



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 25, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Mountain National Bank
Charter Number: 23631

300 East Main Street
Sevierville, TN 37862-0000

Office of the Comptroller of the Currency

NASHVILLE
5200 Maryland Way Suite 104
Brentwood, TN 37027-5018

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: “Satisfactory.”

The Community Development Test is rated: “Outstanding.”

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

- The bank’s loan-to-deposit ratio is satisfactory and averaged 91% during the evaluation period. **MNB’s** loan-to-deposit ratio ranged from a low of 83% March 2006 to a high of 101% March 2008.
- A substantial majority of **MNB** loans are within the bank’s Assessment Area. Approximately 82% of the number and 81% of the dollar volume of loans were to borrowers within the Assessment Area.
- **MNB’s** distribution of loans to borrowers of different income (including low-and moderate-income) levels and businesses of different sizes is good. Tennessee Housing Development Agency (THDA) and Rural Development (RD) loans generated to low-and moderate-income individuals are also taken into consideration.
- The geographic distribution of loans reflects adequate dispersion although the number and dollar amount of loans are below area demographics. The length of time the bank’s branches have been in operation was taken into consideration.
- **MNB’s** community development performance demonstrates excellent responsiveness to the community development needs in its Assessment Area (AA).

Scope of Examination

This Performance Evaluation covers the period July 10, 2005 through August 24, 2008 and is a full scope review. Results were consolidated for comparative and analysis purposes and evaluated using 2000 Census demographic information. **MNB** has no bank owned affiliates. A data integrity review was conducted prior to this evaluation. The review concluded that the bank’s internal data was reliable. We also reviewed the bank’s community development loans and community development investments and services to ensure they met the definition of community development.

Conclusions regarding the Lending Test are based on residential loans including home purchases, home improvements, and home refinances. **MNB** is a Home Mortgage Disclosure Act (HMDA) reporter. All residential loans considered in the Lending Test originated from January 1, 2006 through June 30, 2008 were considered in our analysis. A sample of small business loans originated during the same time period was also considered in the Lending Test.

Description of Institution

MNB is an independent, intrastate bank which opened for business in 1998. Effective June 2003, the bank became wholly-owned by Mountain National Bancshares, Inc., a one-bank holding company. Both the holding company and bank are located in Sevierville, Tennessee. Sevierville is approximately 20 miles east of Knoxville, Tennessee. There have not been any major changes in the bank's corporate structure, including merger or acquisition activities, since the last Community Reinvestment Act (CRA) examination dated July 9, 2005, when the bank received a **Satisfactory** rating. There are no legal or financial impediments to **MNB'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. **MNB's** primary business focus is commercial and industrial loans, including commercial real estate loans, and mortgage loans. As of June 30, 2008, the bank had total assets and loans of \$587 and \$421 million, respectively. Gross loans comprised 72% of total assets. Total assets for the holding company were also \$587 million as of June 30, 2008. The following table reflects the composition of **MNB's** loan portfolio based on June 30, 2008 Report of Condition.

	Product Category	
	Dollar (000's)	Percent
Construction & Land Development	154,210	36.62
Commercial & Industrial Including Commercial Real Estate	149,479	35.49
Residential Mortgage Loans	109,079	25.90
Individuals	8,397	1.99
TOTAL	421,165	100.00

Source: June 30, 2008 Report of Condition.

MNB provides a wide range of traditional deposit and loan products. Branches are generally located in areas that make them accessible to bank customers. Eight branches are located in Sevier County and two branches are located in Blount County. Lobby hours and drive-up hours are set to meet customer needs. Nine of the ten branches have ATM's that disburse cash and take deposits. There are an additional seven free-standing non-deposit taking ATM's that disburse cash only.

Distribution of Bank Offices and ATMs by Census Tract						
Census Tract Income Level	Tracts		Full-Service Branches		Automated Teller Machines *	
	#	%	#	%	#	%

Low	0	0	0	0	0	0
Moderate	0	0	0	0	0	0
Middle	8	80.00	8	80.00	14	87.50
Upper	2	20.00	2	20.00	2	12.50
NA	0	0	0	0	0	0
TOTAL	10	100.00%	10	100.00%	16	100.00%

There are 10 branch offices with contiguous ATMs. All but one of the ATM machines at the branch offices accept deposits and dispense cash. There are 7 free-standing ATMs which dispense cash only.

