



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 5, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Community National Bank
Charter Number: 15417

1271 Market Street
Dayton, TN 37321

Office of the 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 (CNB) has an overall **satisfactory** record of meeting community credit needs. This is based on the following:

- The bank's quarterly loan-to-deposit ratio is reasonable and averaged 76.82% during the evaluation period. CNB's quarterly average loan-to-deposit ratio ranged from a low of 72.37% as of June 30, 2005 to a high of 80.92% as of December 31, 2002.
- Lending in the bank's assessment area is good. A good majority of CNB's loans are within the bank's assessment area. Approximately 79.55% of the number and 81.30% of the dollar of loans were to borrowers within the Assessment Area (AA).
- CNB's distribution of loans to borrowers of different income (including low-and moderate-income) levels is reasonable and loans to businesses of different sizes is satisfactory.

SCOPE OF EXAMINATION

This Performance Evaluation is based on the period January 1, 2005 through November 5, 2007. Results were consolidated for comparative and analysis purposes and evaluated using 2000 Census Demographic information. CNB has no wholly-owned subsidiaries. There has been no data integrity reviews conducted prior to this evaluation.

Conclusions regarding the Lending Test are based on residential loans including home purchases, home improvements, and home refinances. Residential loans considered in the Lending Test originated between January 1, 2005 and November 5, 2007. Small business loans originated during the same time period were also considered in the Lending Test. A sample of loans was selected for each loan category based on internal bank reports. CNB is a Home Mortgage Disclosure Act (HMDA) reporter. The evaluation covers the period May 31, 2002 through November 5, 2007.

Community National Bank (CNB) has two assessment areas (AA). The Rhea County, TN AA includes all of rural Rhea County. The Soddy-Daisy, TN AA includes part of the MSA 16860 (Chattanooga, TN-GA). The Soddy-Daisy AA is adjacent to the Rhea County AA. For analytical purposes, the Rhea County AA was chosen for a full-scope review since the majority of bank loans, deposits, and offices are located in Rhea County. A limited-scope review was conducted of the Soddy-Daisy AA (MSA 16860). The bank's overall rating is based primarily on the AA receiving the full-scope review.

DESCRIPTION OF INSTITUTION

There have been no significant changes to the bank's corporate structure, including merger and acquisition activities, since the last Community Reinvestment Act (CRA) examination dated May 30, 2002 when the bank received a **satisfactory** rating. Senior management has changed since the last CRA examination. In 2005, the bank appointed Sherman Barnett as president. In

2007, the bank appointed Vaughn Berger to the position of Chief Financial Officer (CFO). The bank’s primary focus has not changed and continues to be commercial and industrial loans, residential real estate loans, and construction and land development loans. There are no legal or financial impediments to CNB’s ability to meet the credit needs in its Assessment Area(s) (AAs) including retail and community development loans, qualified investments, and community development services needs. CNB offers loans under the Small Business 504 program for community development purposes. The bank made two loans under this program that would have qualified as community development loans, but the loans were less than \$1Million. The bank offers a full-range of loan and deposit services.

CNB’s main office is located in Dayton, Tennessee. The bank has a branch in Spring City and another branch in Soddy-Daisy, Tennessee. The bank also has a cash dispensing ATM on the Bryan College Campus in Dayton, Tennessee. Since the previous CRA examination, the bank has closed one branch, opened one branch, and relocated a branch. In 2002, the bank opened the Soddy-Daisy Branch Office. In 2004, the bank closed the Branch located in the Bi-Lo grocery store in Dayton, Tennessee. In 2007, the Spring City Branch Office was relocated to a more convenient location on U.S. Highway 27.

As of September 30, 2007, CNB had total assets of \$97 million, of which net loans comprised 69.16%. The following table reflects the composition of CNB’s loan portfolio based on the September 30, 2007 Report of Condition.

	Product Category	
	Dollar (000’s)	Percent
Commercial & Industrial Including Commercial Real Estate	28,850	42.30
Residential Mortgage Loans	18,160	26.63
Construction & Land Development	15,441	22.64
Individuals	5,297	7.77
Farmland & Agriculture	373	0.55
All Other	75	0.11
TOTAL	68,196	100.00

Source: September 30, 2007 Report of Condition.

CNB provides a wide-range of traditional deposit and loan products. The main office is located in an area that is accessible to persons from different areas of the community. Lobby hours and drive-up hours also help to meet customer needs during the week. CNB has an ATM at all office locations and one on the campus of Bryan College in Dayton, Tennessee.

Customers have 24-hour access to their accounts through telephone banking and through the internet (www.cnb-usa.com). Internet and phone banking services include transfers between CNB accounts, review of account balances and transactions, access to loan account information, and the payment of loans. Internet banking customers also have bill-paying capability. The bank offers Visa Check Cards that provide customers with additional access to their accounts at point-of-sale or ATM locations.

