



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 16, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Cherokee Bank, National Association
Charter Number 23841

1275 Riverstone Parkway
Canton, GA 30114

Office of the Comptroller of the Currency

Three Ravinia Drive, Suite 550
Atlanta, GA 30346

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.

Cherokee Bank's (Cherokee) performance rating is supported by the following:

- a reasonable loan-to-deposit ratio;
- a majority of loans were made inside the bank's assessment area (AA);
- a reasonable penetration of loans among borrowers of different incomes and businesses of different sizes; and
- an excellent penetration of loans to borrowers and businesses in different geographies.

SCOPE OF EXAMINATION

This Performance Evaluation (PE) is an assessment of Cherokee's ability to meet the credit needs of the communities in which it operates. Examiners conducted a full-scope review of the bank's AA, which is defined as Cherokee County. Cherokee County is part of the Atlanta-Sandy Springs-Marietta, GA MSA. This evaluation covered the period of January 2007 to July 2012, with a sampling period from January 2010 to July 2012.

Loan performance was determined by analyzing the bank's primary products, including consumer loans and commercial loans. We sampled 20 consumer loans and 20 commercial loans originated from January 2010 to July 2012. The loan sample is representative of the board's business strategy since the last examination. During our sampling period, 49 percent of loan originations by number were commercial loans and 46 percent by number were consumer loans.

DESCRIPTION OF INSTITUTION

Cherokee is a full-service community bank that opened for business July 26, 1999. The bank is wholly owned by a one-bank holding company, Cherokee Banking Company. The main office is located in a moderate-income census tract at 1275 Riverstone Parkway in Canton, GA. The bank also has two branches, one in Holly Springs and one in Woodstock. The branch in Woodstock was opened during our evaluation period on January 31, 2007. Both branches are in middle-income census tracts.

A drive-up facility and automated teller machine are offered at the main office and each branch location. The only deposit taking ATM is located at the Woodstock branch. The bank also has four automated teller machines located off of banking premises. The locations are the Cherokee County Justice Center, the Cherokee County Tax Commissioners Office, and the Medical Associates of North Georgia, all in Canton, and the Cherokee County Tax Office in Woodstock. The bank also has a contract with Publix to offer ATM services, where customers have access to more than 1,000 Presto! ATMS across the Southeast at no charge. These ATMs do not have the

ability to take deposits. Finally, transactional internet banking is available through the bank's website at cherokeebank.com.

As of March 30, 2012, Cherokee Bank had total assets of \$168 million, total loans of \$108 million, and total deposits of \$152 million. Cherokee offers a variety of traditional deposit and loan products. Commercial and commercial real estate loans represent 72 percent of the loan portfolio and 1-4 family residential loans represent 26 percent of the loan portfolio. Consumer loans represent just 2 percent of the loan portfolio. These percentages are based on dollar amounts currently outstanding, not total dollar amounts and number of loans originated during the evaluation period. The majority of loan originations since 2007 and during our sampling period were commercial and consumer loans. The board's business strategy is to continue to be primarily a commercial lender with plans to increase its SBA lending. The bank also plans to increase its 1-4 family residential loans.

The bank's ability to lend has been impacted by tighter underwriting standards set forth in the bank's consent order with the OCC. However, despite the order, the bank continues to satisfactorily meet the credit needs of its AA. The evaluation period for this performance evaluation is January 2007 through July 2012. The last CRA evaluation was performed in January 2007 and the bank received a "Satisfactory" rating.

DESCRIPTION OF ASSESSMENT AREA

Management designated all of Cherokee County as the bank's AA. All census tracts within the AA are contiguous and its boundaries coincide with the boundaries of Cherokee County. The AA meets the technical requirements of the Act and does not arbitrarily exclude any low- or moderate-income census tracts.

Atlanta-Sandy Springs-Marietta MSA

Cherokee County is located within the Atlanta-Sandy Springs-Marietta MSA (MSA). The MSA is comprised entirely of 28 adjacent counties. The total population for the MSA is 5.3 million, which is over half of Georgia's total population. The MSA is the most populous area in Georgia and is the ninth largest MSA in the United States. The MSA encompasses Atlanta, the capital of Georgia.

Metro Atlanta has been recognized as an international gateway and the economic engine of the Southeast. Atlanta encompasses more than six fortune 500 headquarters, is second top city for entrepreneurial activity, and is the eighth top city for small business. Some of the fortune 500 companies in Atlanta include Coca Cola, Delta, and UPS. Atlanta also hosts the world's top traveled airport by passenger volume.

Metro Atlanta has been one of the cities to be hit the hardest by the recession in terms of unemployment. The unemployment rate in metro Atlanta is high at 9.6 percent. There is reluctance among good borrowers to expand in this economy, and there are tighter underwriting standards in the recession and consent order environments. However, the overall cost of business in metro Atlanta area is still lower than other major metropolitan cities.