Customers may also access their accounts through telephone banking or by the Internet (www.mountainnationalbank.com). Internet and telephone banking include transfers between MNB accounts, review of bank balances and transactions, access loan account information and bill-paying capability for the Internet banking product. The Bank also offers MasterCard debit cards that can be used to access customer accounts at point of sale (POS) or ATM locations.

MNB's business strategy includes continued marketing of commercial credit to small businesses through its products, staff, and locations. The bank is actively involved in all types of commercial real estate development and construction. Small Business Administration (SBA) loans are offered for new business startups as well as to expand existing businesses. MNB also supports the purchase and long-term financing of residential home loans through its conventional secondary market home mortgage, Veterans Administration home mortgage, THDA home mortgage, and rural housing guaranteed home mortgage program. The bank actively participates in the THDA home mortgage program that specifically targets low-and moderate-income individuals.

Description of Assessment Area(S)

The bank's AA consists of all census tracts in Sevier and Blount Counties. Sevier County is in a non-metropolitan statistical area (MSA). Blount County, however, is part of the Knoxville MSA. MNB has eight offices including its main office located in Sevier County. There are two branch offices located in Blount County. The Blount County offices were opened in June 2006 and April 2008. Prior to opening offices in Blount County, one branch bordered the county and served parts of the county. The AA meets regulatory requirements and does not arbitrarily exclude any low-or moderate-income areas.

MNB's competition consists of 17 other financial institutions. Six are independent banks headquartered in MNB's AA or nearby. Other competition consists of branches from large Regional or National banks.

At June 30, 2008, the unemployment rates for the State of Tennessee and the United States were 6.5% and 5.5%, respectively.

Demographic Information for Assessment Area

Sevier County, Tennessee

Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	11	0	0	9	2	0
Population by Geography	71,170	0	0	82.38	17.62	0
Owner-Occupied Housing by Geography	37,252	0	0	81.41	18.59	0
Businesses by Geography	7,877	0	0	89.36	10.64	0
Farms by Geography	119	0	0	83.19	16.81	0
Family Distribution by Income Level	20,952	14.89	17.43	24.68	43.00	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	6,770	86.20	13.80	-	-	0
Median Family Income (MFI)	= \$40,171	Median Housing Value		= \$106,560		
HUD Adjusted Median Family Income (MFI) for 2007	= \$43,500	Unemployment Rates		= 5.8%		
Households Below the Poverty Level	= 3,347					

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2000 U.S. Census and 2007 HUD updated MFI. Unemployment rate is as of June 2008

Sevier County is one of the fastest-growing counties in Tennessee. In 2006, the population was 79,875 and grew to 83,527 in 2007. 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 of 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 2003, the park had nearly 10 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 has also caused tremendous interest and growth in the commercial cabin rental industry. Tourism accounts for greater than 90% of the county's economic base. Although the county has experienced good economic and employment growth, the June 2008 unemployment rate of 5.8% was less than the state's 6.5% but was slightly higher than the US's 5.5%. Steady population growth coupled with a strong tourism industry should continue to favorably support the local economy.

We completed one community contact with a local economic development organization. No specific credit needs were identified. The contact noted that area banks including **MNB** have provided funding for various projects. It was reported that local bank members including **MNB** personnel also serve on committees and in Board roles.

Demographic Information for Assessment Area						
Blount County, Tennessee						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #

Geographies (Census Tracts/BNAs)	18	0	16.67	77.78	5.56	0
Population by Geography	105,823	0	7.56	85.32	7.13	0
Owner-Occupied Housing by Geography	47,059	0	5.91	87.09	6.99	0
Businesses by Geography	7,248	0	16.67	77.78	5.56	0
Farms by Geography	236	0	8.90	86.44	4.66	0
Family Distribution by Income Level	30,913	0	6.67	86.29	6.92	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	12,071	49.26	50.74	-	-	0
Median Family Income (MFI)	= \$45,244		Median Housing Value		= \$96,675	
HUD Adjusted Median Family Income (MFI) for 2007	= \$54,800		Unemployment Rates		= 5.9 %	
Households Below the Poverty Level	= 4,662					

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2000 U.S. Census and 2007 HUD updated MFI. Unemployment rate is as of June 2008.

