



## **PUBLIC DISCLOSURE**

June 03, 2013

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

Citizens National Bank  
Charter Number 16076

200 Forks of River Parkway, Sevierville, TN 37864

Office of the Comptroller of the Currency

320 Seven Springs Way, Suite 310 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 Outstanding.**

**The Lending Test is rated: Outstanding**

**The Community Development Test is rated: Outstanding**

Major factors that support this rating include:

- The Bank's loan-to-deposit ratio is more than reasonable.
- A substantial majority of loan originations and purchases are within the Bank's assessment area (AA), exceeding the standard for satisfactory.
- The distribution of loans to borrowers of different income levels for residential mortgage lending exhibits a reasonable penetration, and the businesses of different sizes exhibits excellent penetration yielding performance that exceeds the standard for satisfactory performance.
- The overall level and responsiveness of community development lending, investments, and services is excellent.

## **Scope of Examination**

This Performance Evaluation assesses the Bank's performance under the Lending and Community Development Tests. The evaluation period ranges from April 6, 2010 through June 3, 2013. However, the Lending Test concentrated on activity from January 1, 2010 to March 31, 2013. In evaluating the Bank's lending performance, the Bank's primary loan products include residential mortgages and business loans with an emphasis on small business lending. We placed most weight for rating the borrower distribution of loans on small business lending considering the Bank's strategic focus is business lending. In evaluating the Community Development Test, we reviewed community development (CD) loans, investments, and services for the whole evaluation period.

In consideration of changes to demographics and geographies related to the Census update during the evaluation period, we prepared separate analyses to evaluate the distribution of loans. The 2000 Census applies to the years of 2010 and 2011. The 2010 Census applies to the year 2012 through March 31, 2013.

This evaluation is based on accurate data. We tested Home Mortgage Disclosure Act (HMDA) data for residential mortgages and business loan reports provided by the Bank to verify the accuracy of data used for this examination. We used the Bank's database of originated and purchased business loans tracked by revenue code to conduct our analysis of business loans. We also verified community development loans, investments, and services submitted by management to ensure they met the regulatory definition for community development. We excluded any items that did not meet the definition or purpose of community development.

Sevier County, a non-Metropolitan Statistical Area (non-MSA) received a full scope review, which considers complete performance context information, quantitative factors, and qualitative factors. Sevier County received the full scope review because most of the Bank's deposits (79 percent), loans analyzed (82 percent), and offices (72 percent) are in Sevier County. The Knoxville MSA (partial) and Morristown MSA (partial) received limited scope reviews that consider primarily quantitative factors with performance context data limited to the comparable demographics.

## Description of Institution

Citizens First National Bank (CNB) is an independent, intrastate bank that opened for business in 1973. Effective April 1984, the Bank became wholly owned by CNB Bancshares, Inc., a one-bank holding company. Both the holding company and CNB are located in Sevierville, Tennessee. The holding company owns CNB Community Development (CNBCD), a community development corporation project that owns two apartment complexes that provide housing to low-income individuals. By virtue of the fact that Bank and CNBCD are both owned by CNB Bancshares, Inc., the Bank and community development company are affiliates of each other. Therefore, CNBCD's activities are included in this evaluation. The holding company also owns two wholly owned subsidiary grantor trusts known as CNB Statutory Trust I and Trust II. These subsidiaries have no activities that meet the definition of community development activities. The Bank owns Courthouse Title and Escrow, LLC, which provides professional real estate and other loan closing services (title services and title insurance). This entity neither conducts nor impedes any Community Reinvestment Act (CRA) activities that would be included in this evaluation. The trust subsidiaries and the title escrow entity have neutral CRA implications and therefore are not considered in the Bank's CRA activities for this PE.

