VA	\$636	88.44%
Tennessee State Bank, Sevierville, TN	\$741	81.80%
Mountain National Bank, Sevierville, TN	\$522	80.82%
BankEast, Knoxville, TN	\$281	79.04%
Sevier County Bank, Sevierville, TN	\$346	71.66%
Home Federal Bank of TN, Knoxville, TN	\$2,031	61.68%
<i>Blount County Tennessee:</i>		
Foothills Bank & Trust, Maryville, TN	\$140	88.21%
Citizens Bank of Blount County, Maryville, TN	\$332	86.24%
American Patriots Bank, Greeneville, TN	\$96	85.42%
TNBANK, Oak Ridge, TN	\$173	83.73%
First National Bank, Lenoir City, TN	\$408	71.14%

* Asset sizes of institutions are in millions (000,000's)

**Source: Institution Reports of Condition for 12 quarter period from September 2008 through June 30, 2011.

As of June 30, 2010, nineteen financial institutions with 110 offices controlled \$4.039 billion in deposits within the AAs. MNB controlled the third largest market share at \$438 million, or 10.84%, of total deposits. Two community banks, Citizens National Bank and Tennessee State Bank, controlled \$577 million (14.28%) and \$563 million (13.94%), respectively of total deposits within the AAs. Other community banks include Sevier County Bank which controlled 7.76%, Citizens Bank of Blount County 6.01%, SmartBank 5.95%, Home Federal Bank 3.56%, Foothills Bank & Trust 2.49%, BankEast 2.27%, First National Bank 0.56%, American Patriots Bank 0.40%, TNBANK 0.37%, and Highlands Union Bank 0.16% of total deposits within the AAs. Additionally, there are 6 large holding company banks which control from a high of 8.99% to a low of 0.78% of total deposits within the AAs.

Lending in Assessment Area

A substantial majority of MNB's lending is in its AA. The number of residential and business loans inside the bank's AA was 86.97% and 82.93%, respectively. Similarly, the dollar amount of residential and business loans inside the bank's AA was 87.71% and 73.39%, respectively. Collectively, 86.64% and 86.22% of the number and dollar amount of residential and business loans were inside the bank's AA. Conclusions are based on all HMDA reportable loans and a sample of business loans originated during 2009, 2010, and through September 30, 2011.

**Table 1 - Lending in MNB AAs
Sevier County (#155)/Non MSA and Blount County (#009)/Part of Knoxville MSA
(#28940), Tennessee**

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	79	88.76	10	11.24	89	17,543	89.89	1,972	10.11	19,515
Home Improvement	80	88.89	10	11.11	90	1,855	94.88	100	5.12	1,955
Home Refinance	248	85.81	41	14.19	289	38,669	86.44	6,067	13.56	44,736
Total HMDA Residential Loans	407	86.97	61	13.03	468	58,067	87.71	8,139	12.29	66,206
Business Loans	34	82.93	7	17.07	41	5,633	73.39	2,042	26.61	7,675
Total	441	86.64	68	13.36	509	63,700	86.22	10,181	13.78	73,881

Source: All HMDA reportable residential loans originated during 2009, 2010, and through September 30, 2011 are included. Residential loans include home purchase, home improvement, and home refinances loans. Business loans represent a sample of loans which originated during 2009, 2010, and through September 30, 2011; 2000 U.S. Census Data.

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

MNB's record of lending to borrowers of different incomes and to businesses of different sizes is reasonable. Demographics show that low- and moderate-income families makeup 14.89% and 17.43%, respectively, of the percentage of total families in the bank's non-MSA (Sevier County) AA. Of the HMDA loans reported during 2009, 2010, and through September 30, 2011, 2.78%, 15.79%, and 4.70% of the number of home purchase, home improvement, and home refinance loans were to low-income families. The number of home purchase and refinance loans were significantly lower than the number of low-income families in the AA. However, at 15.79% home improvement loans exceeded the 14.89% of low-income families in the bank's AA. Of the HMDA loans reported during 2009, 2010, and through September 30, 2011, 4.17%, 17.11%, and 9.83% of the number of home purchase, home improvement, and home refinance loans were to moderate-income families. The number of home purchase and refinance loans was significantly lower than the number of moderate-income families in the AA. However, at 17.11% home improvement loans compare favorably to the 17.43% of moderate-income families in the bank's AA. Disregarding residential loan type, aggregate residential real estate loans to low-income families of 23.27% compares favorably to the 14.89% of low-income families in the bank's AA. Similarly, aggregate residential real estate loans to moderate-income families of 31.11% exceeded the 17.43% of moderate-income families in the bank's AA.

