



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**January 03, 2012**

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

National Bank of Tennessee  
Charter Number 14828

262 East Broadway  
Newport, TN 37821-0000

Office of the Comptroller of the Currency

ADC-NASHVILLE Field Office  
The Parklane Building 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.**

National Bank of Tennessee's (NBT) performance under the Community Reinvestment Act is considered satisfactory given the bank's size, financial condition, and the credit needs in its assessment area (AA). Our evaluation covers the period from May 31, 2005 to September 30, 2011 and included a review of a sample of residential mortgage and business loans.

The primary factors supporting the bank's rating include:

- ◆ The average loan-to-deposit ratio at 67.48 % is reasonable given the bank's size, financial condition, and assessment area credit needs.
- ◆ A majority (68.85 %) by number of loans originated are within the bank's assessment area.
- ◆ The distribution of residential real estate loans among individuals of different income levels agrees with the AA demographics and reflects reasonable penetration.
- ◆ The distribution of commercial loans to businesses with gross revenues under 1 million is reasonable.
- ◆ The geographic distribution of both residential real estate and commercial loans throughout moderate-income tracts is significantly higher than the demographics of the community.
- ◆ No public complaints related to CRA have been filed.

## **SCOPE OF EXAMINATION**

This Performance Evaluation (PE) is a full scope review and covers the period of May 31, 2005 through September 30, 2011. Results were consolidated for comparative and analysis purposes and evaluated using 2000 Census demographic information. NBT has no bank owned affiliates.

Conclusions regarding the Lending Test are based on a sample of both residential and commercial loans originated by the bank during the period 2009, 2010 and through September 30, 2011. The residential loans selected for review included home purchase, home improvement and home refinance transactions. NBT is not subject to the data collection and reporting requirements of the Home Mortgage Disclosure Act (HMDA).

## **DESCRIPTION OF INSTITUTION**

NBT is a wholly owned subsidiary of NBN Corporation, a single bank holding company located in the bank's main office in Newport, Tennessee. NBN Corporation has total assets of \$168.9 million. NBT has three operating locations, within Newport Tennessee, that provide full service banking. The main office is located at 262 East Broadway, the West Branch is located at 575 West Broadway and the Bryant Town Branch is located at 774 Cosby Highway. Three branches have been closed by the bank since its last PE in 2005. The Greeneville Branch was sold by the

Bank in June, 2005. Two other branches were also closed, both of these were located in Cocke County.

The bank also offers telephone and Internet banking as alternative distribution methods. NBT's primary focus is to serve the commercial, agriculture, and consumer customers in Cocke and Greene counties. The bank meets these needs by providing various loan and deposit products, as well as, other financial services. As of September 30, 2011, NBT's total assets equaled \$174.8 million, of which \$105 million, or 66.4%, were comprised of various types of loans. The most prominent credit products provided by the bank are commercial and residential loans. The loan portfolio composition as of September 30, 2011, is as follows:

<b>Loan Category</b>	<b>\$ (000s)</b>	<b>Percent</b>
Commercial & Commercial Real Estate	43,377	41.15%
Residential Mortgage Loans	38,859	36.86%
Construction & Land Development	11,590	10.99%
Individuals	5,937	05.63%
Farmland and Agriculture	4,688	04.45%
Obligations	910	00.86%
Other Loans	54	00.05%
<b>Total</b>	<b>\$105,415</b>	<b>100.0%</b>

\* Data obtained from 9/30/2011 Call report

NBT offers convenient banking hours and a variety of loan and deposit products to meet the credit needs of the AA. Banking hours are Monday, Tuesday, Thursday, and Friday from 9:00 A.M. to 5:00 P.M. Branch lobbies are closed on Wednesdays. Drive-up services are available 8:00 A.M. to 5:00 P.M. on the same days. None of the ATMs are deposit taking.

There are no legal or financial impediments to NBT's ability to meet the credit needs of their AA. The bank's CRA performance was last evaluated as of May 31, 2005, with an "Outstanding" rating assigned.

## **DESCRIPTION OF ASSESSMENT AREA**

The AA adopted by NBT consists of whole geographies, does not reflect illegal discrimination, and does not arbitrarily exclude low- or moderate-income geographies. The AA meets the requirements of the CRA regulation.

