



## **INTERMEDIATE SMALL BANK**

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

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### **PUBLIC DISCLOSURE**

**April 19, 2006**

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

**Citizens National Bank  
Charter Number 10735**

**Two Park Street  
Athens, TN 37303**

**Comptroller of the Currency  
Nashville  
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.**

The Lending Test is rated: *Satisfactory*.

The Community Development Test is rated: *Satisfactory*.

The bank's performance rating is supported by the following factors:

- The bank's loan-to-deposit ratio is excellent and averaged 89.33% during the evaluation period. Citizens National Bank (CNB)'s loan-to-deposit ratio ranged from 83.70% as of March 31, 2004, to 95.48% as of March 31, 2006.
- A considerable majority of CNB's loans sampled are within the bank's Assessment Area. Approximately 72.55% of the number and 86.05% of the dollar volume of loans were to borrowers within the Assessment Area.
- CNB's distribution of loans to borrowers of different income (including low-and moderate-income) levels and businesses of different sizes is satisfactory.
- CNB's community development performance demonstrates satisfactory responsiveness to the community development needs of its Assessment Area.
- There have been no complaints with respect to CNB's CRA performance.

## **SCOPE OF EXAMINATION**

This Performance Evaluation assesses CNB's capacity to help meet the credit needs of the community in which it operates. An Intermediate Small Bank is subject to a lending test and a community development test. The lending test evaluates a bank's record of helping to meet the credit needs of its assessment area through its lending activities. The community development test evaluates a bank's community development lending, qualified investment, and community development services activities. For the lending test, we reviewed and evaluated residential mortgage loans and loans to small businesses and farms. Loans sampled for this test originated between January 2004 and April 2006.

Bank strategy focuses on business and residential real estate lending. Conclusions regarding the Lending Test are based on small business and small farm, and residential loans including home purchases, home improvements, and home refinances. Small business, small farm and residential loans considered in the Lending Test originated between January 1, 2004 and March 31, 2006. A sample of loans was selected for each loan category based on internal bank reports. CNB is not a Home Mortgage Disclosure Act (HMDA) reporter. For community development loans, qualified investments, and services activities, the evaluation period is January 1, 2004 to March 31, 2006.

We performed a review of community contact forms compiled by other regulatory agencies for this bank’s assessment area. We also contacted a government agency and a Small Business Development Center (SBDC) in conjunction with our examination. Based on information provided by the contacts, McMinn County has an above average economy and lower unemployment than other areas of Tennessee. This was attributed to the fact that Athens, the major city, has a very progressive city counsel and management team who are aware of programs and subsidies that can assist their market. The director of the SBDC felt strongly that area banks were meeting the needs of the community. He commented that local banks were very supportive of small businesses and that he thought banks “see the value of developing small businesses in the area”. Additionally, the contact stated that clients were treated fairly by banks and were often granted small business loans if they were well qualified applicants.

## DESCRIPTION OF INSTITUTION

Citizens National Bank (CNB) is a \$440 million institution located in Athens, Tennessee. Athens is the McMinn County seat, located approximately half way between Chattanooga and Knoxville along the I-75 corridor in East Tennessee. Its assessment area (AA) consists of McMinn, Monroe, and Roane Counties in their entirety. CNB is wholly owned by Citizens National Bancorp, a one-bank holding company located in Athens, Tennessee. The bank operates three branches (including the main office) in McMinn County, four branches in Monroe County, and one branch in Roane County. ATM’s are located at each of the eight bank offices. An ATM is also located at the Denso manufacturing facility in Athens. CNB has also invested heavily in data processing, which supports banking via the Internet.

As of March 31, 2006, CNB had total assets of \$440 million, of which net loans comprised 83%. The following table reflects the composition of CNB’s loan portfolio based on the March 31, 2006 Report of Condition.

