



SMALL BANK

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

PUBLIC DISCLOSURE

May 31, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**National Bank of Tennessee
Charter Number 14828**

**262 East Broadway
Newport, TN 37821**

**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.

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INSTITUTION'S CRA RATING

This institution is rated “Outstanding”.

The major factors that support this rating include:

- A substantial majority of the bank’s loans were originated within the assessment area (AA).
- The bank’s loan-to-deposit ratio is reasonable and meets the standard for satisfactory performance.
- The bank’s distribution of loans among borrowers of different incomes throughout its AA is excellent.
- The bank’s distribution of loans among geographies of different income levels throughout its AA is excellent.
- The bank has not received any consumer complaints regarding CRA performance.

The National Bank of Tennessee is committed to serving the community. This is demonstrated by the outstanding lending performance as described in this Performance Evaluation.

DESCRIPTION OF INSTITUTION

The National Bank of Tennessee (NBT) is a wholly owned subsidiary of NBN Corporation, a two-bank holding company located in the bank's main office in Newport, Tennessee. NBN Corporation has total assets of \$261 million.

NBT has six operating locations that provide full service banking. The main office is located at 262 East Broadway, Newport, Tennessee. There are three other branches located within the city limits of Newport, a branch in Cosby, which is located in the southern part of Cocke county, and a branch in Greeneville, which is located in Greene county. All branch locations, except the Wal-Mart Super Center branch in Newport, have drive-in facilities. All locations offer extended banking hours. The bank also offers telephone and Internet banking as alternative distribution methods. NBT's primary focus is to serve the commercial, agriculture, and consumer customers in the above communities and the surrounding areas in Cocke and Greene counties. The bank meets these needs by providing various loan and deposit products, as well as, other financial services. NBT offers flexible underwriting on many of their loan products, such as lower down payments. These flexible terms make credit more readily available to low- and moderate-income individuals. The bank also makes very small consumer loans to better meet the credit needs of low- and moderate-income individuals. Hours of operation are responsive to the general banking needs of the areas served.

As of March 31, 2005, NBT's total assets equaled \$164 million, of which \$95 million, or 58 percent, were comprised of various types of loans to individuals and commercial businesses. The bank's loan portfolio is segmented as follows:

LOAN CATEGORY	\$ (000)	%
Real Estate Loans	73,780	77.40
Individual Loans	10,732	11.26
Commercial and Industrial Loans	10,523	11.04
Agricultural Loans	120	00.13
Other	164	00.17
Total	95,319	100.00

There are no legal or financial impediments to NBT's ability to meet the credit needs of their AA. The bank's CRA performance was last evaluated as of March 22, 1999, with a "*Satisfactory*" rating assigned.

DESCRIPTION OF NATIONAL BANK OF TENNESSEE'S ASSESSMENT AREA

The AA adopted by NBT consists of whole geographies, does not reflect illegal discrimination, and does not arbitrarily exclude low- or moderate-income geographies. The AA meets the requirements of the CRA regulation.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF NBT's AA	
<i>Population</i>	
Number of Families	28,011
Number of Households	39,453
<i>Geographies</i>	
Number of Census Tracts	23
% Low-Income Census Tracts	0.00
% Moderate-Income Census Tracts	17.39
% Middle-Income Census Tracts	78.26
% Upper-Income Census Tracts	4.35
NA	0.00
<i>Median Family Income</i>	
Census MSA Median Family Income	\$36,945
HUD Updated MSA Median Family Income	\$41,900
<i>Economic Indicators</i>	
% Unemployment Rate	3.19
Median Housing Value	\$70,015
% of Households Below Poverty Level	19.00

Source: 2000 U.S. Census

NBT's AA includes two counties in eastern Tennessee to include all of Cocke and Greene counties. The AA comprises 23 census tracts (CTs) consisting of four moderate-income-tracts, 18 middle-income tracts, and one upper-income tract. There are no low-income tracts in the bank's AA. Total population of the AA is 96,474. Of the 43,960 housing units, 30,136 or 69 percent are owner occupied. Households below the poverty level total 7,339 or 19 percent and households that receive public assistance total 1,538 or 4 percent of the total number of households. The local economy continues to be depressed with unemployment rates above and the per capita income below state and national averages. Local unemployment rates vary from a low during the tourist season of 5 percent to a high of 11 percent during the off-season. Major employers include Falcon, ConAgra, Sonoco and American Appliance.

A community contact was conducted during this review. The contact indicated that NBT and other local financial institutions continue to be very actively involved with community development projects and strive to meet the financial needs of the area.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This Performance Evaluation (PE) assesses NBT's performance, focusing on five performance criteria: loan-to-deposit ratio, lending in the AA, lending to borrowers of different incomes and to businesses of different sizes, geographic distribution of loans, and responses to complaints.

In evaluating the bank's lending performance, a sample of 32 residential mortgage loans and 30 consumer vehicle loans were analyzed. The loans sampled were originated in the last 12 months. Based on this analysis and consistent with the bank's business strategies and available resources and capabilities, the bank is meeting the overall credit needs of its AA in an outstanding manner.

