



## **INTERMEDIATE SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

---

### **PUBLIC DISCLOSURE**

**April 19, 2006**

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

**Citizens National Bank  
Charter Number 16076**

**200 Forks of River Parkway  
Sevierville, TN 37864**

**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.**

The Lending Test is rated: Outstanding.

The Community Development Test is rated: Satisfactory.

Citizen National Bank (CNB) has a satisfactory record of meeting community credit needs. This is based on the following:

- CNB's average loan-to-deposit ratio is good and averaged 86% during the evaluation period.
- A substantial majority of the bank's loans were made in the bank's assessment area. Approximately 91% of the number and 89% of the dollar volume of loans were to borrowers within the assessment area.
- Lending to borrowers of different income levels (including low- and moderate-income) and to businesses of different sizes was excellent.
- CNB's community development performance shows adequate responsiveness to the community development needs of its assessment area.
- There have been no complaints with respect to CNB's CRA performance.

## **SCOPE OF EXAMINATION**

This Performance Evaluation was based on loan data from January 3, 2005 through December 30, 2005. Loan data reviewed included home mortgage products and small loans to businesses. Community development activities are evaluated from the date of the bank's last Performance Evaluation (April 30, 2002) to the start date of this examination (April 17, 2006). Community development loans made to the bank's subsidiary CNB Community Development Corporation were also considered in this Performance Evaluation.

## **DESCRIPTION OF INSTITUTION**

Citizens National Bank (CNB) is an intrastate bank headquartered in Sevierville, Tennessee. As of December 31, 2005 CNB had total assets of \$538 million. CNB is owned by CNB Bancshares, Inc. also headquartered in Sevierville. CNB Bancshares, Inc. is a one-bank holding company with total assets of \$528 million as of September 30, 2005. The bank opened in 1973 and has two subsidiaries: the CNB Community Development Corporation (CNBCDC) and Courthouse Title and Escrow, LLC. CNBCDC's activities are included in this evaluation and a further description of the CDC can be found below. Courthouse Title and Escrow, LLC does not

conduct any activities that would be included in this evaluation but neither does it in any way impede the bank's CRA activities.

As of December 31, 2005, loans totaled \$403 million and deposits totaled \$443 million. Loans represented 75% of total assets. Based on the total dollar volume of outstanding loans, the distribution of CNB's loan portfolio was as follows: commercial and industrial and commercial real estate (54%); residential mortgage (27%); construction and land development (16%); farmland and agriculture (1%); and loans to individuals (2%). CNB is primarily a commercial lender with residential real estate lending a secondary emphasis. Small farm lending is not a significant product for CNB. CNB's Tier 1 capital was \$45 million as of December 31, 2005. Tier 1 risk based capital to risk weighted assets equals 10.12% and Tier 1 leverage capital equals 8.51%. There were no legal, financial or other factors impeding CNB's ability to help meet the credit needs in its assessment area.

Product Category	Gross Loans as of December 31, 2005	
	Dollar (000's)	Percent
Commercial and Industrial and Commercial Real Estate	218,788	54.18
Residential Mortgage	109,949	27.23
Construction and Land Development	63,733	15.78
Agriculture and Farm Land	4,991	1.24
Individuals	6,320	1.57
<b>Total</b>	403,781	100.00

*Source: December 31, 2005 Report of Condition.*

CD and qualified investment activities conducted by CNB's affiliate company CNBCDC were included in this evaluation. CNB formed the CDC in 1996 because of the limited CD opportunities in the assessment area. CNBCDC is the limited partner with a 99% interest in real estate partnerships that constructed and continue to operate affordable apartments for low- and moderate-income individuals in Sevier County. Bank management continues to take an active role in the CDC and that ongoing effort is included in this evaluation.

CNB operates 16 offices in eastern Tennessee and offers a full range of banking products and services. The branches are generally located in areas that make them accessible to persons from different areas of the communities they serve. Lobby hours and drive-through hours are set by location to meet customer needs. Customers may also access their accounts via the Internet at [www.cnbtn.com](http://www.cnbtn.com).

Citizens National Bank received a Satisfactory CRA rating in April 2002.

