



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**January 07, 2004**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The Traders National Bank of Tullahoma  
Charter Number 4020**

**120 North Jackson Street  
Tullahoma, TN 37388**

**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 COMMUNITY REINVESTMENT ACT (CRA) RATING**

## **This institution is rated Satisfactory.**

We assigned the rating based on the following information:

- The bank's loan-to-deposit ratio is reasonable.
- The bank originated a substantial majority of its loans within their assessment area (AA).
- Analysis reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- No public complaints related to CRA have been filed since the previous evaluation.

## **DESCRIPTION OF INSTITUTION**

Traders National Bank (TNB) is a \$115 million institution located in Tullahoma (Coffee County), Tennessee and is a subsidiary of TraCorp, a one-bank holding company. TraCorp had total assets<sup>1</sup> of \$9,926 million as of December 31, 2003. TNB has three-branch offices located in Tullahoma, Winchester, and Manchester, Tennessee. The bank opened one branch since the last CRA examination. The Manchester branch opened December 27, 1999. There have been no branch closings since the May 11, 1998 CRA examination.

The bank's main office is located at 120 North Jackson Street, Tullahoma, Tennessee. Both the main office and branch offices have deposit taking Automated Teller Machines (ATM). TNB also has two non-deposit taking ATMs, one in Tullahoma and one in Lynchburg, Tennessee.

TNB provides a full array of banking services, including trust services. The bank's primary product lines are real estate secured by 1-4 family and Commercial and Industrial loans. At December 31, 2003, the bank had 79.15% net loans and leases to total assets. TNB also originates Veterans Administration (VA), Tennessee Housing Development Authority (THDA), and Federal Housing Administration (FHA) loans. The bank received a satisfactory CRA rating at its last CRA performance evaluation dated May 11, 1998. There are no legal, financial, or other reasons that would impede the bank's ability to meet the credit needs of its AA.

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<sup>1</sup>Tracorp reported total assets include \$9,615 million net investment in subsidiary (TNB).

The following table illustrates the December 31, 2002 Gross Loans by product type:

Product Category	Gross Loans as of December 31, 2002*	
	Dollar (000's)	Percent
Construction, Land development, and other land loans	4,019	4.72%
Real Estate Secured by Farmland (inc. farm residential and other improvements)	959	1.13%
Real Estate secured by 1-4 Family	39,050	45.86%
Farm Land Agriculture	61	0.07%
Commercial & Industrial	11,038	12.96%
Other	24,300	28.54%
Individuals	5,722	6.72%
Total	84,204	100

\* Data obtained from Call Report

## DESCRIPTION OF COFFEE, FRANKLIN, MOORE AND BEDFORD COUNTIES.

The city of Tullahoma is located in both Coffee and Franklin Counties and is approximately 75 miles southeast of Nashville and 69 miles northwest of Chattanooga, Tennessee. TNB's AA consists of whole geographies including all of Coffee, Franklin, Moore and portions of Bedford (9507 and 9508) counties. The AA meets the legal requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The bank's AA consists of 41 census tracts. According to the 1990 census information, 28 (68%) are middle-income and 10 (24%) are upper- income geographies. Three (7%) was noted as tract characteristics not available (NA.) There are no low- or moderate-income geographies within TNB's AA. The AA has approximately 40,168 total families of which 18% are low-income, 15% are moderate-income, 20% are middle- income, and 47% are upper-income. The 2002 Metropolitan Statistical Area (MSA) and Non-MSA updated Median Family Income is \$42,600. The 2002 median price for a house in Coffee, Franklin, Moore and Bedford counties was \$49,000.

There are 14 financial institutions, one large credit union, and various finance companies in the area to afford moderate competition for TNB. Of the 14 financial institutions, four are branches of regional banks, seven are state community banks with total assets ranging from \$42,107 million to \$197,929 million, and two national banks with total assets of \$147,176 million and \$68,452 million, respectively.

TNB's AA is predominately rural in nature. Services, retail trade, construction, and manufacturing are the primary industries in the AA. Unemployment for the area is 3%. The major employers in Coffee County include Arnold Engineering, Harton Regional Medical Center, Tennessee Apparel Corporation, and Fuji Color Processing.

The following table includes the general demographic data describing the AA.

Demographic Information for Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	41	0%	0%	28%	24%	0%
Population by Geography	138,353	0%	0%	66%	34%	0%
Owner-Occupied Housing by Geography	38,459	0%	0%	64%	36%	0%
Businesses by Geography	7,948	0%	0%	63%	37%	0%
Family by Geography	40,168	17%	15%	20%	47%	0%
Family Distribution by Income Level	40,168	18%	15%	20%	47%	0%
Medium Family Income	= \$24,935	Median Housing Value		= \$49,400		
HUD Adjusted Median Family Income for 2002	= \$42,600	Unemployment Rate		= 3%		
Households below the Poverty Level	= 11%					

\* The NA category consists of geographies that have not been assigned an income classification.  
Source: 1990 U.S. Census, and 2002 HUD updated MFI.

**COMMUNITY CONTACTS** – We reviewed a recent community contact made within the bank's AA (Manchester Chamber of Commerce) and conducted one community contact with the Tullahoma Housing Authority. Both community contacts noted a need for more industry and affordable housing. They also stated that the area has several financial institutions, governmental agencies and non-profit organizations in the area that they believe adequately serve the needs of the community and local businesses. The community contacts did not reveal any unmet credit needs within the bank's AA's.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our conclusions were based on reasonable loan-to-deposit ratio, CRA performance findings from our loan review of originated loans in the bank's AA and distribution of loans to individuals of different income levels. We also considered any CRA public complaints that have been filed since the May 11, 1998 CRA examination.

