



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

PUBLIC DISCLOSURE

March 6, 2000

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Community National Bank of Tennessee
Charter Number - 23542**

**19 Natchez Trace Drive
Lexington, TN 38351**

**Office of the Comptroller of the Currency
Memphis Field Office
57 Germantown Court, Suite 309
Memphis, Tennessee 38018**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Community National Bank of Tennessee, Lexington, TN (CNBT)** prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of March 6, 2000. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

The conclusion is based on the following:

- ◆ **A substantial majority of loans are made in the assessment area.**
- ◆ **The bank has a good distribution of loans to borrowers of different income levels and businesses and farms of different sizes.**
- ◆ **The loan-to-deposit ratio is good given the bank's size, financial condition, and the assessment area credit needs.**
- ◆ **The geographic distribution of lending was not reviewed due to the nature of the assessment area. Block Numbering Areas cover large areas and are middle-income.**

DESCRIPTION OF INSTITUTION:

Community National Bank of Tennessee, Lexington TN (CNBT) is a \$39 million institution located in Western Tennessee, in Henderson County, approximately 100 miles northeast of Memphis, TN and 20 miles east of Jackson TN. The prior CRA examination was conducted by the Office of Thrift Supervision as of 9/11/95 with a “Satisfactory” rating. The bank’s primary business focus is residential real estate, commercial, and consumer loans. CNBT was originally chartered as Lexington First Federal Savings & Loan in 1961 before converting to Community National Bank of Tennessee in November 1997. The bank is a subsidiary of Community National Corporation, a one-bank holding company with total assets of \$39.8 million located in Lexington, TN. The bank’s loan portfolio composition as of December 31, 1999 is as follows:

Loan Type	\$ Volume (000)	% of Portfolio
1-4 Family Residential	17,277	61%
Commercial	5,482	19%
Consumer	4,168	15%
Other	918	3%
Farmland	549	2%
TOTAL	\$28,394	100%

CNBT operates both the main office and one branch in Lexington, TN. The bank offers a full range of banking services primarily accessible at the main office. CNBT does not have any automated teller machines (ATM’s). There are no legal or financial constraints that prohibit the bank from meeting assessment area credit needs.

Within Henderson County, the bank’s deposit competition consists of one regional national bank headquartered in Memphis, TN, and four Tennessee state-chartered banks. CNBT and one other state-chartered bank are locally owned. See the table below for a breakdown of deposit market shares as of June 30 for the last three years in Henderson County. Additional loan competition within the county is present with numerous finance companies located within the city of Lexington, TN.

**DEPOSIT MARKET SHARE
WITHIN HENDERSON COUNTY**

YEAR	CNBT %	ONE BRANCH OF A NATIONAL BANK %	FOUR STATE BANKS %
1997	7.5	** 0.00	92.5
1998	8.5	31.4	60.1
1999	8.8	26.1	65.1

** The national bank took over a state bank branch in Lexington during 1998.
This resulted in the national bank having a 0.00% market share for 1997

DESCRIPTION OF ASSESSMENT AREA:

CNBT's assessment area consists of all of Henderson County, TN. Within the county, there are four incorporated towns: Lexington, Parker's Crossroads, Sardis, and Scotts Hill. Lexington is the county seat and the largest city in Henderson County. The 1990 U. S. Census median family income for non-Metropolitan Statistical Areas in Tennessee, including the assessment area, is \$24,395. This number is used to determine the income level of the block numbering areas (BNA's) in the assessment area. CNBT's assessment area is comprised of (6) middle-income BNA's. *None of the BNA's in the assessment area is considered low-or moderate-income.* The bank's assessment area meets the requirements of the CRA regulation and does not arbitrarily exclude any low-to-moderate income geographies.

According to the 1990 U.S. Census demographic data, Henderson County reported a population of 21,844. Nineteen percent of households showed income below the poverty level. The Department of Housing and Urban Development (HUD) 1999 updated median family income is \$37,500. This income figure is updated annually and is used to determine the income level of individual applicants. There are 6,593 families in the assessment area of which: 1,346 (20.4%) are low-income, 1,083 (16.4%) are moderate-income, 1,571 (23.9%) are middle-income, and 2,593 (39.3%) are upper-income families.

Henderson County has a long history of low unemployment as compared to the State of Tennessee and national averages. Unemployment within Henderson County for 1999 averaged only 2.5% of the population. Low unemployment can best be explained by the close proximity to Jackson, TN, which allows people to commute from Henderson County to the adjoining Madison County for employment. Jackson, TN is part of a major Metropolitan Statistical Area (MSA) with added employment opportunities for technical skills and higher wages than the Henderson County market. However, twenty-eight manufacturers provide employment opportunities for 5,100 individuals in Henderson County.

The bank's assessment area is primarily manufacturing and retail trade related. Major manufacturers within Henderson County consist of Johnson Controls (automotive hardware manufacturer employing approximately 1,150 with presence in the county since 1959) and Magnetek/Century Electric (electric motors and generators employing approximately 1,114 with presence in the county since 1965). Smaller auto parts manufacturers have followed in their steps and located in the Lexington Industrial Park (examples: MIG - 450 employees, Mark IV Automotive - 440 employees, Columbus McKinnon - 330, Auto Zone - 305 employees, and Garner Automotive - 227 employees, and Volvo Penta - 210 employees). Since there is a concentration of auto parts manufacturers in the area, in 1994 Auto Zone set up one of their auto parts distribution centers in Lexington. Additional local industries within Henderson County manufacture a wide range of products from marine engines, machine and tool & die parts, footwear, apparel and packaging material.