## **DESCRIPTION OF SEVIER COUNTY, TENNESSEE**

CNB has defined its assessment area (AA) as portions of the Knoxville, Tennessee Metropolitan Statistical Area (MSA) # 28940, portions of the Morristown, Tennessee MSA # 34100, and all of Sevier County. More specifically, the portion of the Knoxville MSA includes seven (7) census tracts in Knox County and one (1) census tract in Blount County. The portion of the Morristown MSA includes seven (7) census tracts in Jefferson County. The combined AA includes twenty-six (26) census tracts consisting of one (1) moderate-income census tract, nineteen (19) middle-income census tracts, and six (6) upper-income census tracts. There were no low-income tracts. The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. The most notable change to the bank's assessment area since the previous examination is that Sevier County is no longer included in the Knoxville MSA. Sevier County is now a Micropolitan Statistical Area. Sevier County was excluded as part of the Knoxville MSA for the 2000 Census because the Office of Management and Budget determined that fewer residents in Sevier County commute into Knoxville, TN for jobs. In addition, CNB has included census tracts from Jefferson County which is part of the Morristown MSA. The bank's assessment area does not arbitrarily exclude any low- or moderate-income areas.

Sevierville is the county seat for Sevier County and is located approximately 40 miles southeast of Knoxville, Tennessee. It straddles the western entrance to Pigeon Forge, Gatlinburg, and The Great Smoky Mountains National Park. Tourism is the major industry and dominates the local economy. The area has a theme park, country music and other theme theaters, and an abundance of outlet malls.

Fifteen percent of families in Sevier County were low-income and seventeen percent of families were moderate-income. Twelve percent of households live below poverty while the poverty rate for the state of Tennessee was 14%. The unemployment rate for Sevier County was 6.0% in 2005, above the state (5.6%) and national rates (5.1%). Due to seasonality of the tourist based economy, Sevier County experiences widely fluctuating employment. For example, first quarter 2006 the unemployment rate was 7.4% whereas the second quarter of 2005 the unemployment rate was 4.9%.

CNB operates 16 full-service branches in the AA and 47 free-standing ATMs. Of this amount, eleven branches and forty Automated Teller Machines (ATMs) are located in Sevier County. Major competitors in Sevier County include one national bank, two state-chartered banks, and four large regional banks. Of all reporting FDIC-insured institutions in the Sevier County, CNB ranked 1<sup>st</sup> in deposits out of 8 banks with a 24.07% market share. Based on 2004 aggregate data, CNB had a 2.4% market share and ranked 12<sup>th</sup> out of 355 lenders reporting HMDA loans in Sevier County. CNB had a 13.4% market share and ranked 2<sup>nd</sup> out of 57 in lenders reporting small loans to businesses in Sevier County.

CNB's primary lending focus AA is lending to businesses. CNB also engages in residential real estate lending AA.

We reviewed prior community contact forms and made one additional community contact. The contact identified affordable housing as the primary credit need. The contact stated local

financial institutions were actively involved in community development programs and were accommodating local credit needs. Based on our contacts and review of publicly available information, there are limited opportunities for making qualified community development activities in this assessment area.

Demographic Information for Full Scope Area: <b>Sevier County TN</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	11	0.00	0.00	81.82	18.18	0.00
Population by Geography	71,170	0.00	0.00	82.38	17.62	0.00
Owner-Occupied Housing by Geography	20,878	0.00	0.00	81.41	18.59	0.00
Business by Geography	6,977	0.00	0.00	90.20	9.80	0.00
Farms by Geography	108	0.00	0.00	81.48	18.52	0.00
Family Distribution by Income Level	20,952	14.89	17.43	24.68	43.00	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	6,770	0.00	0.00	86.20	13.80	0.00
Median Family Income	36,945	Median Housing Value		72,746		
HUD Adjusted Median Family Income for 2005	42,750	Unemployment Rate (2000		2.76%		
Households Below Poverty Level	12%	US Census)				

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2000 US Census and 2005 HUD updated MFI

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### LENDING TEST

The bank’s performance under the Lending Test is rated “Satisfactory”. Based on a full-scope review, the bank’s performance in Sevier County is satisfactory.

### Conclusions for Sevier County, TN Full-Scope Review

For this evaluation, Sevier County will receive a full-scope review as a substantial majority of reportable loans originated in the county. Knox and Blount Counties and Jefferson County will receive a limited-scope review.

