



SMALL BANK

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

PUBLIC DISCLOSURE

November 28, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Community National Bank of The Lakeway Area
Charter Number 24368**

**225 West First North Street
Morristown, TN 37816**

**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.

Community National Bank of the Lakeway Area's (CNB) 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 April 9, 2003 to September 30, 2005 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 67.88 percent is reasonable given the bank's size, financial condition, and assessment area credit needs.
- ◆ A substantial majority of both the number and dollar volume of loans originated are within the bank's assessment area.
- ◆ The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- ◆ The geographic distribution of both residential real estate and business loans is reasonable.
- ◆ No public complaints related to CRA have been filed.

DESCRIPTION OF INSTITUTION

CNB is a community bank (no holding company) with offices located in Hamblen County and Jefferson County, Tennessee. On April 9, 2003, CNB opened its main office in Morristown, Tennessee. The bank has one other full service branch in Jefferson City. As of September 30, 2005, the bank reported total assets of \$88 million with \$71 million in deposits and \$51 million in loans (58 percent of total assets). CNB is well capitalized with capital ratios below peer averages. There are no legal impediments to hinder the bank's ability to meet the community's credit needs.

CNB operates in a competitive environment including other community banks, regional bank branches, and credit unions. At June 30, 2005, CNB ranked 6th out of 14 banks in deposit market share in their assessment area of Hamblen and Jefferson Counties, with 5.5 percent market share, according to FDIC data. The bank's primary business focus is residential real estate, commercial loans, and consumer loans.

The loan portfolio composition as of September 30, 2005, is as follows:

Loan Category	\$ (000s)	Percent
Commercial & Commercial Real Estate	\$23,442	46.3%
Residential Mortgage Loans	\$16,083	31.7%
Construction & Land Development	\$6,567	13.0%
Individuals	\$3,883	7.7%
Farmland and Agriculture	\$664	1.3%
Total	\$50,599	100.0%

* Data obtained from 9/30/2005 Call report

CNB offers convenient banking hours and a variety of loan and deposit products to meet the credit needs in the AA. Banking hours are Monday through Thursday from 9:00 A.M. to 4:00 P.M. and Friday from 9:00 A.M. to 6:00 P.M. Drive-up services are available Monday through Thursday from 8:30 A.M. to 4:30 P.M. and Friday from 9:00 A.M. to 6:00 P.M. The bank operates two ATM machines; one at the main office and one at the branch office in Jefferson City. This is the bank's first CRA examination since it opened for business on April 9, 2003.

DESCRIPTION OF ASSESSMENT AREA

CNB's assessment area (AA) meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The AA includes all of Hamblen and Jefferson Counties. Both Hamblen and Jefferson Counties are included in the Morristown Metropolitan Statistical Area (MSA). The 2000 U.S. Census data shows this assessment area contains two moderate-income geography tracts and no low-income tracts.

Morristown serves as the county seat of Hamblen County and is located approximately 40 miles northeast of Knoxville. The local employment base in the MSA is diversified with the principal industries being light manufacturing and trucking. Some of the major employers in the county include Berkline Corporation, Mahle, and Koch Foods. Jefferson City is located in Jefferson County, about 25 miles from Knoxville. Some of the major employers are Old Dominion Freight, Nashua Corp, and Bush Brothers. The unemployment rate in Hamblen County was 5.6 percent in December 2004. The unemployment rate in Jefferson County was 6.1 percent during the same period. The Tennessee statewide unemployment rate was 5.5 percent and the National unemployment rate was 5.4 percent in December 2004.

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

Demographic Information for Assessment Area (Jefferson and Hamblen Counties)					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	21	0.00	9.52	71.43	19.05
Population by Geography	102,422	0.00	6.19	75.94	17.87
Owner-Occupied Housing by Geography	30,205	0.00	4.72	76.28	19.00
Businesses by Geography	4,885	0.00	16.07	69.66	14.27
Farms by Geography	175	0.00	7.43	81.14	11.43
Family Distribution by Income Level	29,361	18.03	17.79	23.20	40.98
Distribution of Low- and Moderate- Income Families throughout AA Geographies	10,517	0.00	9.57	78.05	12.37
Median Family Income HUD Adjusted Median Family Income for 2004 Households Below the Poverty Level	\$39,609 \$42,700 15%	Median Housing Value 2004 Unemployment Rate 2004			\$80.970 5.8%

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

We conducted a community contact with a local organization that provides HUD technical assistance for first time homebuyers and credit counseling. The organization stated that area financial institutions could assist the organization by providing volunteers for their credit counseling and first time homebuyer classes. This contact also revealed that there is a need for affordable housing in the market area, but there are no non-profits that are building affordable housing.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

CNB's loan-to-deposit ratio meets the standard for satisfactory performance given the bank's size, age, financial condition, and considering the credit needs of the assessment area. The quarterly loan-to-deposit ratio averaged 67.88 percent since the bank opened for business in April 2003. The ratio has ranged from a high of 78.45 percent at December 31, 2003 to a low of 40.12 percent at the bank's first quarterly report June 30, 2003. There were no other institutions of similar size, age, location, and number of branches to compare the loan-to-deposit ratio against.