The bank’s AA includes eight census tracts; all of these census tracts are in the middle-income level. Five of the census tracts are located in rural, Rhea County, Tennessee. The other three census tracts are located in Soddy-Daisy, Tennessee, which is a part of the Chattanooga, Tennessee-Georgia MSA. All of the bank’s branches, including the main branch, and ATMs are located in middle-income census tracts.

Distribution of Bank Offices and ATMs by Census Tract						
Census Tract Income Level	Tracts		Full-Service Branches		Automated Teller Machines *	
	#	%	#	%	#	%
Low	0	0.00%	0	0.00%	0	0.00%
Moderate	0	0.00%	0	0.00%	0	0.00%
Middle	8	100.00%	3	100.00%	4	100.00%
Upper	0	0.00%	0	0.00%	0	0.00%
NA	0	0.00%	0	0.00%	0	0.00%
TOTAL	8	100.00%	3	100.00%	4	100.00%

Two ATMs contiguous with branch locations, and there is one free-standing ATM. All of these machines are cash dispensing, and none of these machines accepts deposits.

CNB’s business strategy includes continued marketing of commercial credit to small businesses through its products, staff, and location. The bank offers Small Business Administration (SBA) and United States Department of Agriculture (USDA) loans for new business startups and to expand an existing business.

DESCRIPTION OF ASSESSMENT AREA(S)

The bank’s AA includes all five census tracts in Rhea County, Tennessee and three of the adjoining census tracts in Hamilton County, Tennessee. The three census tracts in Hamilton County, Tennessee are in Soddy-Daisy, Tennessee where the bank has a branch location. Soddy-Daisy is included in the Chattanooga, Tennessee-Georgia Metropolitan Statistical Area (MSA). Rhea County, Tennessee is located in a rural, non-metropolitan area. All eight of the bank’s AA census tracts are middle-income. The bank has no low- or moderate-income census tracts in its AA. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. There are no natural boundaries within the AAs that hinder accessibility.

All five census tracts in Rhea County, Tennessee and all three census tracts located in Hamilton County, Tennessee are contiguous. All eight census tracts are contiguous to each other.

Demographic Information for Assessment Area						
Rhea County, Tennessee						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	5	0	0	100%	0	0%
Population by Geography	28,400	0	0	100%	0	0%
Owner-Occupied Housing by Geography	8,431	0	0	100%	0	0%
Businesses by Geography	1,718	0	0	100%	0	0%
Farms by Geography	40	0	0	100%	0	0%
Family Distribution by Income Level	8,124	20.94%	18.08 %	22.42%	38.56%	0%
Distribution of Low- and Moderate-Income Families throughout AA Geographies	3,170	53.66%	46.34%	-	-	-
Median Family Income	= \$35,786	Median Housing Value		= \$70,003		
HUD Adjusted Median Family Income for 2007	= \$43,500	Unemployment Rates		= 5.00%		
Households Below the Poverty Level	= 1,846					

(*) 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 September 2007.

There are no low- and moderate-income census tracts within CNB’s Rhea County AA. Of the 8,124 families residing in the Rhea County AA, 1,701 (20.94%) and 1,469 (18.08%), respectively, are low- and moderate-income families based on the family distribution by income levels. As of September 30, 2007, both the unemployment rate for the State of Tennessee and the national average was 4.7%, which is slightly better than the unemployment rate in Rhea County.

CNB is located in eastern Tennessee. Dayton serves as the county seat of Rhea County and is located on U. S. Highway 27, a major north-south interstate connector. Other towns located in Rhea County include Spring City and Graysville.

Rhea County’s economic base is diverse. Over the past 30 years, it has moved from an agricultural economy into an industrial and service economy. There are approximately 11,000 people employed full-time and part-time in Rhea County. La-Z-Boy Tennessee, a furniture manufacturer, is the largest local employer with about 2,400 workers. Tennessee Valley Authority’s Watts Bar Nuclear Plant, located east of Spring City, is the second major regional employer with over 900 employees. Other employers include Suburban Manufacturing (manufacturers heating units) 500 workers, Lear Corporation (manufacturers automotive parts) 465 workers, Robinson Manufacturing (manufacturers men’s and boy’s apparel) 460 workers, and Goodman Company (manufactures household air conditioners) 412 workers.

Rhea County is experiencing a great deal of growth because of a new interstate system that links Chattanooga with Harriman, Tennessee. Several new plants have come to the area recently

providing several hundred new jobs. In addition, Wal-Mart and Lowes have also built new stores in the community, which provide employment to many. The area, however, remains a big produce community, particularly strawberries. Dayton is considered to be the "Strawberry Capital of the US."