We used a non-statistical sample of 41 home mortgage loans and 47 business loans originated in 2001 and 2002 to evaluate TNB's CRA performance.

### Loan-to-Deposit Ratio – Meets the Standard for Satisfactory Performance.

The bank's loan-to-deposit ratio is more than reasonable. TNB's loan-to-deposit ratio averaged 83.39 % for a period of 19 quarters from June 1998 to December 31, 2002. This percentage is more than reasonable when compared to the average loan-to-deposit ratio for two similarly situated banks in your AA. The highest loan-to-deposit ratio was 84.85% as of June 2002 while the lowest ratio was 78.18% as of June 1998. As of December 31, 2003 TNB's loan-to-deposit ratio was 85.19%.

Based upon our analysis of the June 30, 2003 Market Share Report, two financial institutions are similarly situated community banks. As of December 31, 2002, both had total assets of \$119 million, and as of December 31, 2003, both had total assets of \$126 million. The average loan-to-deposit ratio for the two competitor banks for the nineteen quarters from June 30, 1998 to December 31, 2002 was 69.06% and 69.23%, respectively. Similarly, the highest loan-to-deposit ratios were 85.29% (June 30, 2000) and 77.93% (December 31, 2000), respectively. For the same period, the lowest loan-to-deposit ratios were 62.25% (June 30, 2000) and 63.87% (March 30, 2000), respectively.

**Lending in Assessment Area – Meets the Standard for Satisfactory Performance.**

Based upon our limited sample of 41 home mortgage loans and 47 small business loans for years 2001 and 2002, 100% of the number and 100% of the dollar amount were within the AA. The analysis of lending in the bank’s AA included a sample of real estate secured by 1-4 family and commercial loans, the bank’s two primary loan types. The bank is not a Home Mortgage Disclosure Act (HMDA) reporter.

The following table provides details of the analysis of the loan review.

**Sampled Loans Inside the Assessment Area**

Assessment Area:	Total Home Mortgage Loans				Total Small Loans to Businesses			
	#	% of Total	\$ (000's)	% of \$ Total	#	% of Total	\$ (000's)	% of \$ Total
Coffee, Franklin, Moore & Bedford	41	100%	3,302	100%	47	100%	\$2,293	100%

**Lending to Borrowers of Different Incomes and to Businesses of Different Sizes – Meets the Standard for Satisfactory Performance.**

Our analysis of the bank’s performance in lending to borrowers of different incomes and business of different sizes included a sample of real estate secured by 1-4 family and commercial loans, the bank’s two primary loan types. The distribution of the bank’s business loans, given the demographics of the AA, reflects excellent penetration by number and dollar amounts among businesses of different sizes. The analysis of lending to borrowers of different income levels and businesses of different sizes was completed using all files inside the AA from the lending in the AA sample, excluding loans for which income information was not available.

The bank’s distribution of credit reflects a reasonable penetration among individuals of different income levels and businesses of different sizes.

### Borrower Distribution of Home Mortgage Loans

Evaluation Period: June 1, 1998 through December 31, 2002										
Assessment Area:	Total Loans Sampled		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrower		Upper-Income Borrowers	
	#	% of Total	% Families	% Bank Loans	% Families	% Bank Loans	% Families	% of Bank Loans	% of Families	% of Bank Loans
Coffee, Franklin, Moore & Bedford County.	41	100%	18%	3%	15%	14%	20%	18%	47%	65%

\* Percentage of families is based on 1990 Census Information.

The table above illustrates the findings from our sample of the distribution of home mortgage loans within the income levels compared to the percentage of families in each income level within the bank's AA. The distribution of home mortgage loans to low- and moderate-income borrowers is reasonable compared to demographics. TNB is one of 15 financial institutions and a large credit union within the AA. TNB's loan distribution to low-income individuals is reasonable at 3% given 16% of households within the AA live below the poverty level, and there are a number of financial institutions and finance companies that are located within the AA. This high poverty rate indicates a significant number of households lack sufficient income to purchase an average cost home of approximately \$49,000.

### Borrower Distribution of Small Loans to Businesses

Evaluation Period: June 1, 1998 through December 31, 2002									
Assessment Area:	Businesses With Revenues of \$1 million or less			Sampled Loans by Original Amount Regardless of Business Size					
	% Of Businesses In AA	% # BANK Loans Sampled	% \$ Bank Loans sampled (000's)	\$100,000 or less		>\$100,000 to \$250,000		>\$250,000 to \$1,000,000	
				% of #	% \$ bank loans	% of #	% \$ bank loans	% of #	% \$ bank loans
Coffee, Franklin, Moore, Bedford	79%	100%	100%	87%	39%	11%	48%	2%	13%

The table above illustrates the findings from our sample of the number and dollar volume of loans by size and the percentage of small loans to businesses compared to the percentage of businesses that are small within TNB's AA. Our limited testing revealed that 100% of the loans sampled were made to small business with annual revenues of less than \$1 million. The bank does not track this information at origination. The distribution of loans to small businesses (businesses with \$1 million or less in gross annual revenues) of 100% is excellent when compared to the number of small businesses in the AA of 79%. Also, the distribution by loan size is also excellent with 87% of the number of business loans made in the AA was \$100,000 or less.

### Geographic Distribution of Loans

There are no low- or moderate-income census tracts within the bank's AA; therefore, we did not perform an analysis of geographic distribution of loans since the findings from the analysis would be meaningless.

**Responses to Complaints**

No complaints have been received since the prior examination.

**Fair Lending or Other Illegal Credit Practices Review**

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