CNB’s lending performance is “Satisfactory in the full-scope review of Sevier County, Tennessee. The volume of home mortgage and small loans to business is satisfactory. During 2005, CNB originated 93 home mortgage loans totaling \$9 million and 405 small loans to businesses totaling \$58 million. More weight was given to small loans to businesses as they represented 81% of total loans reported.

## Loan-to-Deposit Ratio

The average loan-to-deposit ratio for CNB meets the standards for satisfactory performance. Over fifteen quarters beginning June 30, 2002 through December 31, 2005, CNB's average loan-to-deposit ratio was 85.70%. CNB's loan-to-deposit ratio compared similarly to other competitors for the same period. Mountain National Bank had the second highest loan-to-deposit ratio at 85.13%. Tennessee State Bank followed closely behind with a loan-to-deposit ratio of 81.08%. Sevier County Bank was well below the other competitors with a loan-to-deposit ratio of only 58.01%.

Loan-To-Deposit Ratios		
Institution	Total Assets \$000's (As of 12/31/05)	Average Loan – to-Deposit Ratio
<i>Citizens National Bank</i>	<b>\$538,406</b>	<b>85.70%</b>
Mountain National Bank	352,388	85.13%
Tennessee State Bank	507,858	81.08%
Sevier County Bank	334,132	58.01%

Source: Institution Reports of Condition from September 2002 to December 2005.

As of June 30, 2005 there were eight lenders located in the Sevier County assessment area with deposits totaling \$1.6 billion. CNB had the largest deposit market share at 24.07%, followed by Tennessee State Bank at 21.61%, Sevier County Bank at 17.49%, and Mountain National Bank at 17.08%. The remaining deposit holders consist of regional financial institutions with branch offices located in Sevier County.

## Lending in Assessment Area

CNB lending inside its assessment areas exceeds the standard for satisfactory performance. A substantial majority of home mortgage products and small loans to businesses originated in the bank's assessment areas. The bank originated 87% of the number and 90% of the dollar volume of home mortgage loans in its assessment areas. CNB originated 92% of the number and 89% of the dollar volume of small loans to businesses in its assessment areas.

Lending in CNB's AAs										
Loan Sample	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
2005 Residential Loans	110	86.61%	17	13.39%	127	11,698	89.82%	1,326	10.18%	13,024
2005 Business Loans	457	91.58%	42	8.42%	499	65,095	88.52%	8,445	11.48%	73,540
<b>Total</b>	<b>567</b>	<b>90.58%</b>	<b>59</b>	<b>9.42%</b>	<b>626</b>	<b>76,793</b>	<b>88.71%</b>	<b>9,771</b>	<b>11.29%</b>	<b>86,564</b>

## **Geographic Distribution of Loans**

A geographic distribution of bank loans would not have resulted in a meaningful analysis. There are a total of twenty-six census tracts that comprise the bank's assessment areas. There are no low-income census tracts and only one census tract is moderate-income. The moderate-income census tract is located in Knox County which is a limited-scope assessment area. The loan volumes for home mortgage products and small loans to business were insignificant.

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

CNB's record of lending to borrowers of different incomes and to businesses of different sizes exceeds the standard for satisfactory performance. More consideration is given to the bank's small loans to businesses as these loans represent 81% of total loans reported.

### Home Purchase

The bank's lending activity for home purchase loans was adequate. The percentage of bank loans to low-income borrowers was somewhat lower than the percentage of low-income families. The percentage of bank loans to moderate-income borrowers was lower than the percentage of moderate-income families. Based on information from community contacts, affordable housing is a predominate need in the assessment area. It is difficult for many low- and moderate-income applicants to find affordable housing to purchase.

### Home Improvement

CNB's lending activity for home improvement loans was excellent. The percentage of bank loans to low- and moderate-income borrowers exceeded the percentage of low- and moderate-income families in the AA. The average age of housing in Sevier County is approximately 20 years. Home improvement loans are a need in Sevier County.

### Home Refinance

Lending activity for home refinance loans was good. CNB did not originate any loans to low-income borrowers. The percentage of bank loans to moderate-income borrowers exceeded the percentage of moderate-income families in the AA. Low-income applicants may experience difficulty in paying the closing costs associated with home refinance lending.

