



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 28, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Community National Bank of the Lakeway Area
Charter Number 24368**

**225 West First North Street
Morristown, TN 37816**

**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.

Community National Bank of the Lakeway Area (CNB) performance under the Community Reinvestment Act (CRA) is considered satisfactory given the bank's size, financial condition, and the credit needs in its assessment area (AA). Our evaluation covers the period from September 30, 2005 to September 30, 2011 and included a review of a sample of residential mortgage and business loans.

The primary factors supporting the bank's rating include:

- ◆ The average loan-to-deposit ratio at 81.34% is reasonable given the bank's size, financial condition, and assessment area credit needs.
- ◆ A substantial majority of both the number and volume of loans originated are within the bank's assessment area.
- ◆ The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- ◆ The geographic distribution of both residential real estate and business loans is reasonable.
- ◆ No public complaints related to CRA have been filed.

SCOPE OF EXAMINATION

This Performance Evaluation (PE) is a full scope review and covers the period of September 30, 2005 through September 30, 2011. Results were consolidated for comparative and analysis purposes and evaluated using 2000 Census demographic information. CNB has no bank owned affiliates.

Conclusions regarding the Lending Test are based on a sample of both residential and commercial loans originated by the bank during the review period. The residential loans selected for review were originated since 2006 and include home purchase, home improvement, and home refinance transactions. Business loans selected for review were originated in 2009, 2010, and through year-to-date September 30, 2011. CNB is subject to the data collection and reporting requirements of the Home Mortgage Disclosure Act (HMDA).

DESCRIPTION OF INSTITUTION

CNB is a community bank with offices located in Hamblen County and Jefferson County, Tennessee. CNB operates its main office and one full-service branch in Morristown, Tennessee. The bank has one other full service branch in Jefferson City. As of September 30, 2011, the bank reported total assets of \$114 million with \$90 million in deposits and \$64 million in loans (56% of total assets). CNB is well capitalized with capital ratios below peer averages. There have not been any major changes in the bank's corporate structure, including merger or

acquisition activities, since the last CRA exam as of September 30, 2005 when the bank received a satisfactory rating. There are no legal impediments hindering the bank's ability to meet the community's credit needs.

CNB operates in a competitive environment including other community banks, regional bank branches, and credit unions. CNB ranked 8th out of 16 banks in deposit market share in their AA of Hamblen and Jefferson Counties, with 5.31% market share, according to FDIC data for 2011. The bank's primary business focus is residential real estate and commercial loans.

The loan portfolio composition as of September 30, 2011, is as follows:

Loan Category	\$ (000s)	Percent
Residential Mortgage Loans	\$33,067	51.58%
Commercial & Commercial Real Estate	\$24,364	38.02%
Construction & Land Development	\$2,858	4.46%
Individuals	\$2,855	4.45%
Farmland and Agriculture	\$956	1.49%
Total	\$64,110	100.0%

** Data obtained from 9/30/2011 Call report*

CNB offers convenient banking hours and a variety of loan and deposit products to meet the credit needs in the AA. Banking hours are Monday through Thursday from 9:00 A.M. to 4:30 P.M. and Friday from 9:00 A.M. to 6:00 P.M. Drive-up services are available Monday through Friday opening at 8:30 A.M. All three Branches have deposit taking ATMs. In addition, the bank operates three non-deposit taking ATMs. Two, located in Morristown and Jefferson City, are within the bank's AA. The third ATM is located in Knoxville, TN.

DESCRIPTION OF ASSESSMENT AREA

CNB's AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The AA includes all of Hamblen and Jefferson Counties. Both Hamblen and Jefferson Counties are included in the Morristown Metropolitan Statistical Area (MSA). The 2000 U.S. Census data shows this AA contains two moderate-income geography tracts and no low-income tracts.

Morristown serves as the county seat of Hamblen County and is located approximately 40 miles northeast of Knoxville. The local employment base in the MSA is diversified with the principal industries being light manufacturing and trucking. Some of the major employers in the county include Berkline Corporation, Mahle, and Koch Foods. Jefferson City is located in Jefferson County, about 25 miles from Knoxville. Some of the major employers are Old Dominion Freight, Nashua Corp, and Bush Brothers. The unemployment rate in Morristown was 11.9% in September 2011. The Tennessee statewide unemployment rate was 9.8% and the National unemployment rate was 9.0%.