Loan-to-Deposit Ratio

NBT's lending activity within its AA is reasonable and meets the standard for satisfactory performance. This conclusion is based on an analysis of comparable banks located in the AA. As illustrated in the table below, NBT's loan-to-deposit ratio is 62.90 percent, which is somewhat lower than other similarly situated institutions in the area. However, this level of lending is considered reasonable. Not reflected in NBT's loan-to-deposit ratio is residential mortgage loan originations sold to secondary market investors. In 2004, NBT originated 68 mortgage loans for \$7 million and through May 31, 2005, NBT originated 24 mortgage loans for \$2.3 million, which were sold to secondary market investors. Additionally, the bank has over \$6 million in loan participations sold that are not included in the bank's loan-to-deposit ratio.

INSTITUTION	ASSETS (000's) As of 3/31/05	LTD RATIO As of 3/31/05
Bank of Greenville, Greeneville, TN	88,585	90.75%
<i>National Bank of Tennessee, Newport, TN</i>	164,117	62.90%
Heritage Community Bank, Greenville, TN	47,629	100.72%
Newport Federal Bank, Newport, TN	121,898	78.46%

Lending in Assessment Area

NBT's lending in their AA exceeds the standard for satisfactory performance. A significant majority of the number and dollar amount of loans reviewed were extended within the bank's AA. This conclusion is based on an analysis of 32 residential mortgage loans and 30 consumer auto loans. One hundred percent of the residential mortgage loans were originated in the bank's AA. Eighty seven percent of the number and 89 percent of the dollar amount of the consumer loans were originated in the bank's AA. The table below illustrates the bank's performance with regard to the residential mortgage and consumer auto loans reviewed.

LOANS REVIEWED – NATIONAL BANK OF TENNESSEE'S ASSESSMENT AREA								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential Mortgage	32	100%	1,573	100%	0	0.00%	0	0.00%
Consumer – Auto	26	87%	204	89%	4	13%	26	11%
Total Reviewed	58		1,777		4		26	

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

NBT's overall distribution of loans to borrowers of different incomes is excellent and exceeds the standard for satisfactory performance.

The bank's distribution of consumer loans to low- income households is excellent. The percentage of the number and dollar amount of consumer loans extended to low-income borrowers exceeds the percentage of AA households in low-income areas. The bank's distribution of consumer loans to moderate-income households is high satisfactory. The percentage of the amount of consumer loans extended to moderate-income borrowers exceeds the percentage of AA households in moderate-income areas, while the percentage of the number is slightly below the percentage of moderate-income households in the AA.

BORROWER DISSTRIUTION OF CONSUMER LOANS IN NBT'S AA								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	26.48%		16.88%		19.33%		37.31%	
	% of Number	% of Amount						
Consumer Loans	53.85%	42.75%	11.54%	21.69%	19.23%	21.54%	15.38%	14.02%

The bank's distribution of residential mortgage loans to low- and moderate-income individuals is

excellent. Both the number of and the dollar amount of residential mortgage loans made to low- and moderate-income families exceeds the percentage of low- and moderate-income families in the AA.

BORROWER DISTRIBUTION OF RESIDENTIAL MORTGAGE LOANS IN NBT'S AA								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	22.73%		19.14%		23.33%		34.80%	
	% of Number	% of Amount						
Residential Mortgage	37.50%	27.25%	28.12%	30.38%	21.88%	27.61%	12.50%	14.76%

Geographic Distribution of Loans

The overall geographic distribution of loans is excellent and exceeds the standard for satisfactory performance.

The bank's AA does not include low-income CTs. The percentage of the number of consumer auto loans extended in moderate-income CTs exceeds the percentage of households in those CTs. The percentage of the number of residential mortgage loans extended in moderate-income CTs exceeds the percentage of owner occupied housing located in those tracts.

GEOGRAPHIC DISTRIBUTION OF CONSUMER LOANS IN NBT'S AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
Loan Type	% of Number	% of AA Households	% of Number	% of AA Households	% of Number	% of AA Households	% of Number	% of AA Households
Consumer Loans	0.00%	0.00%	46.15%	19.03%	53.85%	79.12%	0.00%	1.85%

GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL MORTGAGE LOANS IN NBT'S AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
Loan Type	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing
Residential Mortgage	0.00%	0.00%	37.50%	16.84%	62.50%	81.19%	0.00%	1.97%

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

An analysis of public comments and consumer complaints was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, it was determined that a comprehensive fair lending examination would not need to be conducted in conjunction with this CRA assessment.

Community Development Services

NBT is active in the community. Community development service activities include a bank officer's service on the Cocke county Economic Development Commission, an organization focused on attracting new small businesses to the community. Another bank officer serves on the Newport Chamber of Commerce. This officer is also taking a leadership role in forming an organization to revitalize the downtown area to attract new businesses. Other officers have served on the board of United Way.