Blount County is adjacent to Sevier County and 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. Maryville 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. The county is part of the Knoxville, TN Metropolitan Statistical Area (MSA) and the county seat is Maryville. In 2007, the county's population was 119,855. 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. In 2007, manufacturing was the largest of 20 major sectors. The principal employers for the residents of Blount County are DENSO Manufacturing TN, Inc. (one of the world's most respected manufacturers of automotive components), Alcoa, Inc. (aluminum manufacturing and recycling), and Blount Memorial Hospital (health care). DENSO is the county's largest employer with 3,000 employees. Blount county's 2007 employment growth of 2.2% compares favorably to the State of Tennessee's 1.4% and the US's 1.1%. Blount County's June 2008 unemployment rate of 5.9% was less than the state's 6.5% but was slightly higher than the US's 5.5%.

Conclusions with Respect to Performance Tests

LENDING TEST

The bank's performance under the Lending Test is rated "Satisfactory." Based on a full-scope review, the bank's performance in the AA is satisfactory.

Loan-to-Deposit Ratio

The quarterly average loan-to-deposit ratio for **MNB** was satisfactory at 90.51% for the thirteen quarters ending June 30, 2008. **MNB's** average loan-to-deposit ratio compared favorably to other competitor banks in the AA for the same period. Of the six independent banks headquartered in the AA and two banks headquartered in adjoining Knox County, **MNB** had the third highest average loan-to-deposit ratio. Citizens Bank of Blount County (Maryville) had the

highest at 98.51%, then Citizens National Bank (Sevierville) 93.66%, **MNB (Sevierville)** 90.51%, Tennessee State Bank (Pigeon Forge) 87.59%, BankEast (Knoxville) 78.07%, Sevier County Bank (Sevierville) 63.57%, Home Federal Bank of TN (Knoxville) 53.94%, and SmartBank (Sevierville) 42.13%. Other competitors are large holding company banks headquartered elsewhere. These institutions had an average loan-to-deposit ratio ranging from a high of 121.86% (First Tennessee Bank, Memphis) to a low of 98.33% (United Community Bank, Blairsville, GA). **MNB's** highest loan-to-deposit ratio was 101.39% as of March 2008 and the lowest was 82.64% as of March 2006. During the thirteen quarter period ending June 30, 2008, the highest loan-to-deposit ratio for the six independent banks headquartered in the AA and two banks headquartered in adjoining Knox County was Citizens Bank of Blount County (Maryville) at 107.31% as of December 2007. Sevier County Bank (Sevierville) reported the lowest loan-to-deposit ratio for the period of 47.04% as of June 2005. As for large, holding company banks headquartered elsewhere, First Tennessee Bank (Memphis) reported the highest loan-to-deposit ratio of 158.6% as of June 2008. Conversely, United Community Bank (Blairsville) reported the lowest loan-to-deposit ratio of 87.43% as of June 2008.

Loan-To-Deposit Ratios		
Institution	Assets as of 06/30/08(*)	Average LTD Ratio % (**)
Mountain National Bank, Sevierville, TN	\$587	90.51
Citizens National Bank, Sevierville, TN	\$725	93.66
Tennessee State Bank, Pigeon Forge, TN	\$670	87.59
Sevier County Bank, Sevierville, TN	\$419	63.57
First Tennessee Bank, Memphis, TN	\$35,287	121.86
BB&T, Winston-Salem, NC	\$132,884	102.97
Regions Bank, Birmingham, AL	\$139,354	98.69
Citizens Bank of Blount County, Maryville, TN	\$314	98.51
SunTrust Bank, Atlanta, GA	\$171,501	105.13
GreenBank, Greenville, TN	\$3,014	109.05
BankEast, Knoxville, TN	\$340	78.07
United Community Bank, Blairsville, GA	\$8,258	98.33
Home Federal Bank of TN, Knoxville, TN	\$1,796	53.94
SmartBank, Sevierville, TN(#)	\$205	42.13

*Asset sizes of institutions are in millions (000,000's)

**The quarterly average LTD ratio for MNB and the 13 comparable banks is for the period June 30, 2005 through June 30, 2008.

#SmartBank is a newly chartered bank. The average LTD is for the period March 31, 2007 through June 30, 2008.

