



Comptroller of the Currency
Administrator of National Banks

Small Institution
Performance Evaluation

Public Disclosure

August 8, 2000

Community Reinvestment Act Performance Evaluation

**Mountain National Bank
Charter Number: 23631**

**300 East Main Street
Sevierville, Tennessee 37862**

**Comptroller of the Currency
Nashville Field Office
5200 Maryland Way, Suite 104
Brentwood, Tennessee 37027**

Note: 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.

General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Mountain National Bank, Sevierville, TN (MNB)** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **August 8, 2000**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Institution's CRA Rating: This institution is rated **"Satisfactory."**

The following are the primary factors supporting MNB's rating. These conclusions were based on a review of MNB's lending to small businesses and compliance with the Home Mortgage Disclosure Act (HMDA) involving loans secured by 1-4 family residential properties originated by the bank from January 1, 2000 through July 31, 2000.

- The bank's loan-to-deposit ratio exceeds the standard for satisfactory performance given its size, financial condition, and assessment area credit needs.
- A substantial majority of the bank's loans are made within its assessment area.
- The bank's distribution of credit reflects satisfactory penetration among small businesses of different revenues and among individuals of different income levels.
- We detected no evidence of discrimination or other illegal credit practices during our review.

Description of Institution

MNB reports \$55 million in total assets¹ as of June 30, 2000. The bank is independent of holding company (HC) ownership. The bank is based in Sevierville, Tennessee which is located in Sevier County approximately 20 miles east of Knoxville, Tennessee. Sevierville serves as the county seat and is the largest city located in Sevier County. The bank's primary business is small business and residential real estate lending. There are three branch offices, one located in Pigeon Forge and two in Gatlinburg. The bank has five Automated Teller Machines (ATMs). Locations are Main Office, Parkway Office, E. Parkway Office, Pigeon Forge Office, and Dunn's Market. MNB offers a broad range of banking services. There are no financial or legal impediments that would impair the bank's performance under the Community Reinvestment Act.

As of June 30, 2000, the bank's loan portfolio aggregated \$52.3 million and represents 67% of the total assets. Commercial and residential lending are the primary business lines for MNB. Commercial real estate loans for the period totaled \$25.5 million (49%), residential loans \$17.2 million (33%), commercial loans \$3.9 million (7%), consumer \$3.6 million (7%), construction and land development \$1.5 million, (3%) and agriculture loans \$226 thousand (0.4%). The bank's lending philosophy is aggressive.

MNB is a newly chartered bank, which opened for business on November 23, 1998. This performance evaluation represents MNB's first CRA examination.

Description of Assessment Area

MNB has designated their assessment area to be all the census tracts (CTs) located in Sevier County. These include eleven CTs numbering 801.00 through 811.00. Sevier County is part of the Knoxville, Tennessee Metropolitan Statistical Area (MSA)², which also includes Knox, Loudon, Blount, and Anderson Counties. The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low or moderate income areas.

Of the eleven CTs in Sevier County, three (27%) are moderate income 804.00, 807.00, and 810.00. The remaining eight (73%) CTs are all middle income. The 1990 census reported the county's population at 51,043. The 1999 Department of Housing and Urban Development (HUD) estimated median family income for the Knoxville-MSA was \$45,500.

¹ Consolidated Report of Condition - Call Report

² Located in the east-central section of Tennessee, Knoxville is the population and commercial center for the state's eastern region. The metro area comprises six counties Anderson, Blount, Knox, Loudon, Sevier, and Union. With an estimated 661,000 residents in 1998, Knoxville is the third largest metropolitan area in Tennessee, behind Nashville and Memphis. Located near the scenic Great Smoky Mountains (along the Appalachian Range), which mark the boundary between Tennessee and North Carolina, Knoxville has developed as a popular tourist destination. It is also a major industrial base, specializing in industrial and transportation equipment and apparel, with manufacturing jobs making up 15.2% of total employment. Knoxville is also headquarters to the Tennessee Valley Authority, the nation's largest utility.