NBT's AA includes all of Cocke and Greene counties in eastern Tennessee. These two contiguous counties comprise 23 census tracts (CTs) consisting of four moderate-, 18 middle-, and one upper-income tract. There are no low-income tracts in the bank's AA. Total population of the AA is 1.48 million. Of the 43,960 housing units, 30,136 or 68.55% are owner occupied. Households below the poverty level total 7,339 or 18.60%. The local economy continues to be depressed with unemployment rates above and the per capita income below state and national averages. The September 2011 local unemployment rate for Cocke and Greene Counties was 13.0% and 12.4%, respectively. The State unemployment average is 9.4%. Major employers within the AA include: Cocke County School System, Con-Agra, Wal-Mart, American Appliance, Eastern Plating, and Tennessee Health Care.

The following table shows the demographic and economic characteristics of the assessment area:

<b>Demographic Information for Assessment Area</b>					
<b>(Cocke and Green County)</b>					
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>
Geographies (Census Tracts/BNAs)	23	0.00	17.39	78.26	4.35
Population by Geography	96,474	0.00	18.79	78.79	2.42
Owner-Occupied Housing by Geography	30,136	0.00	16.84	81.19	1.97
Businesses by Geography	5,668	0.00	20.89	76.02	3.09
Farms by Geography	388	0.00	13.4	85.31	1.29
Family Distribution by Income Level	28,011	22.73	19.14	23.33	34.80
Distribution of Low- and Moderate-Income Families throughout AA Geographies	11,728	0.00	22.85	75.91	01.24
Median Family Income	\$35,116	Median Housing Value 2004			\$70,015
HUD Adjusted Median Family Income for 2010	\$46,400	Unemployment Rate September 2011			12.7%
Households Below the Poverty Level	18.60%				

*Source: 2000 U.S. Census and 2004 HUD updated MFI.*

There are five financial institutions within Cocke County creating a total Deposit base of \$472 Million. Newport Federal has three branches and maintains the largest market share at 35.12%. NB of T holds the 2<sup>nd</sup> largest market share of 32.79%. The remaining three financial institutions have 1 branch each and comprise the remaining 32.09%. Although this competition is considered strong, it fails to hinder NB of T's ability to offer products and services consistent with its size.

We conducted a community contact with Cocke County Chamber of Commerce. The chamber is considered the county's single source for economic development activities in Cocke County. The organization serves as the local chamber of commerce, economic development commission, and tourism for the area. During the most recent year (2010 – 2011), the Chamber of Commerce has worked with five manufacturing companies to assist the county in job/industry retention and growth. These include Phoenix Closures (Food Processing); The SI Group (Chemicals); American Appliance (Appliance Parts); Eastern Plating (Appliance Parts); Eastern Plating (Residential/Commercial plating); and Con-Agra (Poultry/Feed).

According to the Chamber's President, the manufacturing industry is continuing to experience loss of jobs due to increased automation (requiring fewer employees); and a drop in product demand. The Chamber expects this trend to continue to decline at a slow, steady rate.

Housing has leveled off with a lower number of vacant properties existing in the community. Housing prices tend to be slightly higher in Cocke County, compared to similar communities in the nation. The community has a history of maintaining a retirement aged population. People relocate to the area from more populated areas with a higher cost of living. People wishing to relocate here must sell their existing homes in order to relocate. Their inability to sell their

existing homes has a domino effect on Cocke County. This has resulted in a slower housing push.

The County is actively seeking to recruit retail businesses to offset decreases in manufacturing employment. Retail sales are currently peaking. Sales tax revenue surpassed Cocke County’s historic record of tax collections in August, 2011. Industries relocating to Cocke County tend to have their own financial resources and do not require financial assistance. There appears to be few opportunities for smaller local banks to participate in community development opportunities.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

NBT’s loan-to-deposit (LTD) ratio is reasonable; even though it’s lower than its similarly situated competitors. The LTD ratio meets the standard for satisfactory performance with consideration given to the current economic condition and credit needs in the AA, the bank’s size, and its financial condition. The bank’s quarterly LTD ratio for the 25 quarters ending September 30, 2011 averaged 67.48% compared to 87.48% of the six similarly situated community banks. NBTs LTD ratio has ranged from a high of 77.24% at June 2009 to a low of 57.44% at March 2007.