Cherokee County

Cherokee County is approximately 25 miles northwest of downtown Atlanta. Cherokee County's 2011 population is estimated at 218,286 according the US Census Bureau. Cherokee County is divided into 26 census tracts, which are defined as 2 moderate-, 13 middle-, and 11 upper-income tracts. Three census tracts were added in 2012, all upper income tracts. There are no low-income tracts within the county. The bank's main office is located in one of the two moderate-income tracts in the AA.

Cherokee County was incorporated in 1830. The county has five cities: Ball Ground, Canton, Holly Springs, Waleska, and Woodstock. Major industry employers include Cherokee County Government, Cherokee County School District, Kroger Company, Northside Hospital-Cherokee, Pilgrims Pride Corporation, Publix Super Markets, and Wal-Mart Associates, Inc. The top five industries in Cherokee County are retail trade, accommodation and food services, health care and social assistance, manufacturing, and construction.

Local economic conditions in Cherokee County are depressed like the overall metro Atlanta economy. However, the unemployment rate is slightly less at 7.1 percent. Also, Cherokee County is one of the fastest growing counties in Georgia. With its increasing population exceeding 200,000, Cherokee County is averaging 10 percent business growth annually. Interstate 575 forms the county's economic and transportation spine providing exceptional accessibility and connectivity to the Atlanta and Southeast markets.

Cherokee County is a highly competitive market in which 18 other financial institutions, with 55 total offices, have a presence. Offices include local community banks, regional banks, and large, multi-national banks. Cherokee's deposit market share as of June 30, 2012 was 6 percent. Wells Fargo Bank and Regions Bank had the largest market shares at 25 percent and 11 percent, respectively. However, over the past several years, community bank competition has decreased as other community banks failed or were acquired. Now there is only one other similarly situated community bank in the area that compares to Cherokee Bank in terms of size and number of offices.

Contact was made with a local community development organization as part of this evaluation process. Small business lending was identified as a primary credit need in the area. The community contact indicated community banks are helping to serve small business needs. Cherokee participates in both the SBA 7a program and the 504 program. Cherokee is ranked 17th in the State of GA for making the most SBA 504 loans, and the Community Development Corporation it uses is ranked 4th in the state. The bank plans to continue to promote both its 504 program and 7a program to customers. Cherokee just partnered with an experienced SBA lender to increase SBA 7a loans.

The following table highlights the demographic composition of the bank's assessment area:

| Demographic and Economic Characteristics of Cherokee County | |
|--|-----------|
| Population | |
| Total Population ¹ | 218,286 |
| Number of Families | 39,409 |
| % Low Income Families | 13.27% |
| % Moderate Income Families | 16.46% |
| % Middle Income Families | 24.36% |
| % Upper Income Families | 45.90% |
| Geographies | |
| Number of Census Tracts | 26 |
| % Low Income Census Tracts - (0) | 0% |
| % Moderate Income Census Tracts - (2) | 7.69% |
| % Middle Income Census Tracts - (13) | 50% |
| % Upper Income Census Tracts - (11) | 42.31% |
| Median Family Income (MFI) | |
| 2000 MFI for AA | \$67,079 |
| 2011 HUD Adjusted MFI | \$68,300 |
| Economic Indicators | |
| Unemployment Rate ² | 7.1% |
| 2000 Median Housing Value | \$142,795 |
| % of Households Below Poverty Level | 5.35% |

Source: data reported under HMDA; 2000 U.S. Census data

¹ 2011 Estimated Population per US Census Bureau

² 2012 unemployment rate per the Department of Labor

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Cherokee's overall performance under the lending test is satisfactory. This conclusion is based on the following: a reasonable loan to deposit ratio, a majority of loans in the assessment area; a satisfactory penetration of loans among borrowers of different incomes and businesses of different sizes; and an excellent penetration of loans to borrowers and businesses in different geographies. Details regarding these findings are addressed below.

Loan-to-Deposit Ratio

Cherokee's loan to deposit (LTD) ratio is reasonable given the bank's size, financial condition, legal impediments, economy, and management's willingness to meet local credit needs. The bank's quarterly LTD ratio averaged 80.48 percent since the last CRA exam. The LTD ratio ranged from its peak of 94 percent in June 2008 to its lowest point of 69 percent in March 2012. The LTD ratio reached its lowest point recently due to lack of loan demand and rising amounts of foreclosures and other real estate owned in the depressed economy. Also, sales of SBA guaranteed loans have resulted in fewer loans outstanding.

The bank’s average LTD ratio; however, is comparable to a similarly situated peer bank’s at 81.35 percent. The bank’s strategy is to continue working to increase its SBA lending and increase 1-4 family loans, which proves the bank’s willingness to serve community credit needs.