Product Category	Gross Loans as of March 31, 2006	
	Dollar (000’s)	Percent
Commercial & Industrial Including Commercial Real Estate	158,696	43.2
Residential Mortgage Loans	81,495	22.2
Construction & Land Development	100,577	27.4
Individuals	17,521	4.8
All Other	5,307	1.4
Farmland and Agriculture	3,385	0.9
<b>Total</b>	366,981	100.00

CNB provides a wide range of traditional deposit and loan products. The branches are generally located in areas that make them accessible to persons from different areas of the communities they serve. Lobby hours and drive-up hours are set by location to meet customer needs. CNB has ATMs at branches and other locations in their market to make customer accounts accessible.

Customers may also access their accounts through telephone banking or by the Internet. Internet and phone banking services include transfers between CNB accounts, review of account balances or transactions, access loan account information, and bill-paying capability for the Internet banking product. The bank also offers a MasterMoney Check Card that provides customers with additional access to their accounts at point of sale or ATM locations.

The institution operates in a competitive banking environment. Its business strategy focuses on small business and residential lending in the AA. Competition consists of several banks, large credit unions, and savings associations. CNB's primary competition comes from three large regional banks chartered out of state, a federally savings bank chartered in McMinn County, and a local state chartered bank in Monroe County. The bank has the largest market share in the three county area with a deposit market share of 22% as of June 30, 2005.<sup>1</sup>

There are no significant legal or financial reasons that would impede the bank's ability to meet its communities' credit needs. The bank's last CRA examination was dated January 6, 2004 and it received a Satisfactory Rating.

## **DESCRIPTION OF THE ASSESSMENT AREA (AA)**

CNB's assessment area (AA) meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The AA includes all of McMinn, Monroe, and Roane Counties. Principal cities within the AA include Athens, Madisonville, and Kingston. None of the bank's AA is located in a Metropolitan Statistical Area (MSA). Athens serves as the county seat of McMinn County and is located approximately half way between Knoxville and Chattanooga on I-75. The bank's main office is located in Athens. The 2000 U.S. Census data shows this assessment area contains only one moderate-income geography tract and no low-income tracts.

The local employment base in the AA is diversified with the principal industries being light manufacturing and agricultural. While the assessment area has historically been an agricultural community, most of the largest employers in the AA produce automotive products including Denso Manufacturing, employing 1,100, Johnson Controls employing 735, JTEKT Automotive employing 775, and Collins and Aikman, employing 585. Mayfield Dairies is the largest agricultural employer, employing 550. Another major employer is the Bowater paper mill, which produces newsprint and employs 910. The unemployment rate for each of the three counties McMinn, Monroe, and Roane County were the same at 5.4% in December 2005. The Tennessee statewide unemployment rate was also 5.4% and the National rate was 5.1% in December 2005.

There are eight full-service bank locations. Each full-service office also provides an ATM machine with 24-hour availability. Routine business such as cash disbursements, deposit taking,

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<sup>1</sup> Source: Federal Deposit Insurance Corporation Summary of Deposits Internet Site.

transfers, balance inquiries, and loan payments are available. The Financial Center office and one ATM are located in the only moderate-income census tract. Based on the 2000 U.S. Census, there are 24 census tracts within the AA. There are no low-income census tracts, one moderate, 20 middle, and three upper income census tracts. Within CNB's AA, 139,886 individuals reside. The geographic dispersion of the population closely resembles census tract geographies. Within the AA, there are approximately 43,000 owner-occupied homes and 7,500 businesses. Approximately 84% of owner-occupied housing and 80% of the businesses are located in middle-income census tracts. The income level by families shows just over 18% and 17%, respectively, are low- and moderate-income families. Some 16% of households in the AA are below the poverty level.

