



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 16, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Commerce National Bank
Charter Number: 23710

306 South Cass Street
Corinth, MS 38834

Office of the Comptroller of the Currency

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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.

- Commerce National Bank's (CNB) distribution of loans represents a reasonable penetration among individuals of different income levels and businesses of different sizes.
- CNB's loan-to-deposit ratio is reasonable and compares favorably to similarly situated banks.
- A majority of CNB's primary loan products originate within the bank's assessment area.

SCOPE OF EXAMINATION

Commerce National Bank (CNB) was evaluated under the Small Bank examination procedures. The bank's CRA performance was evaluated by assessing the loan-to-deposit ratio, lending performance inside the assessment area (AA), borrower distribution and lending volume to small businesses, and reviewing consumer complaints regarding CRA.

This CRA evaluation includes an analysis of lending performance from December 2009 to December 2011. This time period is representative of the bank's CRA performance since the prior CRA examination dated October 16, 2006. CNB's primary loan products are residential and commercial real estate loans. This bank is not required to report data under the Home Mortgage Disclosure Act (HMDA). To evaluate the bank's primary lending performance, we selected a sample of residential and commercial related loans made from December 2009 through December 2011.

DESCRIPTION OF INSTITUTION

Commerce National Bank (CNB) is an intrastate bank headquartered in Corinth, Mississippi. CNB was chartered in January 1999 and as of December 31, 2011, had total assets of \$89 million and tier one capital of \$10 million. CNB is owned by Commerce Holding Company, a one-bank holding company, which is also headquartered in Corinth. The bank's business focus is traditional community banking with a mission statement emphasizing growing and serving their community.

CNB has a main office located in Corinth, Mississippi and has no other branch offices. In addition to the main office, CNB operates a 24-hour ATM machine located at the main office and one, free-standing cash disbursing ATM located also in Corinth. Since the previous CRA examination, the bank has neither opened nor closed any branch offices nor have there been any significant changes to the corporate structure, including merger or acquisition activities.

CNB offers a variety of products and services including checking, savings, IRAs, consumer, commercial and residential real estate loans. The bank also offers internet

banking and online bill pay. As of December 31, 2011, the bank's loan portfolio totaled \$55 million and was comprised of residential real estate loans 38.87 percent, commercial loans (including construction and development loans) 36.53 percent, loans to individuals 20.63 percent, and farmland & agricultural loans 3.33 percent. The bank also originates mortgages for the secondary market. Between 2007 and April 2012, the bank originated 280 loans, or \$28,922 million mortgage loans for the secondary market.

Competition from other financial institutions is moderate. The bank's competitors include other local community banks and branches along with local credit unions.

There are no legal impediments or other factors that could hamper the bank's ability to meet the credit needs of their community. CNB was rated satisfactory during their last CRA examination dated October 16, 2006.

DESCRIPTION OF ASSESSMENT AREA(S)

CNB has one assessment area (AA) which includes seven contiguous census tracts in Alcorn County, Mississippi. The AA includes the towns of Corinth, Farmington, Glen, Kossuth, and Rienzi. The bank's AA complies with the requirements of the regulations and does not arbitrarily exclude any low-or moderate-income census tracts.

Of the seven census tracts in the AA, there are no low-income geographies, no moderate-income geographies, five middle-income geographies, and two upper-income geographies. The AA has a total population of 34,558 and 9,907 families. Approximately 16.90 percent of households in the AA live below the poverty level. The 2011 HUD updated median family income for the area was \$41,600 and the weighted average median housing value was \$58,886.

Alcorn County is located in the upmost northeast portion of the state boarding the state of Tennessee. Corinth is located on U.S. Highway 72, a major east-west interstate connector, about three miles south of the Tennessee State Line and 30 miles west of the Alabama State Line.

Employment in the county is primarily driven by manufacturing, health care, and retail trade industries. Major employers in the area include Kimberly-Clark Corporation, Timber Products, Mississippi Polymers, Magnolia Regional Health Center, Caterpillar, Inc., and Alcorn County/City of Corinth employees. Agriculture is also a significant employer and products include beef cattle, row crops, poultry, swine, and orchards. As of February 2012, the unemployment rate for Alcorn County was 10.1 percent, which is slightly higher than the state unemployment rate of 9.5 percent.

The credit need of the community, identified by the community contact, is affordable housing and community finance workshops to help educate the unbanked citizens. There has been a large increase in the number of applicants requesting housing assistance, which indicates a significant need for affordable housing. The community contact stated that not having a banking relationship will soon become a larger problem

for citizens who obtain Social Security Income checks as direct deposit becomes mandatory in 2013.