Sevierville is approximately 20 miles east of Knoxville, Tennessee. There have been no major changes in the Bank's corporate structure, including merger or acquisition activities, since the last CRA examination dated April 5, 2010 when the Bank received an "Outstanding" rating. There are no legal or financial impediments to CNB's ability to meet the credit needs of its Assessment Area (AA) including retail and community development loans, qualified investments, and community development services needs. The Bank offers a full-range of loan and deposit services. CNB's primary business focus is commercial lending, including commercial real estate loans and mortgage loans. As of March 31, 2013, the Bank had total assets and loans of \$824 and \$590 million, respectively. Gross loans comprised 67 percent of total assets. Total assets for the holding company were \$855 million as of March 31, 2013. CNB's loan portfolio consists of 71 percent commercial real estate and commercial loans, 28 percent residential mortgage loans, and one percent consumer loans.

Branches are generally located in areas that make them accessible to Bank customers. Thirteen branches are located in Sevier County, two branches each are located in Knox and Jefferson County, and one branch is located in Blount County. Lobby hours and drive-up hours are set to meet customer needs. ATMs that disburse cash and take deposits are located at each branch office. There are also 23 freestanding, non-deposit taking ATMs that disburse cash only.

Customers may also access their accounts through telephone banking or by the Internet ([www.cnbtn.com](http://www.cnbtn.com)). Internet and telephone banking include transfers between CNB accounts, review of bank balances and transactions, access to loan account information and bill paying capability for the Internet banking product. The Bank also offers Visa debit cards that can be used to access customer accounts at point of sale (POS) or ATM locations. Additionally, Visa and Mastercard credit cards are offered by the Bank.

CNB's business strategy includes the continued marketing of commercial credit to small businesses and individuals through its products, staff, and locations. The Bank actively generates commercial, mortgage, and consumer loans to customers located primarily in Sevier, Jefferson, Knox, and Blount Counties. Commercial loan activity includes all types of commercial real estate development and construction lending. Small Business Administration (SBA) loans are offered for new business startups as well as to expand existing businesses. CNB also offers United States Department of Agriculture (USDA) and SBA's America's Recovery Capital Loan Program (SBA ARC) loans to qualifying businesses. Government guarantees can be as high as 100%. CNB also supports the purchase and long-term financing of residential home loans through its conventional secondary residential mortgage market, Federal Housing Administration (FHA), Veterans Administration (VA), and USDA Rural Housing Service mortgage guarantee programs.

## Description of Assessment Area(S)

For the 2000 Census, the Bank's AA consists of 24 geographies in Sevier, Blount, Knox, and Jefferson Counties. There are no low-income geographies and a limited number of moderate-income geographies in the AA. The AA meets the requirements of the CRA regulation and does not arbitrarily exclude low- and moderate- income geographies. The AA includes all (11) geographies in Sevier County with two upper-income and nine middle-income geographies, one middle-income geography in Blount County, five middle-income geographies and one moderate-income geography in Knox County, and seven middle-income geographies in Jefferson County. Sevier County is in a non-Metropolitan Statistical Area (MSA). Blount and Knox Counties are part of the Knoxville Metropolitan Statistical Area (MSA #28940). Jefferson County is part of the Morristown MSA #34100.

For the 2010 Census, the Bank's AA increased due to census changes to 31 geographies in Sevier, Blount, Knox, and Jefferson Counties. The AA includes 17 geographies in Sevier County (one moderate, five upper-income, and 11 middle-income), one middle-income geography in Blount County, six geographies in Knox County (one moderate-income and five middle-income), and seven middle income- geographies in Jefferson County,

For Sevier County, there are ten banks in the market. CNB has a 25.90 percent deposit market share and ranks second according to the Federal Deposit Insurance Corporation (FDIC) as of June 30, 2012. For Knox County, the Bank's deposit market share is 0.32 percent ranking twenty-third among 37 banks in the market. For Blount County, there are 17 banks in the market with the Bank ranking eleventh in deposit market share. For Jefferson County, there were nine banks with CNB ranking fifth with a market share of 11.41 percent.

During the evaluation period, the national and local economies endured a major recession that sparked high unemployment, high levels of residential foreclosures, sharp declines in property values, increased bankruptcies, tightened loan underwriting standards for business and residential loans, reduced subsidized loan funding programs for low-and moderate-income borrowers to purchase homes, and high levels of problem assets in the banking industry. In the later part of the evaluation period, economic trends indicate improvement.