Table 2A - Borrower Distribution of Residential Real Estate Loans in MNB's Tennessee Non-MSA AA Sevier County (#155)								
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	14.89	2.78	17.43	4.17	24.68	8.33	43.00	84.72
Home Improvement	14.89	15.79	17.43	17.11	24.68	21.05	43.00	46.05
Refinance	14.89	4.70	17.43	9.83	24.68	10.68	43.00	74.79

Source: Data reported under 2009, 2010, and through September 30, 2011 HMDA; U.S. Census data.

Demographics show that low- and moderate-income families makeup 19.23% and 19.81%, respectively, of the percentage of low-income families in the bank's Knoxville MSA (Blount County) AA. Of the HMDA loans reported during 2009, 2010, and through September 30, 2011, 0.00%, 25.00%, and 7.14% of the number of home purchase, home improvement, and home refinance loans were to low-income families. At 0.00% and 7.14%, the number of home purchase and refinance loans were significantly lower than the number of low-income families in the AA of 19.23%. However, at 25.00% home improvement loans exceeded the 19.23% of low-income families in the bank's AA. Of the HMDA loans reported during 2009, 2010, and through September 30, 2011, 14.29%, 25.00%, and 21.43% of the number of home purchase, home improvement, and home refinance loans were to moderate-income families. At 14.29% and 21.43%, the number of home purchase and refinance loans were reasonable when compared to the number of moderate-income families in the AA at 19.81%. At 25.00%, home improvement loans exceeded the percentage of moderate-income families of 19.81% in the bank's AA. Disregarding residential loan type, aggregate residential real estate loans to moderate-income families of 63.72% significantly exceeds the 19.81% of moderate-income families in the bank's AA.

Table 2A - Borrower Distribution of Residential Real Estate Loans in MNB's Tennessee Knoxville MSA AA (#28940) Blount County								
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	19.23	0.00	19.81	14.29	24.74	0.00	36.21	85.71
Home Improvement	19.23	25.00	19.81	25.00	24.74	0.00	36.21	50.00
Refinance	19.23	7.14	19.81	21.43	24.74	0.00	36.21	71.43

Source: Data reported under 2009, 2010, and through September 30, 2011 HMDA; U.S. Census data.

MNB supports the purchase and long-term financing of residential home loans through the United States Department of Agriculture's (USDA) Rural Development (RD) home mortgage loan program. This government sponsored home ownership program is designed for low- and-moderate income borrowers. The program is intended for the purchase of modest homes and generally first-time home buyers. MNB underwrites RD loans to agency guidelines, receives a fee for its efforts, and the loan is funded by a third party in the secondary market. Since these loans are never funded by the bank, they are not reported on the bank's HMDA-LAR report and are not included in the tables below. Since the previous examination, MNB underwrote 26 RD loans aggregating \$3.2 million. The bank's records reflect that 22 of the loans totaling \$2.8 million were made to borrowers within the bank's AA. The other 4 loans totaling \$438M were to borrowers outside of the bank's AA. 84.62% of the number and 86.38% of the dollar of RD loans were to low- and moderate income families residing within the bank's AAs. 15.38% of the number and 13.62% of the dollar of RD loans were to low-and moderate-income families residing outside of the bank's AAs. These percentages closely mirror HMDA data over the same time period.

Additionally, conventional residential loans generated through the bank's secondary market department are not included on the bank's HMDA reports. An analysis of secondary conventional loans generated by the bank for 2009, 2010, and through September 30, 2011 revealed 151 loans were originated totaling \$19.8 million. Internal information provided by the bank reported that 51 of these loans totaling \$4.9 million were to low-and moderate-income families residing in Sevier County. Similarly, there were 10 loans totaling \$1.1 million to low-and moderate-income families residing in Blount County. The volume of secondary residential loan originations declined significantly during this time period. 2009 originations numbered 103, declined to 39 in 2010, and further declined to 9 in 2011. This decline reflects the residential real estate downturn in mortgage loan demand and financing.

Demographic data for the Sevier County Non-MSA AA shows 3,347 households, or 11.75% of all AA households, are below the poverty level. The median housing value in the Sevier County Non MSA AA is \$106,560. Demographic data for the Knoxville MSA AA shows 4,662 households, or 10.88% of all households, are below the poverty level. The median housing value in the Knoxville MSA AA is \$96,675. Opportunities to lend to low- and moderate-income individuals within the bank's two AA's is limited based on the number of below poverty level households and median housing values in each AA.