<b>Analysis and Comparison of the Bank's Loan-to-Deposit ratio</b>						
<b>BANK NAME</b>	<b>CITY</b>	<b>STATE</b>	<b>COUNTY</b>	<b>Cert #</b>	<b>TOTAL ASSETS (000s)</b>	<b>Average LTD Ratio</b>
<b>National Bank of TN</b>	<b>Newport</b>	<b>TN</b>	<b>Cocke</b>	<b>17847</b>	<b>174,885</b>	<b>67.48%</b>
<b>Citizens Bank of E. TN</b>	Rogersville	TN	Hawkins	9499	131,793	85.43%
<b>First Community Bank of East TN.</b>	Rogersville	TN	Hawkins	33794	228,709	98.54%
<b>CNB Lakeway</b>	Morristown	TN	Hamblen	157445	114,063	81.34%
<b>First Peoples Bank of TN</b>	Jefferson City	TN	Jefferson	21874	130,352	77.72%
<b>Bank of Jackson</b>	Jackson	TN	Madison	34457	123,974	84.83%
<b>Heritage Community Bank</b>	Greeneville	TN	Greene	57656	114,857	97.05%

### Lending in Assessment Area

NBT’s lending within its AA exceeds the standards for satisfactory performance. A majority of the number of NBT’s loans were originated within their AA. The dollar loan volume within the AA and that outside the AA is nearly equivalent. Our sample was comprised of home mortgage and business loans. Our sample of home mortgage loans showed that 75.81% by number and 67.38% by dollar were made within the bank’s AA. For business loans, 61.67% by number and 45.67% by dollar were originated within the bank’s AA. Overall, our loan sample indicated that 68.85% by number and 49.98% by dollar were originated in the bank’s AA. Refer to Table 1 for details on the bank’s Lending within their AA.

<b>Table 1 - Lending in AA</b>										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage Loans	47	75.81%	15	24.19%	62	\$2,282	67.38%	\$1,105	32.62%	\$3,387
Commercial Loans	37	61.67%	23	38.33%	60	\$6,247	45.67%	\$7,432	54.33%	\$13,679
Totals	84	68.85%	38	31.15%	122	\$8,529	49.98%	\$8,537	50.02%	\$17,066

Source: Loan Sample.

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

NBT's lending to borrowers at different income levels meets the standards for satisfactory performance. As shown in Table 2 below, the percentage of home mortgage loans made in the bank's AA to low- and moderate-income families is near to the ratio of the demographics of each category. 21.28% of NBT's loans were to low-income families. These low-income families account for a nearly equal portion of the AA's demographics representing 22.73% of the population.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in AA</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 Mortgage Loans	22.73	21.28	19.14	19.15	23.33	23.40	34.80	34.04

Source: U.S. Census data and loan sample. No income data available for 2.13 percent of the loans (1 loan)

The distribution of loans made to small businesses is reasonable compared to the number of small businesses in the AA. Table 2A indicates that based on our sample 72.97% by number and 52.38% by dollar of loans in the AA were made to small businesses (businesses with gross annual revenues less than \$1 million). This reflects a range of performance from lower than to near the 81.70% of businesses with reported revenues less than \$1 million.

<b>Table 2A - Borrower Distribution of Loans to Businesses in AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	81.70	3.31	14.99	100%
% of Bank Loans in AA by #	72.97	27.03	0.00	100%
% of Bank Loans in AA by \$	52.38	47.62	0.00	100%

Source: Business loan sample.

\*Dunn & Bradstreet data, 14.99% of AA businesses did not report revenue data

## Geographic Distribution of Loans

Overall, the geographic distribution of residential real estate loans and loans to businesses within the bank's AA meets the standard for satisfactory performance. Table 3 reflects the geographic distribution of residential real estate loans sampled indicate reasonable performance. The bank's AA does not contain low-income census tracts. The home mortgage loan sample shows that 40.43% of the loans sampled were made in moderate-income census tracts where only 16.84% of the total housing units are owner occupied.

<b>Table 3 - Geographic Distribution of Residential Real Estate Loans in Assessment Area (Coke and Greene Counties)</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of Owner Occupied Housing	% of Number of Loans	% of Owner Occupied Housing	% of Number of Loans	% of Owner Occupied Housing	% of Number of Loans	% of Owner Occupied Housing	% of Number of Loans
Home Mortgage Loan Sample	0	0	16.84	40.43	81.19	59.57	1.97	0.00

*Demographic data source: U.S. 2000 Census data*

Table 3A indicates satisfactory performance where 36.11% of the loans sampled were located in moderate-income census tracts compared to 20.89% of AA businesses within the moderate-income tracts.

<b>Table 3A - Geographic Distribution of Loans to Businesses in Assessment Area (Coke and Greene Counties)</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial	0.00	0.00	20.89	36.11	76.02	58.33	3.09	5.56

*Data source: Dunn & Bradstreet data.*

## Responses to Consumer Complaints

No complaints have been received by the bank or the OCC regarding the bank's Community Reinvestment Act performance since the prior evaluation as of May 31, 2005.

## Compliance with Anti-discrimination Laws and Regulations

No violations of the substantive provisions of the anti-discriminatory laws and regulations were identified during this evaluation.