As of June 2000, the county unemployment rate was 3.9% compared to state and national levels of 3.5% and 3.9%, respectively. However, Sevier County's unemployment rate fluctuates throughout the year due to the seasonal nature of much of the local industry. The month of June would represent the beginning of the "season" that is artificially designated as falling between Memorial Day and Labor Day.

Major employers for the county include tourism, retail, and service related industries. There is some industrial base that mitigates some of the seasonal employment fluctuation from the tourism and related businesses. Major industrial employers include Dan River, which manufactures cotton fabrics, Blalock Lumber (asphalt and ready-mix concrete), TRW (engine valves and components), and Federal Mogul (automotive parts).

MNB's primary competition is from a local community bank, whose main office is only approximately one-half mile from MNB on the Forks of the River Parkway in Sevierville. By comparison, this institution has ten branches with total deposits of over \$250 million. Other competition comes from local state banks, regional bank branches, and a savings association. Total deposits in Sevier County, as of June 30, 1999, were \$1,061 million. MNB held \$26 million (2.5%) of those total deposits while their primary competitor held \$253 million (23.4%).

Demographic data reflect 15,116 families reside in Sevier County. Of these families, 23% are low income, 23% moderate income, 26% middle income, and 28% upper income. Low income is defined as less than 50% of the state median family income (less than \$22,749), moderate income is between 50 and 80% (\$22,750 to \$36,399), middle income is between 80 and 120% (\$36,400 to \$54,599), and high income is anything over 120% (over \$54,600).

Fourteen percent of the households within the Sevier County assessment area are below the poverty level. Twenty-six percent of the households receive social security. An additional thirteen percent are retired.

We contacted two local community leaders during the examination to identify community credit needs. The community contacts included an insurance agent and a real estate agent. Community contacts identified more affordable home loans and flexible mortgage loan products as primary credit needs. Because of the nature of the primary industry (tourism/service), average wages are low and the county needs to attract more industry with higher wages. According to the contacts, bank involvement in the local community is satisfactory.

INCOME DEFINITIONS

Throughout this evaluation, we use the following definitions for the various income levels. These levels are defined in the Community Reinvestment Act.

Low-Income - An individual income, or median family income for geographies, that is less than 50% of the area median income.

Moderate-Income - An individual income, or median family income for geographies, that is at least 50% but less than 80% of the area median income.

Middle-Income - An individual income, or median family income for geographies, that is at least 80% but less than 120% of the area median income.

Upper-Income - An individual income, or median family income for geographies, that is 120% or more of the area median income.

Conclusions with Respect to Performance Criteria

The bank's current rating at the CRA examination dated August 8, 2000 is **"Satisfactory."** This performance evaluation is based on our review of MNB's loan activity concerning the bank's primary lending focus that includes small business loans and 1-4 family residential real estate loans. We reviewed a report of lending activity for all small business loan⁴ originations since the bank opened in November 1998. We also reviewed the bank's Home Mortgage Disclosure Act (HMDA) Loan Activity Report (LAR) which covered the period between January 1, 2000 and July 31, 2000. We did not review activity prior to this period because the bank was not required to capture that information per HMDA regulations and the volume of loans originated prior to this period was not significant.

Loan-to-Deposit Analysis

- **The loan-to-deposit ratio exceeds the standard for satisfactory performance given MNB's size, financial condition, and assessment area credit needs.**

MNB's quarterly average loan-to-deposit ratio⁵ for the seven quarter period beginning December 31, 1998 through June 30, 2000 is 84.25%. The loan-to-deposit ratio has been somewhat erratic as the bank is newly chartered, but is still significantly higher than the average (74.94%) of similarly situated banks during the same period. It has ranged from a high of 95.37% as of June 30, 1999 to a low of 76.08% as of December 31, 2000.