The following table shows the demographic and economic characteristics of the assessment area:

<b>Demographic Information for Assessment Area (McMinn, Monroe, and Roane Counties)</b>					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	24	0.00	4.17	83.33	12.50
Population by Geography	139,886	0.00	4.48	83.47	12.05
Owner-Occupied Housing by Geography	43,383	0.00	2.86	84.08	13.06
Businesses by Geography	7,517	0.00	8.82	79.71	11.47
Farms by Geography	274	0.00	3.28	87.59	9.12
Family Distribution by Income Level	40,952	18.62	17.66	22.00	41.72
Distribution of Low- and Moderate- Income Families throughout AA Geographies	14,859	0.00	5.70	86.57	7.73
Median Family Income	\$39,270	Median Housing Value 2005			\$75,906
HUD Adjusted Median Family Income for 2005	\$42,750	Unemployment Rate 2005			5.4%
Households Below the Poverty Level	16.0%				

2000 U.S. Census and 2005 HUD updated MFI. Unemployment rate is as of December 2005.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### LENDING TEST

The bank's performance under the Lending Test is rated "**Satisfactory**".

### Loan-to-Deposit Ratio

The average loan-to-deposit ratio for CNB was excellent at 89.33% for the nine quarters ending March 2006. CNB's average loan-to-deposit ratio compared very favorably to other competitor banks in the AA for the same period. There was only one other independent bank headquartered

in the AA, Peoples Bank of East Tennessee. There were two federal savings banks also headquartered in the AA, Athens Federal, and Volunteer Federal, but they are not chartered as commercial banks and were not compared. CNB's lowest loan-to-deposit ratio was 83.70% on March 2004 and the highest was 95.48% on March 2006. For the same period, Peoples Bank of East Tennessee had an average loan-to-deposit ratio of 82.68%.

<b>Loan-To-Deposit Ratios</b>		
<b>Institution</b>	<b>Total Assets \$000's (As of 3/31/06)</b>	<b>Average Loan – to-Deposit Ratio</b>
<i>Citizens National Bank, Athens</i>	<b>\$440,026</b>	<b>89.33%</b>
Peoples Bank of East Tennessee, Madisonville	\$139,498	82.68%

Source: Institution Reports of Condition.

As of June 30, 2005, 17 financial institutions with 66 offices controlled \$1.634 billion in deposits within the AA. CNB controlled the largest market share within the AA at \$365 million, or 22.34%, of total deposits. Five large regional banks controlled 12.32%, 10.72%, 7.83%, 3.32%, and 2.36%, respectively of total deposits for the period. Other independent financial institutions headquartered in the AA and with offices located only within the AA included: Athens Federal (8.98%); Peoples Bank of East Tennessee (6.63%); and Volunteer Federal (5.87%).

### **Lending in Assessment Area**

CNB's record of lending within its AA is good. The number of residential and business/farm loans originated inside the bank's AA was 85.00% and 64.52%, respectively. Similarly, the dollar amount of residential loans and business loans inside the bank's AA was 83.94% and 88.77%, respectively. Collectively, the number and dollar amount of all loans in our loan sample was 72.55% and 86.05%, respectively. Conclusions are based on the number and dollar amount of residential and business/farm loans in our loan sample, which originated during 2004, 2005 and 2006.

<b>Lending in AA</b>										
<b>Loan Sample</b>	<b>Number of Loans</b>					<b>Dollars of Loans (000's)</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
2004-2006 Residential Loans	34	85.00	6	15.00	40	3,053	83.94	584	16.06	3,637
2004-2006 Business/Farm Loans	40	64.52	22	35.48	62	3,686	88.77	466	11.23	4,152
<b>Total</b>	<b>74</b>	<b>72.55%</b>	<b>28</b>	<b>27.45%</b>	<b>102</b>	<b>6,739</b>	<b>86.05%</b>	<b>1,050</b>	<b>13.48%</b>	<b>7,789</b>

Source: Loan Sample for 2004, 2005 and 2006.