Sevier County has been one of the fastest-growing counties in Tennessee. Based on the 2010 Census the population grew 20.73 percent from a population of 71,170 for the 2000 Census to 85,927 for the 2010 Census. The county seat is Sevierville, which is the largest city in the county. Other cities include Pigeon Forge and Gatlinburg. Also known as, the "Gateway" to the Great Smoky Mountains National Park, Sevier County is located off the major East-West connector Interstate I-40. From its beginnings as a traditional subsistence-based farming society, Sevier County has grown into a major tourist destination. Dedicated in 1940, the [Great Smoky Mountains National Park](#) dominates the southern part of the county. In 2011, the park had nine million visitors. This traffic has had a positive impact on motels, restaurants, shopping, theme parks, theaters, and festivals in the cities of Sevierville, Pigeon Forge, and Gatlinburg. Tourism also caused tremendous interest and growth in the commercial cabin rental industry. Tourism accounts for greater than 90 percent of the county's economic base.

According to the Bureau of Labor and Statistics, the unemployment rates for the State of Tennessee and the United States (US) were 7.8 percent and 7.6 percent, respectively as of March 2013; however, during the evaluation period unemployment was as high as 10.5 percent for Tennessee and 9.8 percent for the US. Although the Sevier County has experienced good economic and employment growth, the March 2013 unemployment rate of 10.1 percent was higher than the State of Tennessee and US unemployment rates. Sevier County unemployment rate was as high as 15.5 percent during the evaluation period. Typically, unemployment for Sevier County is higher during the winter months versus spring, summer, and fall seasons when tourism thrives. The poverty rate for Sevier County is high, but it decreased from 13.84 percent under the 2000 Census to 11.75 percent under the 2010 Census. Median Family income decreased from \$46,000 (2000 Census) to \$45,400 (2010 Census)

The following is a description and discussion of the economic conditions of the adjacent counties of Knox, Jefferson, and Blount:

#### Knox County

Knox County is part of the Knoxville MSA. Knoxville and Farragut are the major cities in Knox County. Knoxville is the third-largest city in the State of Tennessee and is the county seat of Knox County. It is also the largest city in East Tennessee. Knoxville's economy is largely fueled by the regional location of the main campus of the University of Tennessee, the Oak Ridge National Laboratory and other Department of Energy facilities in nearby Oak Ridge, the National Transportation Research Center, and the Tennessee Valley Authority. Because of its central location in the eastern half of the United States and proximity to two major Interstate highways, many warehousing and distribution companies operate in and around Knoxville.

As of March 2013, Knox County's unemployment rate of 6.2 percent is lower than both the state and US unemployment rates. The Knoxville County unemployment rate was as high as 7.70 percent during the evaluation period. The Knoxville MSA poverty rate is high and has increased from 8.87 percent for the 2000 Census to 10.30 percent for the 2010 Census. Median Family Income decreased from \$62,200 (2000 Census) to \$61,300 (2010 Census) for the Knoxville MSA.

#### Blount County:

Blount County is part of the Knoxville MSA. Blount County is bordered on the east by the Great Smoky Mountains National Park and on the west by the great chain of lakes created by the Tennessee Valley Authority (TVA). The City of Maryville (county seat) is bordered on the north by its twin city, Alcoa, a number of small suburbs to its east and west, and Townsend to its south. For many years lumbering was the primary industrial trade in Blount County. Today, lumbering has been replaced with many varied occupational opportunities. Over 100 manufacturing plants can be found in Blount County. The top five employers for the residents of Blount County are DENSO Manufacturing TN, Inc., Clayton Homes, Blount Memorial Hospital, Alcoa, Inc., and Ruby Tuesday. During the evaluation period, Blount County's unemployment rate was as high as 10.5 percent and is 6.6 percent as of March 2013. Blount County's

unemployment rate is lower than the state and US unemployment rates. The poverty rate and median family income is the same as the Knoxville MSA as discussed for Knox County.