Lending in Assessment Area

CNB's lending within its AA exceeds the standards for satisfactory performance. A substantial majority of both the number and dollar amount of CNB's loans were originated within their AA.

Our sample was comprised of home mortgage real estate and business loans. Our sample of home mortgage loans showed that almost 82 percent of the number and 81 percent of the dollar amount of loans made were within the bank's AA. For business loans, 85 percent of the number and 92 percent of the dollar amount of loans sampled were originated within the bank's AA.

Overall, our loan sample indicated that nearly 83 percent of the total number and 88 percent of the total dollar amount of loans were originated in the bank's AA. Refer to Table 1 for details on the bank's Lending within their AA.

Table 1 - Lending in Assessment Area (Jefferson and Hamblen Counties)										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total #	Inside		Outside		Total \$
	#	%	#	%		\$	%	\$	%	
Home Mortgage Loan Sample	40	81.6%	9	18.4%	49	3,069	81.0%	722	19.0%	3,791
Business Loan Sample	23	85.2%	4	14.8%	27	5,252	92.0%	454	8.0%	5,706
Totals	63	82.9%	13	17.1%	76	8,321	87.6%	1,176	12.4%	9,497

Source: sampled home mortgage and business loans.

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

CNB's lending to borrowers of different incomes and businesses of different sizes, given the demographics of their assessment area, meets the standards for satisfactory performance. As shown in Table 2 below, the number of home mortgage loans made in the bank's AA to low-income families exceeds that of the AA demographics. Loans made to moderate-income families is slightly less than the percent of moderate-income families in the AA.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Assessment Area (Jefferson and Hamblen Counties)								
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 Loan sample	18.0%	20.0%	17.8%	12.5%	23.2%	20.0%	41.0%	47.5%

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

The distribution of loans made to small businesses is reasonable compared to the number of small businesses in the AA. Table 2A indicates, based on our sample, that 61 percent of the number and 40 percent of the dollar volume of loans in the AA were made to small businesses (businesses with \$1 million or less in gross annual revenues). This reflects reasonably well compared to the 66 percent of businesses with reported revenues less than \$1 million.

Table 2A - Borrower Distribution of Loans to Businesses in Assessment Area (Jefferson and Hamblen Counties)			
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Not reported
% of AA Businesses*	65.7%	5.6%	28.6%
% of Bank Loans in AA by #	60.9%	30.4%	8.7%
% of Bank Loans in AA by \$	39.9%	58.6%	1.5%

Source: Business loan sample.

**Dunn & Bradstreet data, 28.6% 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. Please refer to Table 3 and 3A for more specifics.

Table 3 shows the geographic distribution of residential real estate loans sampled indicates reasonable performance. The home mortgage loan sample shows that three percent of the loans sampled were made in moderate-income census tracts where only five percent of the total housing units are owner occupied.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Assessment Area (Jefferson and Hamblen Counties)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of Owner Occupie d Housing	% of Number of Loans	% of Owner Occupie d Housing	% of Number of Loans	% of Owner Occupied Housing	% of Number of Loans	% of Owner Occupie d Housing	% of Number of Loans
Home Mortgage Loan Sample	0%	0%	4.7%	2.7%	76.2%	83.8%	19.0%	32.4%

Demographic data source: U.S. 2000 Census data

Table 3A indicates good performance where 17 percent of the loans sampled were located in moderate-income census tracts compared to 22 percent of businesses located within those moderate-income tracts.

**Table 3A - Geographic Distribution of Loans to Businesses in Assessment Area
(Jefferson and Hamblen Counties)**

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans						
Business loan sample	0%	0%	22.1%	17.4%	56.4%	65.2%	21.4%	17.4%

Data source: Dunn & Bradstreet data.

Community Development Lending

CNB has a strong level of qualified community development lending given the bank's newness, although rarely in a leadership position. The institution exhibits good responsiveness to credit and community economic development needs.

CNB funded \$240M to the Tennessee Community Assistance Corporation (TCAC) in September 2003. TCAC AmeriCorps VISTA (Volunteers in Service to America) provides full-time members to nonprofit, faith-based and other community organizations, and public agencies to create and expand programs that ultimately bring low-income individuals and communities out of poverty.

CNB funded \$294M to the Douglas Cherokee Economic Authority, Inc. in January 2005. The purpose of the entity is to better focus available local, state, private, and federal resources to assist low-income individuals and families to acquire useful skills and knowledge, gain access to new opportunities and achieve economic self-sufficiency. The bank also approved funding for an additional \$25M in 2004 and 2005 to four entities established under the authority to provide housing assistance to the low-income elderly.

CNB funded \$75M to the Boys and Girls Club of Morristown, Inc in December 2004, which provides programs and services targeted to children at home with no adult care or supervision. The funds for this loan were used in the facility located in one of only two moderate-income census tracts in the bank's AA.

Responses to Complaints

CNB has not received any CRA-related complaints and therefore, no weight was given to this category.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.