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

CNB's record of lending to borrowers of different incomes and to businesses of different sizes is satisfactory. Both the number and dollar of loans in our residential loan sample are reasonably consistent with borrower income levels within the bank's AA. Within the AA, low-income families comprised 18.62% of the population, moderate-income families 17.66%, middle-income families 22.00%, and upper-income families 41.72%. As reflected by the schedule below, the number of loans in our loan sample compared satisfactory to borrowers of different income levels within the AA. Similarly, CNB's record of lending to businesses of different sizes is also satisfactory. Business revenues within the AA reflect that 61.78% have annual sales less than \$1 million, 4.13% exceed \$1 million, and 34.09% of business sales are unavailable. Comparatively, the number and dollar amount of loans to businesses of different sizes is good. The bank does a good job in obtaining business revenue information on its business loans as reflected by the 5% of unavailable information.

2004 – 2006 Borrower Distribution of Residential Real Estate Loans for AA								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	18.62%		17.66%		22.00%		41.72%	
Loan Type(s)	% of Number	% of Amount						
Residential Loan Sample	14.71%	5.81%	11.76%	7.06%	14.71%	5.92%	58.82%	81.20%

Source: Residential loan sample included residential home purchases, home improvement loans, and home refinance loans.

2004 – 2006 Borrower Distribution of Loans to Businesses/Farms in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses/Farms	61.78%	4.13%	34.09%	100%
% of Bank Loans in AA by #	85.00%	10.00%	5.00%	100%
% of Bank Loans in AA by \$	48.99%	49.24%	1.77%	100%

Source: 2005 Geodemographic data and loan sample.

## Geographic Distribution of Loans

The geographic distribution of loans was not performed as part of this review. There was no low-income and only one moderate-income census tract located within the AA. Because only 4.1% of the total census tracts within the AA are low- or moderate-income, an analysis of the geographic distribution of loans would not be meaningful.

## Responses to Complaints

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

## **Community Development Loans, Qualified Investments, and Community Development Services Test**

The bank's performance under the Community Development Test is rated "**Satisfactory**".

### **Community Development Loans**

The bank's community development performance demonstrates satisfactory responsiveness to community development needs in its AA through community development loans, qualified investments, and community development services, considering the bank's capacity and the need and availability of opportunities for community development in the bank's AA.

### **USDA Rural Development**

CNB originated 14 loans to qualifying individuals aggregating \$1,141,000. CNB participates in the USDA Rural Development loan program, which assists in the development of affordable housing and revitalization efforts in rural markets.

### **Monroe County Habitat for Humanity**

The bank originated a \$115,000 loan to Monroe County Habitat for Humanity to purchase property and remodel a home for occupancy by low- or moderate-income individuals. This facility generates income from donated building supplies from contractors with excess supplies, from demolition crews salvaging reusable materials, and from the general public. Habitat for Humanity is a national and international organization, which builds affordable houses for low- and moderate-income families.

### **Women at the Well Ministries**

The bank originated three loans totaling \$114,275 to the Women at the Well Ministries. This organization provides support and training to women who have succumbed to substance abuse, which has ultimately led to life controlling problems and perhaps incarceration. Funds were used for construction of a new addition that will facilitate lodging for an additional 24 women.

### **Coordinated Charities**

The bank originated a \$14,600 loan to the Coordinated Charities. This organization aids needy families with utilities, rent, foods, and medicines.

### **Community Development Investments**

Given the limited available Community Development (CD) opportunities and dollar amount of investments in the AA, the bank's performance is adequate. Qualifying investments are investments, deposits, membership share, or grants that have as their purpose, community development, as defined in the CRA regulation.

The following table identifies CNB’s qualifying investments:

<b>Community Development Investments in AA</b>	
<b>Qualified Investments</b>	
Liberty Bank, New Orleans Louisiana	\$50,000
<b>Originated Grants/Donations</b>	
Boys and Girls Club of the Monroe Area	\$32,000
Good Faith Clinic	\$2,250
Coordinated Charities	\$1,615
Women at the Well Ministries	\$1,600
Monroe County Habitat for Humanity	\$2,000
Housing Development Corporation of the Clinch Valley	\$250
Hurricane Katrina relief donations	\$1,000
Total CD Investments	\$90,715

### **Community Development Services**

The level of qualified community development services is “**Satisfactory**”.