### Jefferson County

Jefferson County is part of the Morristown MSA. Major cities in Jefferson County include Dandridge, Jefferson City, White Pine, and Baneberry. Dandridge is a short drive from Pigeon Forge and Gatlinburg, Knoxville and the University of Tennessee. Situated only two miles from the intersection of Interstate-40 and Interstate-81, Dandridge is a prime destination for anyone visiting the Smoky Mountains. Jefferson City is approximately twenty miles northeast of Knoxville. Jefferson City offers a small town atmosphere with all the amenities and entertainment of Knoxville, Pigeon Forge, and Gatlinburg. In the heart of the Lakeway Area, Jefferson City is minutes from Cherokee Lake and Douglas Lake. These TVA operated recreational facilities offer excellent opportunities to sportsmen and fishermen, as well as campers and recreational watercraft owners. Baneberry is primarily a resort community nestled at the foot of the Smoky Mountains. It is partially surrounded by Douglas Lake that has almost 600 miles of shoreline and is one of the premier fishing lakes in Tennessee. A championship golf course winds through the heart of the city. Baneberry is just minutes from Knoxville, Gatlinburg, and Pigeon Forge, Home of Dollywood, a variety of music theaters and outlet stores.

As of March 2013, Jefferson County's unemployment rate of 10.50 percent is higher than the state's rate of 7.8 percent and also higher than the US rate of 7.6 percent. During the evaluation period, the unemployment rate was as high as 15 percent. The Morristown MSA poverty level was 18.94 percent (2000 Census) but has decreased to 14.72 percent. Median Family income decreased from \$49,400 (2000 Census) to \$48,700 (2010 Census) for the Morristown MSA.

We determined the community credit needs in the assessment area by reviewing CRA Public Evaluations of other banks operating in the same assessment area and by conducting a community contact with a non-profit organization that primarily focused on affordable housing and other supportive services to low-and moderate-income people. We determined that the most pressing credit needs in the AA are small business lending and affordable housing. Other needs included financial literacy and credit repair.

## **Conclusions with Respect to Performance Tests**

### **LENDING TEST**

The Bank's performance under the Lending Test is rated "Outstanding".

### **Loan-to-Deposit Ratio**

- Based on the Bank's resources, capacity, competitive environment, and other performance context factors, the Bank's loan-to-deposit ratio exceeds the standard for satisfactory performance.

CNB's quarterly average loan-to-deposit ratio since the last CRA examination is more than reasonable at 85.27 percent exceeding the 74.04 percent quarterly average loan-to-deposit ratio for four similarly situated banks in the assessment area. The range of the average loan-to-deposit ratios was 65.51 percent to 85.27 percent for the banks. The four similarly situated banks include SmartBank, Tennessee State Bank, Mountain National Bank, and Sevier County Bank.

### Lending in Assessment Area

- Lending in the assessment area exceeds the standard for satisfactory performance.

CNB originated or purchased a substantial majority of loans in the assessment area. We performed this analysis at the bank level as opposed to the assessment area level. As illustrated in Table 1, CNB originated or purchased 88.47 percent of the bank's loans by number and 84.19 percent by dollar during the evaluation period in the assessment area.

<b>Table 1 - Lending in the Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	258	88.97	32	11.03	290	50,516	91.10	4,937	8.90	55,453
Home Improvement	84	85.71	14	14.29	98	3,261	81.04	763	18.96	4,024
Home Refinance	72	87.80	10	12.20	82	14,173	91.01	1,400	8.99	15,573
Business Loans	281	88.09	38	11.91	319	78,500	79.19	20,628	20.81	99,128
<b>Totals</b>	<b>695</b>	<b>88.47</b>	<b>94</b>	<b>11.53</b>	<b>789</b>	<b>146,450</b>	<b>84.19</b>	<b>27,728</b>	<b>15.81</b>	<b>174,178</b>

Source: HMDA Data and Bank business loan origination reports from January 1, 2010 through December 31, 2013.