The following table shows the demographic and economic characteristics of the AA:

Demographic Information for MSA Assessment Area: Morristown, Tennessee (Jefferson and Hamblen)					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	21	0.00	9.52	71.43	19.05
Population by Geography	102,422	0.00	6.19	75.94	17.87
Owner-Occupied Housing by Geography	30,205	0.00	4.72	76.28	19.00
Businesses by Geography	4,885	0.00	16.07	69.66	14.27
Farms by Geography	175	0.00	7.43	81.14	11.43
Family Distribution by Income Level	29,361	18.03	17.79	23.20	40.98
Distribution of Low- and Moderate- Income Families throughout AA Geographies	10,517	0.00	9.57	78.05	12.37
Median Family Income	\$39,609	Median Housing Value 2010			\$80,970
HUD Adjusted Median Family Income for 2010	\$47,400	Unemployment Rate 2010			5.8%
Households Below the Poverty Level	14.74%				

Source: 2000 U.S. Census and 2004 HUD updated MFI.

We conducted a community contact with a local community action agency which provides a Headstart program, HUD technical assistance program for first time homebuyers, and credit counseling. This organization also provides services for low- to moderate-income individuals such as an after school program, child care, and food. The community has been declining for years because of loss of jobs in the upholstery and furniture industry that have left the area and moved overseas. The area has been depressed since the recession hit with unemployment over 18% at the end of last year. Construction is at a standstill and housing prices have declined. There have been a lot of foreclosures in the area and the organization refers individuals in need of assistance with housing to Clinch Powell Resource and Development.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

CNB's loan-to-deposit (LTD) ratio is reasonable. The LTD ratio meets the standard for satisfactory performance with consideration given to the credit needs of the AA, the bank's size, and financial condition. The quarterly loan-to-deposit ratio for the twenty quarters ending September 30, 2011 averaged 81.34%. The ratio has ranged from a low of 69.88% at December 31, 2005 to a high of 104.41% at December 31, 2007. We compared this LTD ratio to ten similarly situated community banks from surrounding communities. CNB's LTD ratio of 81.34% compared favorably with the other banks with a LTD average ratio of 75.23%.

Analysis and Comparison of the Bank's Loan-to-Deposit ratio						
BANK NAME	CITY	STATE	COUNTY	Cert #	TOTAL	Average
					ASSETS (000s)	LTD Ratio
Southern Community Bank	Tullahoma	TN	COFFEE	58105	112,050	96.00%
American Patriot Bank	Greeneville	TN	GREENE	57169	94,415	88.55%
Community Bank	Lexington	TN	HENDERSON	31272	106,456	82.73%
Traditions First Bank	Erin	TN	HOUSTON	57092	108,078	82.05%
CNB of The Lakeway Area	Morristown	TN	HAMBLLEN	57445	114,063	81.34%
Peoples Bank of Bedford County	Shelbyville	TN	BEDFORD	35604	102,740	80.61%
Franklin County United Bank	Decherd	TN	FRANKLIN	57851	96,638	79.56%
The First National Bank of Pikeville	Pikeville	TN	BLEDSON	4960	103,839	67.97%
Merchants & Planters Bank	Bolivar	TN	HARDEMAN	8665	93,841	66.41%
Farmers & Merchants Bank, The	Dyer	TN	GIBSON	1480	99,214	54.43%
McKenzie Banking Company	McKenzie	TN	CARROLL	13955	118,109	53.99%

Lending in Assessment Area

CNB's lending within its AA exceeds the standards for satisfactory performance. A substantial majority of both the number and dollar amount of CNB's loans were originated within their AA. Our sample was comprised of home mortgage real estate and business loans. Our sample of home mortgage loans (Home Purchase, Home Improvement, and Refinance) showed that 79.31% by number and 75.78% by volume made were within the bank's AA. For business loans, 83.87% and 83.68% of the loans sampled (respectively) were originated within the bank's AA. Overall, our loan sample indicated that 79.95% by number and 76.62% by volume were originated in the bank's AA. Refer to Table 1 for details on the bank's lending within their AA.