As of June 30, 2007, eighteen financial institutions with 98 offices within the AA controlled \$3.633 billion in deposits. **MNB** controlled the fourth largest market share within the AA at \$388 million, or 10.67%, of total deposits. Two community banks (Citizens National Bank and Tennessee State Bank) and one regional bank (First Tennessee Bank) controlled \$470 million (12.94%), \$414 million (11.41%), and \$398 million (10.96%), respectively, of total deposits within the AA. Sevier County Bank controlled 9.39%, BB&T controlled 9.01%, Regions Bank controlled 8.21%, Citizens Bank of Blount County controlled 5.83%, SunTrust Bank controlled 5.36%, GreenBank controlled 4.62%, Home Federal Bank of TN controlled 3.48%, BankEast

controlled 2.77%, SmartBank controlled 2.13%, and United Community Bank controlled 1.62%. In aggregate, the remaining four institutions controlled 1.61% of deposits of which the largest was 0.65% and the smallest was 0.26%.

Lending in Assessment Area

MNB's record of lending in its AA is satisfactory. The number of residential and business loans inside the bank's AA was 83.18% and 76.47%, respectively. Similarly, the dollar amount of residential and business loans inside the bank's AA was 82.23% and 70.59%, respectively. Conclusions are based on all HMDA reportable loans and a sample of business loans originated during 2006, 2007, and through June 30, 2008.

Lending in MNB AAs										
Loan Type(s)	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
2006-2008 HMDA Residential Loans	450	83.18	91	16.82	100%	94,783	82.23	20,489	17.77	100%
2006-2008 Business Loans	52	76.47	16	23.53	100%	7,987	70.59	3,327	29.41	100%
Total	502	82.43	107	17.57	609	102,770	81.19	23,816	18.81	126,586

Source: All HMDA reportable residential loans originated during 2006, 2007, and through June 30, 2008 are included. Residential loans include purchase, home improvement, and home refinances loans. Business loans sample includes loans originated during 2006, 2007, and through June 30, 2008; 2000 U.S. Census Data.

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

MNB's record of lending to borrowers of different incomes and to businesses of different sizes is satisfactory. At 2.00% and 8.67%, the number of HMDA reportable residential loans to low- and moderate-income families is significantly less than the percentage of low- and moderate-income families of 17.48% and 18.85%, respectively, within the AA. However, loan products offered by **MNB** include THDA. THDA home ownership program is designed for low- and moderate income borrowers. The program is intended for modest homes and generally first-time home buyers. Mortgages must be insured or guaranteed by Veterans Administration (VA), Federal Housing Authority (FHA), or RD loans. **MNB** underwrites these loans to THDA guidelines, receives a fee for its efforts, and the loan is funded by a third party in the secondary market. Since THDA loans are never funded by the bank, they are not reported on the bank's HMDA-LAR report. Consequently, they are not reflected in the table below. During 2006, 2007, and through June 30, 2008, **MNB** underwrote eight THDA loans totaling \$950 thousand. Additionally, **MNB** originated two RD loans totaling \$265 thousand to low- and moderate-income individuals. **MNB** also underwrites conventional home mortgages to low- and moderate-income individuals. These loans are underwritten to the standards of third-party lenders and sold directly into the secondary market. The bank also receives a fee for its efforts. Similar to the THDA and RD program, conventional loans can be temporarily funded by the bank, but are not reported on the bank's HMDA-LAR report, and are not reflected in the tables. During the

reporting period, **MNB** underwrote 75 conventional loans in its AA totaling \$7.544 million.

MNB's record of lending to businesses of different sizes is also satisfactory. Business revenues within the Sevier County AA and Blount County AA reflect that 66.71% and 65.38%, respectfully, have annual sales less than \$1 million, 3.44% and 4.29% exceed \$1 million, and 29.85% and 30.33% of business sales are unavailable. Comparatively, the number and dollar amount of loans to business of different sizes is satisfactory. The bank does a good job in obtaining business revenue information on its business loans as reflected by the 0% of unavailable information.

Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	17.48%		18.85%		24.72%		38.95%	
Loan Type(s)	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Residential Loans	3.57	0.73	11.56	3.05	12.59	5.55	52.72	54.23

Source: 2006, 2007, and through June 30, 2008 Residential loans include residential home purchases, home improvement loans, and home refinance loans recorded on the bank's HMDA LAR; 2000 U.S. Census Data. 19.56% of the number and 36.44 % of the amount of loans recorded on the bank's HMDA LAR are N/A. That is residential real estate loans were made to corporations and other entities that are not required to report income level.

Borrower Distribution of Loans to Businesses in Sevier AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
Full Review: Sevier County AA				
% of AA Businesses	66.71	3.44	29.85	100%
% of Bank Loans in AA by #	91.43	8.57	0	100%
% of Bank Loans in AA by \$	95.81	4.19	0	100%

Source: 2007 Business Geodemographic data compared to 2006, 2007, and through June 30, 2008 loan sample.