2005 Borrower Distribution of Residential Real Estate Loans for AA								
Sevier County – Full Scope								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	14.89%		17.43%		24.68%		43.00%	
Loan Type(s)	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Home Purchase	9.09%	3.63%	6.82%	5.52%	15.91%	12.39%	68.18%	78.45%
Home Improvement	17.65%	3.19%	23.53%	8.37%	35.29%	36.25%	23.53%	52.19%
Home Refinance	0.00%	0.00%	21.43%	11.71%	14.29%	13.79%	64.29%	74.50%
Blount and Knox Counties CTs – Limited Scope								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	12.59%		13.50%		18.29%		55.62%	
Loan Type(s)	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Home Purchase	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100%	100%
Home Improvement	33.33%	16.67%	0.00%	0.00%	0.00%	0.00%	66.67%	83.33%
Home Refinance	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100%	100%
Jefferson County – Limited Scope								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	18.21%		18.18%		23.57%		40.04%	
Loan Type(s)	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Home Purchase	0.00%	0.00%	14.29%	1.50%	14.29%	18.32%	71.43%	80.18%
Home Improvement	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100%	100%
Home Refinance	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100%	100%

Source: Residential loans include residential home purchases, home improvement loans, and home refinance loans. (Data reported under 2005 using 2000 U.S. Census data.)

### Small Loans to Businesses

CNB’s percentage of small loans to businesses with revenues of \$1 million or less exceeded the percentage of businesses that reported revenues of \$1 million or less. Approximately 57% of small loans to businesses originated at \$100,000 or less. The bank’s business strategy is commercial lending and commercial real estate.



<b>2005 Borrower Distribution of Loans to Businesses in AA</b>				
<b>Sevier County – Full-Scope</b>				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	64.11%	3.78%	32.11%	100%
% of Bank Loans in AA by #	87.65%	12.35%	0.00%	100%
% of Bank Loans in AA by \$	80.18%	19.82%	0.00%	100%
<b>Knox and Blount Counties CTs – Limited Scope</b>				
% of AA Businesses	63.05%	4.33%	32.61%	100%
% of Bank Loans in AA by #	100%	0.00%	0.00%	100%
% of Bank Loans in AA by \$	100%	0.00%	0.00%	100%
<b>Jefferson County – Limited Scope</b>				
% of AA Businesses	62.32%	4.06%	33.62%	100%
% of Bank Loans in AA by #	100%	0.00%	0.00%	100%
% of Bank Loans in AA by \$	100%	0.00%	0.00%	100%

Source: 2005 Geodemographic data and 2005 CRA loans reported.

## **Responses to Complaints**

CNB had not received any complaints of a CRA nature during the evaluation period.

## **Community Development Test**

Community development activities meet the standard for satisfactory performance.

### Community Development Loans

CNB originated an adequate level of community development loans. During the evaluation period, CNB originated two community development loans to a non-profit organization that provides affordable housing to low- and moderate-income individuals and families the AA and surrounding counties. The loans totaled approximately \$752 thousand.

### Qualified Investments

The bank's number and dollar volume of qualified investments is adequate.

CNB made an investment in a \$99,000 certificate of deposit at Liberty Bank in New Orleans through the bank's Katrina Investment Deposits program. This program benefits victims of Hurricane Katrina.

CNB donated \$32,665 to eight organizations that serve low- and moderate-income families in the AA.

### Community Development Services

CNB's involvement in community development services is adequate. During the evaluation period, the bank participated in three community development service activities.

- CNB was instrumental in obtaining a grant from the Federal Home Loan Bank (FHLB) for a non-profit organization that creates affordable housing for low- and moderate-income individuals.
- The bank also applies for grants through the FHLB's *Welcome Home* program. The *Welcome Home* program provides down payment and closing cost assistance for low- and moderate-income families and individuals. CNB began participating in this program in 2002 and has obtained \$77,500 in grant money to assist eleven low- and moderate-income families.
- In April 2006, CNB issued a press release to promote a FHLB program called New Neighbors. This program provides \$20,000 home purchase grants to households displaced by Hurricanes Katrina, Rita, and Wilma. CNB plans to apply for and obtain grants for eligible households in conjunction with traditional loans.

The bank's community development activities help provide affordable housing to low- and moderate-income individuals which is in great demand in Sevier County and neighboring counties.

### **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.

### **Conclusions for Limited-Scope Review**

Loan volume in Blount and Knox Counties and Jefferson Counties was low compared to Sevier County; therefore a comparison can not be made of the bank's performance in the limited-scope areas to Sevier County.