Demographic Information for Assessment Area						
Soddy-Daisy, Tennessee						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	3	0	0	100%	0	0%
Population by Geography	24,573	0	0	100%	0	0%
Owner-Occupied Housing by Geography	7,880	0	0	100%	0	0%
Businesses by Geography	1,523	0	0	100%	0	0%
Farms by Geography	41	0	0	100%	0	0%
Family Distribution by Income Level	7,358	15.26%	19.69 %	24.14%	40.91%	0%
Distribution of Low- and Moderate-Income Families throughout AA Geographies	2,572	43.66%	56.34%	-	-	-
Median Family Income	= \$45,892		Median Housing Value		= \$85,183	
HUD Adjusted Median Family Income for 2007	= \$52,500		Unemployment Rate		= 3.90%	
Households Below the Poverty Level (Total)	= 868					

(*) 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 September 2007.

There are no low- and moderate-income census tracts within CNB’s Soddy-Daisy AA. Of the 7,358 families residing in the Soddy-Daisy AA, 1,123 (15.26%) and 1,449 (19.69%), respectively, are low- and moderate-income families based on the family distribution by income levels. As of September 30, 2007, both the unemployment rate for the State of Tennessee and the national average was 4.7%, which is higher than the 3.90% unemployment rate for this AA.

CHATTANOOGA, TENNESSEE MSA- HAMILTON COUNTY, TN- SODDY-DAISY, TN

The bank’s presence in Hamilton County, Tennessee or the Chattanooga MSA is limited to the city of Soddy-Daisy, Tennessee. With a population of approximately 12,000, Soddy-Daisy is located approximately 15 miles from downtown Chattanooga. Major employers in Hamilton County are: McKee Foods Corporation (snack foods) 3,200 employees, Pilgrim’s Pride Corporation (meat processing) 1,839 employees, Astec Industries (manufacturers hot-mix asphalt facilities) 1,160 employees, BlueCross BlueShield of Tennessee 4,502 employees, Hamilton County Department of Education 4,360 employees, Tennessee Valley Authority 3,869 employees, Erlanger Health System 3,410 employees, Unum Group (insurance) 2,800 employees, City of Chattanooga 2,338 employees, Memorial Health Care System 2,152 employees, CIGNA HealthCare 1,850 employees, Hamilton County Government 1,750 employees, U.S. Xpress Enterprises Inc. (truck loan carrier) 1,659 employees, Parkridge Medical

Center 1,077 employees, The University of Tennessee at Chattanooga 894 employees, Covenant Transport Inc. (truck load carrier) 750 employees, Orange Grove Center Inc. (residential care services) 747 employees, United States Postal Service 719 employees, Olan Mills Inc. (photography) 543 employees, Chattanooga State Technical Community College 525 employees, Moccasin Bend Mental Health Institute 446 employees, BI-LO Inc. (grocery supermarket chain) 426 employees, and The Health Center at Standifer Place 400 employees.

Hamilton County has an eighteen-county labor draw area: Bledsoe, Bradley, Franklin, Grundy, Hamilton, Marion, McMinn, Meigs, Rhea, Sequatchie, Van Buren and Warren Counties in Tennessee; Catoosa, Dade, Walker and Whitfield Counties in Georgia; DeKalb and Jackson Counties in Alabama.

No business opportunities were identified by CNB through outreach activities or through the bank surveys during this evaluation period. A local federal agency was interviewed for a community contact. CNB has worked with this agency on small business loans. This agency provides assistance with small business loans and housing. According to the contact, there is a credit need in the community for capital for small businesses and mortgages for affordable housing. The community contact made no negative comments about CNB.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Loan-to-Deposit Ratio Meets the Standards for Satisfactory Performance.

CNB's loan-to-deposit ratio is reasonable when compared to similarly situated banks. CNB's competition consists of several, independent community banks: First Bank of Tennessee in Spring City, TN; Citizens Tri-County Bank in Dunlap, TN; First Bank in Lexington, TN; Southeast Bank & Trust in Athens, TN. For the twenty-two quarters from March 31, 2002 to June 30, 2007, CNB's quarterly average loan-to-deposit ratio was 76.82%. During the same period, First Bank of Tennessee, Citizens Tri-City Bank in Dunlap, and First Bank in Lexington, TN quarterly average loan-to-deposit ratios were 92.51%, 74.04%, and 97.83%, respectively. Newly chartered Southeast Bank & Trust in Athens, TN had a quarterly average loan-to-deposit ratio of 78.26% for the 21 quarters commencing June 30, 2002. CNB's loan-to-deposit ratio ranked fourth out of the five similarly situated banks.

During the twenty-two quarter period from March 31, 2002, CNB's highest quarterly loan-to-deposit ratio was 80.92% as of December 31, 2002 and the lowest was 72.37% as of June 30, 2005. CNB's loan-to-deposit ratio was reasonably consistent during the quarters reviewed.