Borrower Distribution of Loans to Businesses in Blount AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
Full Review: Blount County AA				
% of AA Businesses	65.38	4.29	30.33	100%
% of Bank Loans in AA by #	60.61	39.39	0	100%
% of Bank Loans in AA by \$	74.56	25.44	0	100%

Source: 2007 Business Geodemographic data compared to 2006, 2007, and through June 30, 2008 loan sample.

Geographic Distribution of Loans

MNB's geographic distribution of loans to businesses and low- and moderate-income families is below area demographics.

There are no low-and moderate-income census tracts in the Sevier County AA. As noted by the Sevier County AA table, a comparison is not meaningful. Within the Blount County AA, there are no low-income census tracts and 3-moderate income census tracts. The 3-moderate census tracts comprise 16.67% of the total 18 census tracts in Blount County. Based on our business loan sample, 10% of the number and 2.19% of the dollar amount were made to businesses located in moderate-income census tracts. Both the number and dollar amount of business loans in the Blount County AA loan sample are below area demographics. However, this is partially explained by the length of time the two Blount County branches have been in operation. One branch opened for business June 2, 2006 and the other April 15, 2008. A nearby branch office in Sevier County attempted to serve the business credit needs of Blount County prior to opening these facilities.

Residential loans recorded on MNB's HMDA-LAR reports for 2006, 2007, and through June 30, 2008 include home purchases, home improvements, and home refinances. As noted, there are no low-income census tracts and 3-moderate income census tracts in the combined AA. Geographic demographics show that owner occupied housing represents 3.60% of all owner occupied housing in the AA. Both the number and dollar amount of 0.45% and 0.10% are below area demographics. The length of time that the two Blount County branches have been in operation should be taken into consideration.

2006 – 2008 Geographic Distribution of Loans to Businesses in Sevier County AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0.00%		0.00%		89.20%		10.80%	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Small Business Loans	0.00%	0.00%	0.00%	0.00%	87.50%	92.06%	12.50%	7.94%

Source: Loan sample for 2006, 2007, and through 6-30-2008.

2006 – 2008 Geographic Distribution of Loans to Businesses in Blount County AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0.00%		16.67%		77.78%		5.55%	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Small Business Loans	0.00%	0.00%	10.00%	2.19%	90.00%	97.81%	0.00%	0.00%

Source: Loan sample for 2006, 2007, and through 6-30-2008.

2006 – 2008 Geographic Distribution of Residential Real Estate Loans in Sevier & Blount Counties AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of Owner Occupied Housing	0.00%		3.60%		84.86%		11.54%	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Residential Loans	0.00%	0.00%	0.45%	0.10%	95.11%	97.64%	4.44%	2.26%

Source: HMDA LAR Loans for 2006, 2007, and through 6-30-2008.

Responses to Complaints

There have been no consumer complaints relating to the bank’s Community Reinvestment Act performance during this evaluation period, therefore this criterion is not applicable.

COMMUNITY DEVELOPMENT TEST

The bank’s performance under the Community Development Test is rated “Outstanding.” Based on a full-scope review, the bank’s performance is outstanding.

Number and Amount of Community Development Loans

MNB originated 14 community development loans and investments totaling \$14,698,000 during this evaluation period. As evidenced by the table below, 6 loans and 8 investments totaling \$3,042,000 and \$11,656,000, respectively, were for community development.

Community Development Loan

Qualifying community development loans are loans that meet the definition of community development, as defined in the CRA regulation. During the evaluation period, **MNB** originated six community development loans aggregating \$3,042,000. Specific examples of loans qualifying community development organizations are described below.

Loans to Refinance and Purchase Apartments for Rental to Low-and Moderate-Income Individuals

MNB originated five loans aggregating \$2,342,000 to refinance and purchase apartments for rental to low-and moderate-income individuals. Loans ranged from \$214 thousand to \$860 thousand. Apartment units ranged from 10 to 18 units. These apartments are rented to low- and moderate-income individuals. Monthly apartment rent is less than THDA standard.

Although not reflected in the following table, **MNB** also originated an apartment purchase loan for \$950M in adjoining Knox County for low- and moderate-income renters. This apartment complex contained 14 one-bedroom and 8 studio units. Monthly rent is less than the standard THDA monthly rent.