MNB's overall record of lending to businesses of different sizes is excellent. Business revenues within the non-MSA AA (Sevier County) reflect that 78.63% have annual sales less than \$1 million, 3.31% exceed \$1 million, and 18.06% of business sales are unavailable. At 100% of the number and dollar amount of loans sampled for Sevier County businesses, the bank's overall record is excellent. Business revenues within the MSA (Blount County) reflect that 81.15% have annual sales less than \$1 million, 3.66% exceed \$1 million, and 15.19% of business sales are unavailable. At 100% of the number and dollar amount of loans sampled for Blount County businesses, the bank's

overall record is excellent. Furthermore, the bank also does a good job in obtaining business revenue information on its business loans as reflected by the 0% of unavailable information in the Assessment Areas.

Table 2C - Borrower Distribution of Loans to Businesses in MNB's Tennessee Non-MSA AA of Sevier County/(#155)				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	78.63	3.31	18.06	100%
% of Bank Loans in AA by #	100.00	0.00	0.00	100%
% of Bank Loans in AA by \$	100.00	0.00	0.00	100%

Source: Small business loans generated during 2009, 2010, and through September 30, 2011; Dunn and Bradstreet data.

Table 2C - Borrower Distribution of Loans to Businesses in MNB's Tennessee Knoxville MSA AA (#28940) Blount County/(#009)				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	81.15	3.66	15.19	100%
% of Bank Loans in AA by #	100.00	0.00	0.00	100%
% of Bank Loans in AA by \$	100.00	0.00	0.00	100%

Source: Small business loans generated during 2009, 2010, and through September 30, 2011; Dunn and Bradstreet data.

Geographic Distribution of Loans

MNB's geographic distribution of loans to businesses and low- and moderate-income families is below area demographics.

As noted by the Demographic Information there are no low- and moderate-income census tracts in the Sevier County AA so a comparison is not meaningful. As noted by the Demographic Information for the Blount County AA table, there are no low-income census tracts and 3 moderate-income census tracts. The 3 moderate census tracts comprise 16.67% of the total 18 census tracts in Blount County. Demographics reflect that 5.91% of residential real estate loans and 12.07% of business are located in moderate-income census tracts. Based on HMDA data, there were no home purchase or home improvement loans made in moderate-income census tracts in Blount County during this assessment period. However, HMDA data reflected that refinance residential loans represented 7.14% of the number for the period.

Table 3A - Geographic Distribution of Residential Real Estate Loans in Knoxville MSA AA (#28940)/Blount County (#009)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	5.91	0.00	87.09	100.00	6.99	0.00
Home Improvement	0.00	0.00	5.91	0.00	87.09	100.00	6.99	0.00
Refinance	0.00	0.00	5.91	7.14	87.09	92.86	6.99	0.00

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

The business loan sample for Blount County reflected that 1.34% of the number of loans made were to businesses located in moderate-income census tracts in Blount County. This is significantly less than the percent of AA businesses located in moderate-income census tracts.

Table 3C - Geographic Distribution of Loans to Businesses in Knoxville MSA AA (#28940)/Blount County (#009)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Businesses	0.00	0.00	12.07	1.34	83.99	97.91	3.94	0.75

Source: Data collected by bank; D & B data

Responses to Complaints

There have been no consumer complaints relating to the bank’s Community Reinvestment Act performance during this evaluation period.

COMMUNITY DEVELOPMENT TEST

The bank’s performance under the Community Development Test is rated “Outstanding.” Based on a full-scope review, the bank’s performance is outstanding.

Number and Amount of Community Development Loans

MNB originated 58 community development loans and investments totaling \$20,186,000 during this evaluation period. As evidenced by the table below, 17 loans and 41 investments totaling \$12,604,000 and \$7,582,000, respectively, were for community development.

Community Development Lending and Investments in Tennessee AA			
Community Development Lending			
		#	\$ Amount (000's)
Originated CD Loans	AA	10	11,804
Unfunded Commitments*	N/A	1	800
Total CD Loans		17	12,604
Community Development Investments			
Qualified Investments	AA	5	7,313
Originated Grants/Donations	AA	36	268
Unfunded Commitments*	N/A	0	0
Total Qualified Investments		41	7,582
Total Community Development Lending and Investments	AA	58	20,186

Community Development Loan

Qualifying community development loans are loans that meet the definition of community development, as defined in the CRA regulation. During the evaluation period, MNB originated 17 community development loans aggregating \$12,604,000. Specific examples of loans qualifying community development organizations are described below.