Two community contacts were made during this CRA review period. As a result of these contacts, a need was emphasized for more low- and moderate-income housing projects and added housing for a retirement community or assisted living facility. Additionally, there is a need for employment opportunities and training for individuals who do not possess advanced skills. Community development projects were also discussed during the contacts. One such project discussed was the need for a "YMCA or YWCA" facility for kids to have a place to gather and learn after hours.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Lending in the Assessment Area

A substantial majority of loans are originated within the assessment area. The bank does not geocode loan originations. As a result, a sample of 20 home mortgage loans and 20 consumer loans was selected to determine the level of lending within the assessment area. These loans were originated in 1998 and 1999. From this sample of 20 home mortgage loans, 19 loans or 95% were originated within the assessment area. The sample of 20 consumer loans revealed that 16 loans or 80% were originated within the bank's assessment area. CNBT doesn't track loan originations within each BNA. Also, they do not track the dollar volume within and outside the total assessment area.

Lending to Borrowers of Different Incomes

The distribution of lending to borrowers used in our sample reflects good penetration of lending to individuals of different income levels (including low- and moderate-income). We used a sample of

20 consumer and 20 home mortgage loans to determine the income distribution of borrowers. The following table reflects the results of the sample and show that the number of loans to borrowers of different income levels mirrors the demographics of the assessment area, except for low- and moderate-income families.

Although the moderate-income level has the lowest number of families, the bank has generated a higher percentage of loans to these families. The bank does a good job of offering installment loans, both secured and unsecured, to the moderate-income individuals and families. Our sample included home purchase and installment loans.

In Henderson County the cost of new housing is not affordable to low-income residents. The cost of a new two bedroom home ranges from \$50,000 to \$70,000 and the cost of a three bedroom home ranges from \$80,000 to \$100,000 (based upon location of the property). Even though there are seventeen new subdivisions located in Henderson County, the cost of purchasing affordable housing is well above the capacity of low-income families. Of the 20 first purchase home loans used in the sample, only one had been made to a low-income family in Henderson County. As a result, our sample revealed a lower percentage of loan originations to low-income families compared to the number of low-income families located in Henderson County. The bank is doing a good job of making consumer loans, both secured and unsecured, to low-income families in the assessment area.

<i>Distribution of Loans in Assessment Area By Borrower Income</i>								
Income Levels	Low		Moderate		Middle		Upper	
	#	%	#	%	#	%	#	%
Family Characteristics	1,346	20%	1,083	17%	1,571	24%	2,593	39%
Consumer Loans	3	19%	5	31%	2	13%	6	37%
Mortgage Loans	1	5%	6	32%	5	26%	7	37%
Total Loans	4	11%	11	31%	7	20%	13	37%

CNBT also has a good record of making loans to small businesses and small farms and to businesses of different sizes. Dun and Bradstreet Business Demographic Data indicates 95% of farms in Henderson County generated revenues of less than \$1 million, and 76% of businesses generated

revenues of less than \$1 million. A sample of 20 business and 20 farm loans was used to determine if CNBT is making loans to businesses and farms of different sizes. The sample showed that 40 loans or 100 % were to businesses and farms with gross revenues of less than \$1 million. Of the 20 farm loans reviewed, 12 or 60% were within the bank's assessment area. The smaller percentage is due to a majority of the county being timber country and hilly in nature. Of the 20 business loans sampled, 17 or 85% were within the bank's assessment area.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is remarkable given the bank's size, financial condition, and assessment area credit needs. CNBT's loan-to-deposit ratio for the last eight quarters has averaged 87%, while similarly situated peer banks have averaged 64% over the same time period. Over the eight quarter period from January 1997 to December 1999, the loan-to-deposit ratio has been as low as 83% on 6/30/98, and as high as 93% on 6/30/99. The high ratios continue to be consistent. This is a positive reflection on CNBT given the increased competition in the Lexington market for deposits. As noted in an earlier table on page 3, the bank continues to maintain their percentage of total deposits in Henderson County, and has shown a slight increase over the past three years. Deposit growth for CNBT over the past 12 months has been at a rate of 2.8% compared to loan growth of 7.6% over the same time period.

Geographic Distribution

An analysis of the geographic distribution of loans originated by the bank was not performed at this examination. CNBT's assessment area is composed of six middle-income BNA's. CNBT does not collect the necessary information to perform this type of analysis.

Response to Complaints

No complaints have been received from the public specifically related to the bank's performance in helping to meet community credit needs.

ADDITIONAL INFORMATION

Discrimination or Other Illegal Credit Practices

A fair lending review was conducted in conjunction with the bank's CRA evaluation. First lien, residential mortgage loans extended in 1999 were the loan products sampled. Marital status was the prohibited basis and unmarried applicants were the control group. No substantive violations were found, and no violations of the substantive provisions of the anti-discrimination laws and regulations were identified.