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

- The distribution of loans to borrowers of different income levels for residential mortgage lending exhibits a reasonable penetration, and the businesses of different sizes exhibits excellent penetration yielding performance that exceeds the standard for satisfactory performance.

For the combined years of 2010 and 2011, CNB had no mortgage loans to low- and moderate-income borrowers as illustrated in Table 2. Though this performance would normally be considered poor, it is mitigated considering the economic conditions during the evaluation period. Economic factors include the high poverty level in the county, the decreased accessibility of subsidized funding for low- and moderate-income borrowers, high foreclosures, the significant declines in residential real estate values, and the tightening of underwriting standards across the nation. To add perspective, based on the median family income (MFI) of

\$46,000, low-income is defined as less than 50 percent of MFI or less than \$23,000. Moderate income is defined 50 percent to less than 80 percent of the MFI or \$23,000 to less than \$36,800. The median price of a home in 2011 was \$138,000 in Sevier County. Low-income borrowers would have difficulty affording a home without subsidized funding, and moderate income may have difficulty with tighter underwriting during the evaluation period. The expense of insurance and taxes adds to the difficulty of owning and maintaining a home.

**Table 2 - Borrower Distribution of Residential Real Estate Loans in Sevier County**

Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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	17.23	0.00	17.02	0.00	21.83	62.86	43.92	7.86
Home Improvement	17.23	0.00	17.02	0.00	21.83	11.43	43.92	4.14
Home Refinance	17.23	0.00	17.02	0.00	21.83	14.29	43.92	1.43

Source: HMDA Data from January 1, 2010 through December 31, 2011; 2000 U.S. Census data.

The Bank does offer mortgages for low- and moderate-income borrowers through the USDA Rural Housing. Other programs include the Federal Housing Authority (FHA) and the Veterans Administration (VA). CNB underwrites these loans to agency guidelines and receives a fee, and the loans are funded by a third-party in the secondary market. The loans are not HMDA reportable for CNB. During the rating period, the Bank did close eight loans for \$824 thousand under the USDA Rural Housing program and we gave positive CRA consideration under the CD Test.

For 2012 through March 31, 2013, CNB’s lending to both low- and moderate income borrowers was below the percentage of families in the assessment area but adequate considering a slowly improving economy. Median family income for the 2010 Census decreased to \$45,400. The low-income would be less than \$22,700 and moderate-income would be at least \$22,700 but less than \$36,320.

**Table 2 - Borrower Distribution of Residential Real Estate Loans in Sevier County**

Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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	14.89	2.90	17.43	2.42	24.68	5.31	43.00	37.68
Home	14.89	3.86	17.43	3.86	24.68	5.31	43.00	37.68
Home Refinance	14.89	0.48	17.43	0.97	24.68	5.31	43.00	37.68

Source: HMDA Data from January 1, 2012 through March 31, 2013; 2000 U.S. Census.

For the combined years of 2010 and 2011, CNB’s distribution of loans to businesses demonstrates an excellent penetration among businesses of different sizes. As illustrated in

Table 2A, the percentage of loans by number to small businesses exceeds the percentage of small businesses in the assessment area. A small business is defined as a business with revenues of \$1 million or less. The percentage by dollar was below the demographic, but we placed the most weight on the number of loans originated or purchased to arrive at a rating, as well as considering performance context.

<b>Table 2A – Borrower Distribution of Loans to Businesses Sevier County</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	70.09	2.44	27.47	100%
% of Bank Loans in AA by #	86.54	13.46	0.00	100%
% of Bank Loans in AA by \$	34.22	65.78	0.00	100%

Source: Bank business loan origination reports from January 1, 2010 through December 31, 2011; Dunn and Bradstreet data 2011

For 2012 through March 31, 2013, the number of the Bank’s loans to small businesses exceeds the percentage of small businesses in the assessment area, as depicted in the following table. The most current demographic information for businesses in the AA was from 2011. The dollar volume of the Bank’s loans is below the percentage of small businesses in the assessment area. The number of loans received the most weight in arriving at a rating to determine performance under this component.