Loans to Refinance and Construct Apartments for Rental to Low-and Moderate- Income Individuals

In 2009 MNB originated five loans aggregating \$3,104,112 to refinance and construct apartments for rental to low-and moderate-income individuals. Loans ranged from \$124 thousand to \$921 thousand. Apartment units ranged from 10 to 35 units. These apartments are rented to low- and moderate-income individuals. Monthly apartment rent is less than Tennessee Housing Development Agency (THDA) payment standard.

In 2010 MNB originated one loan aggregating \$327,996 to refinance a 6-unit apartment building for rental to low-and moderate-income individuals. Monthly apartment rent is equal to or under Tennessee Housing Development Agency (THDA) payment standard.

In 2011 MNB originated two loans aggregating \$569,495 to refinance apartment buildings which rent to low-and moderate-income individuals. There were 5 apartment units in one facility and 10 apartments units in the other. Monthly apartment rent is less than THDA payment standard.

Line of Credit to Construct and Sell Single Family Affordable Housing Units

In 2009 and 2010 MNB originated a \$800,000 line of credit to construct single family affordable housing units in Blount County. Homes are pre-sold prior to

construction and buyers are pre-approved by Federation of Appalachian Housing Enterprises, Inc. (FAHE) and THDA.

SBA CDC/504 Loan to Refinance a Local Motel

In 2010 MNB refinanced a \$7,002,000 SBA CDC/504 loan on a local motel which brought needed jobs to the AA. The CDC/504 loan program is a long-term financing tool, designed to encourage economic development within a community. The 504 Program accomplishes this by providing small businesses with long-term, fixed-rate financing to acquire major fixed assets for expansion or modernization. A Certified Development Company (CDC) is a private, nonprofit corporation which is set up to contribute to economic development within its community. CDCs work with SBA and private sector lenders to provide financing to small businesses, which accomplishes the goal of community economic development.

Number and Amount of Qualified Investments

Community Development Investments

Qualifying investments are investments, deposits, membership share, or grants that have as their purpose community development, as defined in the CRA regulation. During the evaluation period, MNB had 41 investments aggregating \$7,582,000. Specific examples of community development investments are described below:

Investment to Provide Financing for Nursing Home Facility

In 2010 MNB provided permanent financing of \$4,303,600 via a loan participation in a new 108 bed nursing home facility located in Chattanooga, TN. The nursing home is adjacent to the Siskin Hospital Campus in Chattanooga, TN. The St. Barnabas Nursing Home is a non-profit nursing home that offers affordable, quality health and retirement care to senior citizens from low-and moderate-income communities.

Purchase Katrina Investment Deposit (KIDs) Certificate

In 2009 and 2010 MNB purchased a Katrina Investment Deposit (KIDs) certificate from Liberty Bank and Trust Company in the amount of \$99,000. Liberty Bank issued disaster-related CDs to help finance the reconstruction of New Orleans and to enable its residents to rebuild their lives in the aftermath of Hurricane Katrina. The KIDs are normal CDs in every regard and are FDIC-insured up to \$100,000.

Investments in Federal National Mortgage Association Pools

The remaining investments are Federal National Mortgage Association (FNMA). In 2010 MNB purchased two pools of FNMA loans totaling \$1,531,224 and \$1,279,915, respectively. The pools of loans represent home mortgages in Knoxville, TN of low-and moderate-income individuals. Although out of MNB's assessment area, these qualify for community development investment.

Sevier Housing Authority Grant/Donation

In 2009 MNB approved a \$250,000 grant/donation to the Sevier Housing Authority to insure that low- and moderate income individuals can connect to sewer and septic lines. Sewer lines must be installed before homes can be renovated or rebuilt for low-and moderate income individuals. The funds have been advanced and the Sevier Housing Authority has constructed four new homes for low-and moderate-income individuals.

Donations

During this evaluation period, MNB has also been an active supporter in the community through donations aggregating \$268,012 targeted for low- and moderate-income individuals. During the remainder of 2008 following the previous CRA Examination, MNB made 5 donations totaling \$1,161. During 2009, MNB made 18 donations totaling \$13,249. The largest donation during 2009 was \$10,000 to Walter State Community College Building Fund. The majority of attendees are low-and moderate-income students with 61% of students receiving financial aid. During 2010 MNB made 8 donations totaling \$2,300. During 2011, MNB made 4 donations aggregating \$1,302.