Table 1 - Lending in Morristown, Tennessee. Counties of Hamblen and Jefferson MSA AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	116	77.85	33	22.15	149	15,049	69.0	\$6,760	31.00	21,809
Home Improvement	46	75.41	15	24.59	61	1,136	67.78	540	32.22	1,676
Refinance	137	82.04	30	17.96	167	16,070	84.23	3,008	15.77	19,078
Total Home Mortgage Loans	299	79.31	78	20.69	377	32,255	75.78	10,308	24.22	42,563
Commercial	52	83.87	10	16.13	62	4,239	83.68	827	16.32	5,066
Total	351	79.95	88	20.04	439	36,494	76.62	11,135	23.38	47,629

Source: Data reported under HMDA; sample of commercial loans.

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

CNB's lending to borrowers of different incomes and businesses of different sizes are reasonable. As shown in Table 2 below, the percentage of home mortgage loans which includes home purchase, home improvement, and refinances made in the bank's AA to low- income families of 2.68% is far below that of the AA demographics at 18.03%.

The percentage of loans made to moderate-income families of 14.06% is lower than but near the percent of moderate-income families in the AA at 17.79%.

Considering the institutions size and generic loan products; current economic conditions including an increased unemployment rate, higher below poverty rate of the number of households at 14.74%; and a median housing cost of \$80,970; and, a lower volume of residential loans, the distribution of loans to low- and moderate-income families is reasonable.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Morristown, Tennessee. Counties of Hamblen and Jefferson MSA AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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	18.03	0.00	17.79	5.69	23.20	10.03	40.98	22.07
Home Improvement	18.03	1.34	17.79	2.68	23.20	3.34	40.98	7.69
Refinance	18.03	1.34	17.79	5.69	23.20	10.03	40.98	28.09

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

No income data available for 2.01% of the loans (6 loans)

The distribution of loans made to small businesses is reasonable when compared to the number of small businesses in the AA. Table 2A indicates, based on our sample that 85.54% by number and 65.48% by volume of loans in the AA were made to small businesses (businesses with \$1 million or less in gross annual revenues). This compares to the 78.21% of businesses with reported revenues less than \$1 million.

Table 2A - Borrower Distribution of Loans to Businesses in Morristown, Tennessee. Counties of Hamblen and Jefferson MSA AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	78.21	3.72	18.07	100%
% of Bank Loans in AA by #	85.54	7.69	5.77	100%
% of Bank Loans in AA by \$	65.48	31.70	2.82	100%

Source: Business loan sample.

*Dunn & Bradstreet data, 28.6% of AA businesses did not report revenue data

Geographic Distribution of Loans

Overall, the geographic distribution of residential real estate loans and loans to businesses within the bank's AA reflects reasonable dispersion. Table 3 shows the geographic distribution of residential real estate loans sampled indicate reasonable performance. The home mortgage loan sample which includes home purchase, home improvement, and refinances shows that 5.01% of the loans were sampled were made in moderate-income census tracts where only 4.72% of the total housing units are owner occupied.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Morristown, Tennessee. Counties of Hamblen and Jefferson MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans						
Home Purchase	0.00	0.00	4.72	3.01	76.28	9.03	19.00	0.00
Home Improvement	0.00	0.00	4.72	0.33	76.28	13.38	19.00	1.67
Refinance	0.00	0.00	4.72	1.67	76.28	35.12	19.00	9.03

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

No income data available for 2.01% of the loans (6 loans).

Table 3A indicates excellent dispersion where 13.46% of the loans sampled were located in moderate-income census tracts compared to 12.02% of AA businesses located within those moderate-income tracts.

Table 3A - Geographic Distribution of Loans to Businesses in AA								
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	0.00	0.00	12.02	13.46	73.01	76.92	14.97	9.62

Data source: Dunn & Bradstreet data.

Responses to Consumer Complaints

No complaints have been received by the bank or the OCC regarding the bank's Community Reinvestment Act performance since the prior evaluation of January 1, 2006.

Compliance with Anti-discrimination Laws and Regulations

No violations of the substantive provisions of the anti-discriminatory laws and regulations were identified during this evaluation.

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.