



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 30, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Community National Bank
Charter Number 15417**

**1271 Market Street
Dayton, TN 37321**

**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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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 CRA performance of Community National Bank (CNB), Dayton, TN prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of May 31, 2002. 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."** We assigned the rating based on the following information:

- A reasonable level of lending to borrowers of different income levels within the bank's assessment area.
- A reasonable level of lending to businesses of different income levels within the assessment area.

DESCRIPTION OF INSTITUTION

Community National Bank (CNB) received a satisfactory CRA rating at its last CRA performance evaluation dated February 23, 1998. There are no legal or financial impediments to CNB's ability to meet the credit needs of its assessment area (AA).

CNB's main office is located in Dayton, Tennessee. The bank operates three full-service branch offices within its assessment area. Two branches are located in Dayton, Tennessee and one is located in Spring City, Tennessee. The branch at 420 Market Street, Dayton, Tennessee has an ATM that does not accept deposits.

As of December 31, 2001, CNB's assets totaled \$75 million, of which net loans comprise 58%.

The following table reflects the composition of CNB's loan portfolio based on the December 31, 2001 call report.

The bank's three primary loan types are home mortgage, consumer, and small business.

Product Category	Gross Loans as of December 31, 2001*	
	Dollar (000's)	Percent
Commercial & Industrial Including Commercial Real Estate	19184	41.92
Residential Mortgage Loans	16,438	35.92
Construction & Land Development	2,491	5.44
Individuals	6,036	13.19
All Other	1,568	3.43
Farmland and Agriculture	43	.10
Total	45,760	100

* Data obtained from Call report

DESCRIPTION OF RHEA COUNTY/DAYTON, TN

The bank has one assessment area, Rhea County Tennessee and the City of Dayton. The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

CNB's AA consists of Rhea County Tennessee. This is a rural non-metropolitan area located in east Tennessee. The AA includes five contiguous Block Numbering Areas (BNAs), all in Rhea County. All five are middle-income tracts. Based on the 1990 Census median income information all five BNAs are considered Middle Income Tracts. The 1990 Census shows the median family income of the county at \$24,001. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geography.

The Department of Housing and Urban Development (HUD) 2000 updated non-MSA median-family income for Tennessee was \$40,200. Based on 2000 US Census data there are 8,124 families residing in the AA. Of those 930 or 11.4% are below the poverty level.

The local economy is considered stable. The 2001 Local Area Unemployment Statistics show Rhea County unemployment rate is 5.9%, which is slightly higher than the state rate of 4.9%. The major industry in the AA is manufacturing and farming. The major employers in the community are La-Z-Boy Chair Company, Robinson Manufacturing Company, Suburban Manufacturing Company, and Kayser Roth Corporation. There are ten employers in the AA that employ 100 or more workers

The following table includes general demographic data describing the assessment area.

Demographic Characteristics of the Rhea County/Dayton, TN Assessment Area		
<u>Percent of Families by Income Level:</u>	Low-Income	24.13
	Moderate-Income	17.66
	Middle-Income	20.50
	Upper-Income	37.72
<u>Median Housing Characteristics</u>	Median Home Value	45,359
	Percent Owner Occupied Units	66.06
	Median Gross Rent	285
<u>Median Income Data:</u>	1990 Census Median Family Income	24,935
	Updated Median Family Income	40,200

Community Contact

One community contact was conducted during this examination. A representative of Best Realty GMAC Real Estate was contacted. Overall, the representative felt the local financial institutions were serving the local community and doing a relatively good job of providing financing for local business needs. The representative was unaware of any discriminatory credit practices by area banks.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to Deposit Ratio

Given the bank's size and financial condition, the loan-to-deposit ratio on December 31, 2001 of 74.66% is reasonable. CNB is similar to the First Bank of Rhea County in that it offers similar credit products, operates in the same assessment area, and both are considered a small bank under CRA guidelines. Other local competition is from two large regional banks and one credit union.

Lending in Assessment Area

The bank originated a substantial majority of its total loans within its assessment area. Our analysis of lending in the bank's assessment verified the data collection and reporting of the bank's loans. Data collected and reported by the bank was accurate. Therefore, the following tables use data supplied by bank management and summarize the results of our review of loan data compiled by CNB for lending in its assessment area. The bank's lending inside the assessment area is satisfactory.

Lending Inside/Outside the Assessment Area

Assessment Area:	Home Mortgage		Consumer		Small Loans to Businesses		Total Sampled Loans	
	% Inside	% Outside	% Inside	% Outside	% Inside	% Outside	% Inside	% Outside
Rhea County Dayton, TN	53.76%	46.24%	85.10%	14.90%	65.60%	34.40%	64.76%	35.24%

Lending to Business of Different Sizes and Borrowers of Different Incomes

The distribution of loans, given the demographics of the assessment area, reflects reasonable penetration among individuals of different income levels (including low- and moderate-income).

The percentage of home mortgage loans to low- and moderate-income families is low because a large percentage of low-income families reside in renter occupied dwellings and, therefore, would not have a mortgage loan. The table below illustrates the distribution of home mortgage loans within the income levels compared to the percentage of families in each income level.

Borrower Distribution of Home Mortgage Loans

	Low Income Families				Moderate Income Families				Middle Income families				Upper Income Families			
	#	%	Amt	%	#	%	Amt	%	#	%	Amt	%	#	%	Amt	%
Total	4	2.7	67	.70	28	18.9	1,472	15.44	42	28.3	1,916	20.00	74	50	6,120	63.86

Given the demographics of the assessment area, the distribution of loans reflects a reasonable penetration among individuals of different income levels (including low and moderate). The following table illustrates the distribution of consumer loans within the income levels compared to the percentage of households in each income level.

Borrower Distribution of Consumer Loans

	Low Income Families				Moderate Income Families				Middle Income families				Upper Income Families			
	#	%	Amt	%	#	%	Amt	%	#	%	Amt	%	#	%	Amt	%
Total	230	19.62	896	10.13	384	32.77	1,957	22.12	286	24.40	1,662	18.79	272	23.21	4,330	48.96

Overall, the bank’s lending volume regarding loans to small businesses is good. An analysis of small business loans originating since January 1, 2001 reveals that 87 loans for 76% of the dollar volume were extensions to businesses having annual revenues of less than \$1 million.

Geographic Distribution of Loans within the Assessment Areas

An analysis of the geographic distribution of loans was not performed. All geographies within the AA are designated as middle income. Therefore, an analysis would not be beneficial.

Responses to Complaints

CNB has not received any CRA-related complaints since the February 12, 1998 CRA examination.

Record of Compliance with Antidiscrimination Laws

An analysis of the years 1998 through March 31, 2002 public comments and consumer complaint information, HMDA, small business and small farm lending data was performed according to the OCC’s risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.