Lending in Assessment Area

Cherokee originated a majority of its loans within the AA during the evaluation period. To determine lending within the AA, we sampled 20 consumer loans and 20 business loans originated during the evaluation period. Seventy-five percent of the bank’s loans by number and 59 percent of the bank’s loans by dollar amount were originated in the AA. The following table reflects the ratios of sampled loans originated inside and outside the AA by the number of loans and dollar amount of loans.

| Lending in Cherokee County | | | | | | | | | | |
|-----------------------------------|-----------------|----|---------|----|-------|------------------|-------|---------|-------|---------|
| Loan Type | Number of Loans | | | | | Dollars of Loans | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Consumer | 16 | 80 | 4 | 20 | 20 | 278,353 | 89.09 | 34,081 | 10.91 | 312,434 |
| Commercial | 14 | 70 | 6 | 30 | 20 | 1,259M | 55.03 | 1,029M | 44.97 | 2,288M |
| Totals | 30 | 75 | 10 | 25 | 40 | 1,537M | 59.12 | 1,063M | 40.88 | 2,600M |

Source: Sample of consumer and commercial loans

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

Lending to borrowers of different incomes and to businesses of different sizes is reasonable. While the bank has an excellent penetration among low- and moderate-income borrowers for consumer loans, the bank’s percentage of loans to small businesses is below the number of small businesses in the AA. Borrower distribution of business loans was weighed more heavily since small business loans are a primary need in the AA.

Lending to consumers of different incomes is excellent. The percentage of consumer loans made to low- and moderate-income borrowers significantly exceeds the percentage of low- and moderate-income households in the AA. Thirty percent of households in the AA are of low- and moderate-income borrowers, while 60 percent of the bank’s loans are to low- and moderate-income borrowers.

| Borrower Distribution of Consumer Loans in Cherokee County | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans |
| Consumer Loans | 14.89 | 35 | 15.04 | 25 | 21.37 | 10 | 48.70 | 30 |

Source: 2000 U.S. Census data, Consumer Loan Sample

Lending to businesses of different sizes is reasonable and meets the standards for satisfactory performance. Loans to businesses with less than \$1 million in revenues by number and dollar are lower than the small businesses in the area. However, several small businesses in the area are driven by the depressed housing industry. Thus, these businesses have less of a need to borrow and expand during these economic times.

Cherokee also continues to work to meet the needs of small businesses in the AA. As mentioned previously, Cherokee is ranked 17th in the state of Georgia for volume of SBA 504 lending. Also, Cherokee plans to increase its SBA lending, and recently partnered with an experienced SBA lender to make more SBA 7a loans.

According to US Census data, 72 percent of businesses in the AA report revenues of less than \$1 million. Of the 20 business loans we sampled, 55 percent by number and 65 percent by dollar were made to small businesses. The following table details lending to businesses during the evaluation period.

| Borrower Distribution of Loans to Businesses in Cherokee County | | | | |
|--|--------------|--------------|-------------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Businesses | 71.96 | 1.74 | 26.29 | 100 |
| % of Bank Loans in AA by # | 55 | 45 | 0 | 100 |
| % of Bank Loans in AA by \$ | 65.04 | 34.96 | 0 | 100 |

Source: 2000 U.S. Census data, Commercial Loan Sample

Geographic Distribution of Loans

Overall, the geographic distribution of loans is excellent. Both the geographic distribution of consumer loans and business loans to moderate-income geographies are excellent.

The geographic distribution of consumer loans to moderate-income geographies is excellent and exceeds the percentages of moderate-income households by nearly 5 percent. The percentage of consumer loans in moderate-income geographies is 10 percent compared to 5.20 percent of households in moderate-income geographies.

| Geographic Distribution of Consumer Loans in Cherokee County | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans |
| Consumer Loans | 0 | 0 | 5.20 | 10 | 52.71 | 60 | 42.09 | 30 |

Source: 2000 U.S. Census data, Consumer loan sample

The bank’s percentage of business loans in moderate-income geographies is also excellent. The percentage of business loans in moderate-income geographies at 10 percent exceeds the businesses in moderate-income geographies at 8.48 percent.

| Geographic Distribution of Loans to Businesses in Cherokee County | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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 |
| Commercial Loans | 0.00 | 0 | 8.48 | 10 | 49.47 | 60 | 42.06 | 30 |

Source: 2000 U.S. Census data, Commercial loan sample

Our analysis of lending patterns found no conspicuous gaps of lending within the census tracts making up the AA. There are no low-income census tracts in the AA, so lending within low-income census tracts was not applicable.

Responses to Complaints

Management has not received any CRA related complaints since our last examination. This has a neutral impact on the overall CRA rating.

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.