As of June 30, 2007, five financial institutions with nine offices controlled \$332 million in deposits within Rhea County, TN. CNB ranked second and controlled \$72 million, or 21.57%, of the market. First Bank of Tennessee, a state non-member bank headquartered in Spring City, TN, controlled the most deposits with a 32.48% market share. Other banks included two other state non-member banks and one regional bank with 21.07%, 11.49%, and 13.39%, respectively, of deposits.

As of June 30, 2007, twenty-eight financial institutions with 175 offices controlled \$7.3 billion in deposits within the Chattanooga, TN-GA MSA. The bank’s Soddy-Daisy AA includes three of the 76 census tracts included in the Chattanooga, TN-GA MSA. CNB ranked 27th and controlled \$8 million, or 0.11%, of the market. The majority of the Chattanooga MSA deposits are controlled by three regional banks, SunTrust Bank with 21.01%, First Tennessee Bank with 19.89%, and Regions Bank with 17.90%. Citizens Tri-County Bank headquartered in Dunlap, TN has an office in Soddy-Daisy, TN and controls 2.78% of the Chattanooga MSA deposit market.

Lending in Assessment Area

Lending in Assessment Area Meets the Standards for Satisfactory Performance.

Lending in the bank’s assessment area is satisfactory. Based on our residential and business loan samples for the period 2005 through November 5, 2007, 79.55% of the number and 81.3% of the dollar amounts were made in the bank’s AAs. These are satisfactory numbers and reflect positively on the bank’s efforts to lend within its AA.

Lending in CNB AAs										
Loan Type(s)	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
2005-2007 Residential Loans	46	74.19%	16	25.81%	62	\$2,508	68.51%	\$1,153	31.49%	\$3,661
2005-2007 Business Loans	59	84.29%	11	15.71%	70	\$3,873	92.48%	\$315	7.52%	\$4,188
Totals	105	79.55%	27	20.45%	132	\$6,381	81.30%	\$1,468	18.70%	\$7,849

Source: Loan Sample for 2005, 2006, and year-to-date 2007.

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

Lending to Borrowers of Different Incomes and to Business of Different Sizes Meets the Standard for Satisfactory Performance. Based on our loan sample, CNB’s distribution by borrower income for residential loans in the Rhea County AA is satisfactory. At 20.69% each, the number of loans to low- and moderate-income families closely mirrors the percentage of low- and moderate-income families in the AA at 20.94% and 18.08%, respectively. At 17.65%, the number of loans made to low-income families slightly exceeds the AA demographics. However, the percent of residential real estate loans made to moderate-income borrowers is lower than moderate-income family AA demographics. Nonetheless, CNB’s distribution by borrower income for residential loans in the Soddy-Daisy AA is satisfactory.

Borrower Distribution of Residential Real Estate Loans in Rhea County AA								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
Loan Type(s)	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number
Residential Loan Sample	20.94%	20.69%	18.08%	20.69%	22.42%	31.03%	38.56%	27.59%

Source: 2005, 2006, and year-to-date 2007 Residential loan sample included residential home purchases, home improvement loans, and home refinance loans; 2000 U.S. Census Data.

Borrower Distribution of Residential Real Estate Loans in Soddy-Daisy AA								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
Loan Type(s)	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number
Residential Loan Sample	15.26%	17.65%	19.69%	11.76%	24.14%	17.65%	40.91%	52.94%

Source: 2005-2006, and year-to-date 2007 Residential loan sample included residential home purchases, home improvement loans, and home refinance loan; 2000 U.S. Census data.

CNB’s distribution of loans to small businesses is very good. Our review of business loans show that 94.28% and 100% of the number and 99.10% and 100% of the dollar amount of loans sampled were made to small businesses within the AAs. These results compare favorably with the 55.82% and 54.63% of small businesses in the respective AAs. The bank has done a good job in collecting income information on all the business loans within our loan sample. The results of our business loan sample are somewhat skewed as 41% and 44% (approximately 4 out of 10) of the businesses in the demographics data failed to provide adequate income information.

Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
Full Review: Rhea County AA				
% of AA Businesses	55.82%	2.85%	41.33%	100%
% of Bank Loans in AA by #	94.28%	2.86%	2.86%	100%
% of Bank Loans in AA by \$	99.10%	0.24%	0.66%	100%
Limited Review: Soddy-Daisy AA				
% of AA Businesses	54.63%	1.77%	43.60%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	%	100%

Source: 2005 Geodemographic data and 2005, 2006, and year-to-date 2007 loan sample.

Geographic Distribution of Loans

There are no low- or moderate-income census tracts within CNB’s two AAs. 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

This criterion is not applicable for the period reviewed.

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.