Demographic Information for Assessment Area					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	7	0%	0%	71.43%	28.57%
Population by Geography	34,558	0%	0%	66.25%	33.75%
Owner-Occupied Housing by Geography	15,818	0%	0%	64.65%	35.35%
Businesses by Geography	4,114	0%	0%	77.54%	22.46%
Farms by Geography	56	0%	0%	67.86%	32.14%
Family Distribution by Income Level	9,907	19.89%	1.99%	20.05%	45.07%
Household Distribution by Income Level	14,178	25.72%	14.02%	15.97%	44.29%
Census Median Family Income (MFI)	\$33,550				
HUD-Adjusted MFI: 2011	\$41,600		Median Housing Value		\$58,886
Median Family Income	\$36,624		Families Below Poverty Level		19.60%
Median Household Income	\$28,913		Unemployment Rate		10.1%

Source: 2011 FFIEC Census Report – Summary Census Demographic Information

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

Lending performance was assessed by analyzing lending performance for two primary loan products. These products include residential real estate loans, and small business lending. Both of these loan products were weighted equally in our evaluation.

Lending performance is satisfactory. The loan-to-deposit ratio exhibits reasonable lending levels. A substantial majority of loans are made within the AA. Borrower distribution is reasonable among borrowers of different income levels and businesses of different sizes. Because of the lack of low- or moderate- income census tracts, the geographic distribution of loans was not considered in this examination, as the analysis would not reveal meaningful information.

Loan-to-Deposit Ratio

CNB’s net loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and AA credit needs. The ratio averaged 71 percent over the 21 quarters since the last CRA examination. During the same time period, the quarterly average loan-to-deposit ratio for local competitors was 63 percent. There are no similarly situated institutions located in Corinth, MS.

During the 21-quarter period from December 2006, CNB’s highest quarterly loan-to-deposit ratio was 73 percent as of March 2011. The lowest quarterly loan-to-deposit ratio was 67 percent as of March 2009. CNB’s loan-to-deposit ratio was reasonably consistent during the quarters reviewed.

Institution	Assets as of 4Q2011 \$(000)	Average LTD Ratio
Farmers & Merchant Bank	\$205,000	74.30%
Commerce National Bank	\$89,000	71.17%
1 st American National Bank	\$234,000	58.32%
The Peoples Bank	\$374,000	56.65%

Lending in Assessment Area

Lending in the bank’s AA is excellent. Overall, a substantial majority (97 percent) of the loans reviewed were inside the assessment area.

Table 1 - Lending in Commerce National Bank AA

Loan Type	Number of Loans					Dollars of Loans (000’s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	55	95%	3	5%	58	\$4,026	97%	\$117	3%	\$4,143
Home Improvement	21	95%	1	5%	22	\$1,229	95%	\$60	5%	\$1,289
Refinance	49	98%	1	2%	50	\$3,395	98%	\$84	2%	\$3,479
Commercial	60	100%	0	0%	60	\$3,155	100%	\$0	0%	\$3,155
Totals	185	97%	5	3%	190	\$11,805	98%	\$261	2%	\$12,066

Source: loan sample

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

Overall, the distribution of residential real estate loans reflects reasonable penetration to borrowers of different income levels in the AA. The distribution of loans to businesses of different sizes is excellent.

Residential Real Estate Lending

The bank’s distribution by borrower income for home purchase loans is satisfactory. The percentage of the number of home purchase loans to low- income borrowers is less than the percentage of low- income families in the AA. However, the high poverty level in the AA (16.90 percent) significantly limits the bank’s opportunity to make these loans. The percentage of the number of home purchase loans to moderate- income borrowers is near to the percentage of moderate- income families in the AA.

The bank’s distribution by borrower income for home improvement loans is satisfactory. The percentage of the number of home improvement loans to low- income borrowers is near to the percentage of low- income families in the AA. The percentage of the number of home improvement loans to moderate- income borrowers is also near to the percentage of moderate- income families in the AA.

The bank’s distribution by borrower income for home refinance loans is satisfactory. The percentage of the number of home refinance loans to low- income borrowers is less than the percentage of low- income families in the AA. However, the high poverty level in the AA (16.90 percent) significantly limits the bank’s opportunity to make these loans. The percentage of the number of home refinance loans to moderate- income borrowers is near to the percentage of moderate- income families in the AA.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Commerce National Bank 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	19.90	5.17	14.99	12.07	20.05	12.07	45.07	70.69
Home Improvement	19.90	9.09	14.99	9.09	20.05	40.90	45.07	40.90
Refinance	19.90	6.00	14.99	6.00	20.05	28.00	45.07	60.00

Source :loan sample; 2000 U.S. Census data.

Small Business Lending

The distribution of loans to businesses reflects excellent penetration among businesses of different sizes. Ninety-two percent of the bank’s business loans originated in the loan sample was made to small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less. This is considered excellent compared to the demographic data that shows 76 percent of the area’s businesses are considered small businesses. The following table shows the distribution of commercial loans among different sized businesses in the AA

Table 2A - Borrower Distribution of Loans to Businesses in Commerce National Bank AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	75.53	1.55	22.92	100%
% of Bank Loans in AA by #	91.67	8.33	0	100%
% of Bank Loans in AA by \$	20.99	78.99	0	100%

Source: Loan sample; Dunn and Bradstreet data

Geographic Distribution of Loans

There are no low- or moderate- income census tracts within CNB’s AA. Therefore, we did not perform an analysis of geographic distribution of residential and business loans since the analysis would not reveal meaningful information.

Responses to Complaints

There have been no consumer complaints relating to the bank's Community Reinvestment Act performance during this evaluation period.

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.