***Unfunded Commitments** means legally binding loan and investment commitments that are tracked and recorded by the bank's financial reporting system.*

Extent to Which the Bank Provides Community Development Services

The level of community development services is "satisfactory." Among other activities, community development services are targeted to low- and moderate-income individuals.

The following are examples of qualifying community development services. MNB has participated in and sponsored several programs that provide community services for low- and moderate-income individuals.

On My Own Financial Literacy Program

During 2009, 2010, and 2011, MNB employees Mary Brown, Vice President, and Shannon Lethco, Lending Officer, volunteered to teach the "On My Own" Program to local school students. During the assessment period, 25 of the 31 programs presented, or 81%, were to economically disadvantaged schools in the bank's AA. Classes are hands on simulation that encourages students to make wise financial lifestyle choices. The students assume that they are 25 years old and are the primary decision maker of the household. The class teaches the importance of budgeting, saving, and how to avoid excessive credit card debt.

Consumer Credit Counseling Service and "Money in Motion" Class

In 2009 MNB sponsored 3 consumer credit counseling services held at Walter State Community College in Sevierville. These services targeted low- and moderate- income individuals wanting to purchase a residence. The service explained credit bureau beacon scores, discussed low scores, and how to improve credit scores to qualify for a home loan purchase. In 2008 MNB

sponsored an American Banker Association class entitled “Money in Motion.” This is a financial literacy program designed to help teachers educate their students on basic financial skills. Targeted to students in grades 7-12 and using handouts and problem-solving exercises, the materials cover a broad range of subjects. The majority of students in AA schools come from low-and moderate-income families.

Workshop

In 2009, MNB lenders attended a workshop sponsored by Smoky Mountain Title. This event was an open invitation advertised in the paper and on radio which discussed stimulus money tax credit for first time home buyers, how to apply for a mortgage loan, and explained how the process worked. MNB had setup a booth with free promotional material including packets and information about the bank’s mortgage products including Rural Development loans. Information targeted low-and moderate-income first time home buyers. Additionally, MNB conducted education on Rural Development, THDA, and conventional mortgage loans at Sevier and Blount County branch locations during 2009.

Mortgage Loan Products

In 2010 MNB’s Mortgage Loan Officer Kelly Marine attended a Board of Realtors meeting to discuss the bank’s mortgage products including Rural Development loans. MNB’s mortgage loan officer promoted Rural Development loans during this meeting. Available for low- and very low-income households to obtain homeownership, these loans are directly funded by the Government. Applicants may obtain 100% financing to purchase an existing dwelling, purchase a site and construct a dwelling, or purchase newly constructed dwellings located in rural areas. Mortgage payments are based on the household’s adjusted income. MNB has been an active rural development loan lender.

THDA and Rural Development Loan Training

In 2010 Mortgage Loan Officer Kelly Marine provided THDA and Rural Development Loan training to the Sevier County Board of Realtors. Plans are also underway to provide similar training to the Sevier County Women’s Council of the Board of Realtors and Blount County Board of Realtors. The objective of the training is to inform realtors about the availability of these residential loan products and provide them with information which they can share with low-and moderate-income customers desiring to purchase a residence.

Other Community Bank Services

Bank officers, directors, and employees serve as members of boards and other areas of responsibility for organizations within the bank’s AAs. These areas of responsibility benefit low-and moderate-income individuals. During 2008, President and CEO Dwight Grizzell served on the Advisory Board for East Tennessee State University, Johnson City, TN. Although the university is not located in the bank’s AA, students from Sevier and Blount Counties are enrolled. Twelve bank presidents serve on the advisory board and mentor students. Approximately 65% of the students are on financial aid. Chairman of the Board

Charlie Johnson is a member of the Walters State Community College Sevier County Campus Developmental Council and a Trustee of the college. Mr. Johnson provides legal, financial advice, and assists students in their scholarship efforts. The majority of students receive financial aid. Seven other bank employees are members of local civic organizations which benefit low-and moderate-income individuals, families, and their children. In 2011 Regional President Mike Zorio was elected to the Board of Foothills Community Development Corporation which is a 501(c)(3) non-profit corporation organized to expand affordable housing opportunities for low-and moderate-income residents of Blount County, TN. In 2009 and 2010, 1st Vice President Mike Hearon served as Vice-Chairman for the Boys & Girls Club of Blount County. Over 90% of club members qualify for free or reduced lunch.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.