<b>Table 2A - Borrower Distribution of Loans to Businesses in Sevier County</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	70.09	2.44	27.47	100%
% of Bank Loans in AA by #	75.26	24.74	0.00	100%
% of Bank Loans in AA by \$	31.54	68.46	0.00	100%

Bank business loan origination reports from January 1, 2012 through March 31, 2013; Dun and Bradstreet data 2011.

### Conclusions for Areas Receiving Limited-Scope Reviews

Based on limited-scope reviews, the Bank’s performance under the Lending Test in the Knoxville MSA (Knox and Blount Counties) and the Morristown MSA (Jefferson County) is not inconsistent with the Bank’s overall “Outstanding” performance under the Lending Test. The following tables record the Bank’s lending activities compared to the respective demographic percentages for the limited scope AAs.

**Years 2010-2011**

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Knoxville MSA</b>								
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	18.02	0.00	23.12	0.00	26.28	50.00	32.58	0.00
Home Improvement	18.02	0.00	23.12	0.00	26.28	50.00	32.58	0.00
Home Refinance	18.02	0.00	23.12	0.00	26.28	0.00	32.58	0.00

Source: HMDA Data from January 1, 2010 through December 31, 2011; 2000 U.S. Census data.

**Year 2012 through March 2013**

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Knoxville MSA</b>								
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	18.89	11.11	20.27	0.00	23.77	11.11	37.07	22.22
Home	18.89	33.33	20.27	0.00	23.77	11.11	37.07	11.11
Home Refinance	18.89	0.00	20.27	0.00	23.77	11.11	37.07	11.11

Source: HMDA Data from January 1, 2012 through March 31, 2013; 2000 U.S. Census.

**Years 2010-2011**

<b>Table 2A – Borrower Distribution of Loans to Businesses in Knoxville MSA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	72.55	2.23	25.22	100%
% of Bank Loans in AA by #	100.00	0.00	0.00	100%
% of Bank Loans in AA by \$	100.00	0.00	0.00	100%

Source: Bank business loan origination reports from January 1, 2010 through December 31, 2011; Dunn and Bradstreet data 2011

## Year 2012 through March 2013

<b>Table 2A - Borrower Distribution of Loans to Businesses in Knoxville MSA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	72.55	2.23	25.22	100%
% of Bank Loans in AA by #	100.00	0.00	0.00	100%
% of Bank Loans in AA by \$	100.00	0.00	0.00	100%

Bank business loan origination reports from January 1, 2012 through March 31, 2013; Dun and Bradstreet data 2011.

## Years 2010-2011

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Morristown</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of	% of AA Families	% of Number of	% of AA Families	% of Number of	% of AA Families	% of Number of
Home Purchase	20.59	0.00	17.01	0.00	19.58	41.18	42.76	0.00
Home	20.59	0.00	17.01	0.00	19.58	29.41	42.76	0.00
Home Refinance	20.59	0.00	17.01	0.00	19.58	29.41	42.76	0.00

Source: HMDA Data from January 1, 2010 through December 31, 2011; 2000 U.S. Census data.

## Year 2012 through March 2013

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Morristown</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of	% of AA Families	% of Number of	% of AA Families	% of Number of
Home Purchase	18.21	4.26	18.18	4.26	23.57	8.51	40.04	46.81
Home Improvement	18.21	6.38	18.18	2.13	23.57	2.13	340.047	4.26
Home Refinance	18.21	0.00	18.18	2.13	23.57	0.00	40.04	4.26

Source: HMDA Data from January 1, 2012 through March 31, 2013; 2000 U.S. Census.