The bank’s level of community development services is adequate through its branches, products, and activities with local organizations that support qualified community development. This assessment is based on the opportunities in the AA and the type of organizations that benefit from the services provided. Bank employees provide technical assistance and financial services by serving on the Boards, committees, or as members in organizations that provide community services to low- and moderate-income individuals. Although none of the activities discussed above are considered innovative or complex in nature, they exhibit management's responsiveness to identified needs in the community.

CNB’s delivery systems are accessible to essentially all geographies and individuals of different levels in the AA. As mentioned earlier, there are no low and only one moderate-income census tracts in CNB’s AA. CNB has made a significant investment in the Financial Center Office, which is located in the only moderate-income census tract in the AA. The bank offers a wide variety of consumer and commercial loan and deposit products at the full-service locations, most of which are available at all banking offices. Alternative delivery systems include ATMs, toll-free 24-hour telephone banking service, and Internet banking. The bank offers several free or low-cost checking accounts. The Internet banking service allows customers to obtain deposit and loan account information, make payments on bank loans, transfer funds, and pay other household bills. The ATMs are located at each branch location with one additional ATM located at the largest employer in the AA. No full-service branches were opened or closed since our last evaluation.

CNB hours of operations are considered outstanding. While individual offices may differ in the

exact hours of operation, six of the eight offices offer lobby hours beginning 8:30 A.M. with two at 9:00 A.M. Five of the eight offices are open until 5:00 P.M. Monday through Thursday and three until 4:30 P.M. All but two offices have extended lobby hours on Friday until 6:00 P.M. All offices have drive-through banking, which is available at seven of eight offices until 5:00 P.M. and one until 4:30 P.M. Monday through Thursday. Drive-through hours are extended on Friday until 6:00 P.M. Saturday banking and drive-through services are also offered at each office from 8:00 or 8:30 A.M. until 12:00 P.M.

CNB employs two bilingual employees who are available to provide assistance to Spanish-speaking customers.

During the evaluation period, CNB provided financially related educational or technical assistance to the following organizations:

**Monroe County Habitat for Humanity** – Habitat for Humanity is a national organization that builds affordable houses for low- and moderate-income families. A bank employee is the Chairman of the Family Support Committee and provides oversight for the budgeting process.

**Roane County Habitat for Humanity** – Habitat for Humanity is a national organization that builds affordable houses for low- and moderate-income families. A bank employee is a Board member.

**Coordinated Charities** – Coordinated Charities aids needy families with utilities, rent, foods, and medicines. Three bank employees provided bookkeeping assistance.

**Good Faith Clinic** – The Good Faith Clinic caters to the needs of low-income, uninsured individuals. The clinic coordinates with local physicians and medical care providers and negotiates reduced fees for the patients. Two bank officers are board members, including the Vice President and Treasurer.

**Boys & Girls Club of the Monroe Area** – The Boys and Girls Club provides childcare for children who cannot afford, or may lack access to other community programs. Over one-half of the county's school age children subscribe to an assisted lunch program and the majority of those reside in a lock-and-key family situation. The bank's President is a board member.

**Women at the Well Ministries** – Women at the Well Ministries provides support and training to women who have succumbed to substance abuse, which has ultimately led to life controlling problems and perhaps incarceration. A bank officer is a board member and secretary.

**Hands of Mercy** – Hands of Mercy partners with the local United Way and provides food rations to low- and moderate-income families. A bank officer is Chairman of the Board.

**Athens Downtown Partnership** – The Athens Downtown Partnership is chartered by the Athens City Council to implement recommendations produced from a strategic study. The recommendations include steps to create better living conditions, new business ventures, additional job opportunities, and shopping alternatives. Portions of the downtown Athens areas

are within the only moderate-income census tract in the AA. The bank president was Chairman of the Board in 2005.

**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.