Boys and Girls Club

MNB originated a \$700,000 loan to Boys and Girls Club of the Smoky Mountains to construct 15,000 square feet facility on property owned by the Sevier County Board of Education. The Boys and Girls Club of the Smoky Mountains is a non-profit organization that provides youth service programs for youths ages 6 thru 18 in the Sevier and Jefferson Counties. Greater than 66% of boys and girls are on the free/reduced lunch program at school. The organization provides guidance, career development, health/life skills and other services to youths in the surrounding communities.

Number and Amount of Qualified Investments

Community Development Investments

Qualifying investments are investments, deposits, membership share, or grants that have as their purpose community development, as defined in the CRA regulation. During the evaluation period, **MNB** has five investments aggregating \$7,511,000. **MNB** has purchased a participation (\$3,366,000) in the construction of a 108 bed nursing home facility that is located in Chattanooga, TN. The nursing home is adjacent to the Siskin Hospital Campus in Chattanooga, TN. The St. Barnabas Nursing Home is a non-profit nursing home that offers affordable, quality health and retirement care to senior citizens from low-and moderate-income communities.

MNB purchased a Katrina Investment Deposit (KIDs) certificate from Liberty Bank and Trust Company in the amount of \$99,000. Liberty Bank issued disaster-related CDs to help finance the reconstruction of New Orleans and to enable its residents to rebuild their lives in the aftermath of Hurricane Katrina. The KIDs are normal CDs in every regard and are FDIC-insured up to \$100,000.

The remaining investments are Government National Mortgage Association (GNMA) and Federal National Mortgage Association (FNMA). **MNB** purchased two pools of GNMA loans totaling \$2,522M and one pool of FNMA loans totaling \$1,524M. The pools of loans represent home mortgages of individuals with low-and moderate-income in **MNB's** assessment area.

Although unfunded, **MNB** has approved a \$250,000 grant/donation to the Sevier Housing Authority to insure that low- and-moderate income individuals can connect to sewer and septic lines. Funds are to be advanced after the Sevier Housing Authority has drafted a resolution identifying how the funds will be distributed.

MNB has also been an active supporter in the community through donations targeted for low-and moderate-income individuals.

Community Development Lending and Investments in AA			
Community Development Lending		#	\$ Amount (000's)
Originated CD Loans	AA	6	\$3,042
Unfunded Commitments*	N/A	0	0
Total CD Loans		6	\$3,042
Community Development Investments			

Qualified Investments	AA	8	\$11,656
Originated Grants/Donations	AA	0	0
Unfunded Commitments*	N/A	0	0
Total Qualified Investments		8	\$11,656
Total Community Development Lending and Investments	AA	14	\$14,698

*"Unfunded Commitments" means legally binding loan and investment commitments that are tracked and recorded by the bank's financial reporting system.

Extent to Which the Bank Provides Community Development Services

Community Development Services

The level of community development services is "satisfactory." Among other activities, community development services are targeted to low- and moderate-income individuals.

The following are examples of qualifying community development services. **MNB** has participated in and sponsored several programs that provide community services for low- and moderate-income individuals.

On My Own Financial Literacy Program

Mary Brown, an employee at **MNB**, volunteered to teach the "On My Own" Program to 7th graders at Pigeon Forge Middle School (PGMS), an economically disadvantaged school in the bank's AA. She taught this class to PGMS during 2006 and 2007. She also taught the class to New Center School, another economically disadvantaged school in Sevier County. This class is a hands on simulation that encourages students to make wise financial lifestyle choices. The students assume that they are 25 years old and are the primary decision maker of the household. The class teaches the importance of budgeting, saving, and how to avoid excessive credit card debt.

THDA Seminars

In 2007, **MNB** participated in 3 seminars to help educate local people regarding the THDA program. The bank is actively involved in this program. These seminars included a meeting with the American Business Women's Association, a seminar sponsored breakfast for realtors, and a home buyer education seminar. THDA helps promote production of new housing units for very low and low-and moderate-individuals. **MNB** is one of the three banks in Sevier County participating in this program.

Consumer Credit Counseling Service "Master your Money" class

MNB sponsored a class taught by Anna Seale of the Consumer Credit Counseling Service

(CCCS). CCCS taught this class at Walters State Community College. The class was open to the public and specifically targeted at low-and moderate-income individuals. The CCCS operates as the leading source for credit and financial counseling services for low-and moderate-income families in 49 counties in East Tennessee.

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.