## Years 2010-2011

<b>Table 2A – Borrower Distribution of Loans to Businesses in Morristown MSA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	69.61	1.69	28.70	100%
% of Bank Loans in AA by #	100.00	0.00	0.00	100%
% of Bank Loans in AA by \$	100.00	0.00	0.00	100%

Source: Bank business loan origination reports from January 1, 2010 through December 31, 2011; Dunn and Bradstreet data 2011

**Year 2012 through March 2013**

<b>Table 2A - Borrower Distribution of Loans to Businesses in Morristown MSA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	69.61	1.69	28.70	100%
% of Bank Loans in AA by #	75.00	25.00	0.00	100%
% of Bank Loans in AA by \$	8.80	91.20	0.00	100%

*Bank business loan origination reports from January 1, 2012 through March 31, 2013; Dun and Bradstreet data 2011.*

**Geographic Distribution of Loans**

An analysis of the geographic distribution of business and residential loans is not meaningful considering that there are no low-income geographies and one moderate-income geography in the Sevier County assessment areas.

**Responses to Complaints**

The Bank has not received any complaints regarding its CRA performance during the evaluation period.

**COMMUNITY DEVELOPMENT TEST**

- The Bank's responsiveness to the community development needs of the AA through CD lending, investments, and services is excellent.

Our conclusion is based on the Bank's performance context and the full scope review of the Sevier County AA. Due to the existence of one moderate-income and no low-income geographies in Sevier County and competition from other financial institutions in the AA, CD lending and investment opportunities are limited in Sevier County. In response, CNB has taken advantage of opportunities in low-income areas in parts of the Knoxville MSA AA that are not in the Bank's AA that focus on affordable housing for low- and moderate-income residents as well as transitional housing for homeless individuals and families. They have also participated in affordable housing for low- and moderate-income residents in Grainger County, which is part of the Morristown MSA that is not part of the Bank's AA but is near the Bank's Jefferson City branch. These actions had a favorable impact on the CD Test rating considering the Bank has met the needs of its defined AA.

## **Number and Amount of Community Development Loans**

Considering the needs and opportunities in the Sevier County AA, and CNB's performance context and capacity, the Bank's performance is adequate relative to CD lending.

During the evaluation period, CNB renewed a \$100 thousand line of credit to the Tennessee Valley Coalition to End Homelessness, Inc. twice during the evaluation period. Proceeds from the line of credit were used to rehabilitate substandard buildings and construct new facilities in the place of deteriorating structures or vacant sites to combat the decline of these neighborhoods and contribute to their physical improvement. Funds were allocated among twelve counties that have been approved for government assistance. Sevier County receives direct benefit from this line of credit as one of the twelve counties approved for assistance.

## **Performance in Limited Scope Assessment Areas**

Performance in limited scope AAs, the Knoxville MSA and the Morristown MSA, was not inconsistent with the excellent responsiveness in Sevier County. The line of credit to Tennessee Valley Coalition to End Homelessness, Inc. (TVCEH) renewed twice during the evaluation period and includes the limited scope AAs.

## **CD Lending Outside the Assessment Area**

CNB originated two loans totaling \$1.3 million both of which met the CD eligibility definition. The two originated loans were in low-income geographies of the Knoxville MSA in close proximity to the Bank's AA. Each loan financed affordable housing for low- and moderate-income people. We gave positive consideration to this CD lending activity considering the Bank has met the CD needs in its defined AA.

## **Number and Amount of Qualified Investments**

Considering the needs and opportunities in the Sevier County AA, and CNB's performance context and capacity, the Bank's performance is excellent for qualified investments.

Although CNB did not purchase any qualified debt or equity investments during the evaluation period in the Sevier County AA, it did continue its \$3.1 million equity investment through CNBCDC, a CD project affiliate, in Riverpark Phase II, a 50-unit affordable housing project in Sevierville.

Other qualified investments include donations and contributions to organizations that support low- and moderate-income people. Donations to organizations in the Sevier County AA totaled \$102 thousand through 53 separate donations. The most notable were the following:

- \$32 thousand to Boys and Girls Club of Smoky Mountains,

- \$26 thousand to 11 schools and the school system in Sevier County in which more than 50 percent of the students come from low- and moderate-income families,
- \$8 thousand to Smoky Mountain Area Rescue Ministries,
- \$7 thousand to United Way of Sevier County that allocates and gives grants to 19 community partner agencies focusing on services targeted to low- and moderate-income families, individuals, seniors & special needs,
- \$5 thousand to the Smoky Mountain Children's Home; and
- \$4 thousand to Sevier County Economic Development for the purpose of offering insurance to low income employees of small businesses.

CNB makes its donations in accordance with its stated goals of adequately meeting community services such as child/youth care and health care for low- and moderate-income people within its AA.

### **Performance in Limited Scope Assessment Areas**

Performance in limited scope AAs, the Knoxville MSA and the Morristown MSA, was not inconsistent with the excellent responsiveness in Sevier County.

CNB made seven cash donations totaling \$3 thousand dollars to qualifying CD organizations in the Morristown MSA. In the Knoxville MSA AA, the Bank made three donations totaling \$2 thousand to Senior Citizens Home Assistance which is a nonprofit, tax exempt agency that provides trained home assistants for the frail, elderly and/or disabled so that they can stay in their homes for as long as possible.

### **Investments Outside the Assessment Area**

In the Knoxville MSA, CNB made a \$3 million equity investment. CNB is a limited partner in a Low-Income Housing Tax Credit (LIHTC) investment. Also, in this MSA adjacent to the AA, CNB continued its \$1.7 million equity investment in Minvilla Manor, a 57 unit permanent housing facility for the chronically homeless. At the time of CNB's investment, the property was located in a low-income geography. In the 2010 Census, the geography changed to moderate-income. We gave positive consideration to this investment activity given the Bank has met the needs of its defined AA.

### **Extent to Which the Bank Provides Community Development Services**

CNB meets the CD service needs of the AA through volunteer activities by its officers and employees. By providing financial services that take advantage of bank employees' financial expertise, the Bank is responsive to the needs of low- and moderate-income people. These services include developing and conducting financial educational programs to students and individuals and providing technical financial assistance to CD organizations.

CNB employees develop and conduct financial literacy programs at schools throughout the Sevier County School System (System). The majority of the students attending the System's schools are from low- and moderate-income people. Approximately 40 bank employees teach and assist in the Personal Economics Program and Junior Achievement. Several employees also contribute time to "training the trainers" for the Jump\$tart Coalition Program for Personal Financial Literacy. CNB employees also give their time serving as facilitators at local schools on the 4-H "On My Own" Program that teaches middle-school students how to manage money effectively.

Three CNB officers serve in leadership roles including a director of United Way of Sevier County, a director of the Sevier County Economic Development Council and the treasurer of the Boys and Girls Club of Sevier County. The latter organization provides community services for low- and moderate-income youth.

During the review period, CNB processed eight USDA Rural Housing mortgage loans totaling \$834 thousand. Provided the property is in a USDA approved rural area, low- and moderate-income homebuyers can qualify for this no-down payment loan provided income and credit score criteria are met. CNB underwrites these loans to agency guidelines, receives a fee for its efforts, and the loan is funded by a third party in the secondary market.

### **Performance in Limited Scope Assessment Areas**

Performance in limited scope AAs of the Knoxville MSA and the Morristown MSA was not inconsistent with the excellent responsiveness in Sevier County.

### **Responsiveness to Community Development Needs**

The volume and responsiveness of CNB to the CD needs of the AA is excellent. The Board has identified affordable housing needs, financial literacy, credit rehabilitation, and basic community services such as child/youth care and health care as its CD goals. It has allocated dollar and manpower resources to achieve those goals particularly through CD lending and investments, housing finance programs, active participation in providing financial management tools to low- and moderate-income youth and individuals to become successful with their finances, banking products to assist individuals rebuilding their credit, and cash donations and service hours to specific community service organizations.

### **Performance in Limited Scope Assessment Areas**

Performance in limited scope AAs of the Knoxville MSA and the Morristown MSA was not inconsistent with the excellent responsiveness in Sevier County.

## **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal Savings Association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.