Comparison of Credit Extended Inside and Outside the Bank's Assessment Area

- **A substantial majority of loans are made within MNB's assessment area.**

The following table indicates the ratio of loans made within MNB's assessment area based on the lending report and the HMDA LAR. A substantial majority of the loans for each product line were made within the bank's assessment area.

⁴ Call Report Schedule RC-C, part II, requests information on the number and amount currently outstanding of "loans to small businesses" and "loans to small farms," as defined below. This information is being collected pursuant to Section 122 of the Federal Deposit Insurance Corporation Improvement Act of 1991.

For purposes of this schedule, "loans to small businesses" consist of the following:

(1) Loans with original amounts of \$1 million or less that have been reported in Schedule RC-C, part I, item 1.e, (column B on the FFIEC 031,) "Loans secured by nonfarm nonresidential properties" (in domestic offices), and

(2) Loans with original amounts of \$1 million or less that have been reported in Schedule RC-C, part I, item 4, "Commercial and industrial loans," on the FFIEC 034; item 4.a, "Commercial and industrial loans to U.S. addressees," on the FFIEC 032 and 033; and item 4.a, column B, "Commercial and industrial loans to U.S. addressees" in domestic offices, on the FFIEC 031.

⁵ Quarterly Call Reports

RATIO OF LOANS MADE WITHIN ASSESSMENT AREA				
Small Business	Number	Percent	Amount	Percent
Inside	318	94%	\$29,127,698	96%
Outside	21	6%	\$1,189,329	4%
1-4 family residential	Number	Percent	Amount	Percent
Inside	51	86%	\$4,727,000	88%
Outside	8	14%	\$622,000	12%
Total Loans	Number	Percent	Amount	Percent
Inside	369	93%	\$33,854,698	95%
Outside	29	7%	\$1,811,329	5%

Distribution of Credit Based on Borrower Income Within the Assessment Area

Small Business Lending

- **The distribution of credit reflects reasonable penetration among businesses of different revenues.**

Lending to Businesses of Different Sizes

MNB's performance of lending to businesses of different sizes is considered satisfactory when compared to the available demographic information for MNB's assessment area. We reviewed all commercial and industrial loans secured by nonfarm, nonresidential real estate originated since MNB opened in November 1998. For CRA purposes, small businesses are defined as those with gross annual revenues less than \$1 million. However, we were unable to perform an accurate analysis by business revenues. MNB did not consistently input business revenues into the loan database and only about 55% of the small business loans on MNB's database had revenue figures available. Therefore, we used the distribution of loan originations by the loan size as a proxy. The following table illustrates the distribution of small business loans by loan size.

SMALL BUSINESS LOANS Distribution by loan size

	Loan size	#	%	\$	%
Small Business	\$0 - \$100,000	251	79	7,376,383	25
	\$100,001 - \$250,000	37	12	6,028,118	21
	\$250,001 - \$500,000	18	6	6,808,457	23
	\$500,001 - \$1,000,000	12	4	8,914,741	31
	Total	318	100	29,127,698	100

MNB's performance is good when compared to the total sales for non-farm businesses located in Sevier County. Specifically, according to the 1990 Census, sixty-eight percent (68%) of the non-farm businesses in Sevier County had sales volume of less than \$500,000, seven percent (7%) of the non-farm businesses had sales volume of greater than \$500,000 and less than \$1 million, six percent (6%) of the non-farm businesses had sales volume of greater than \$1 million, and nineteen percent (19%) of the non-farm businesses reported sales as "not reported."

- **The distribution of credit reflects satisfactory penetration among individuals of different income levels.**

The following table shows MNB has a satisfactory distribution of loans to real estate borrowers of different income levels.

DISTRIBUTION OF LOANS BY BORROWER INCOME				
Income Level	Families in Assessment Area		1- 4 Family Residential Real Estate	
	Number	Percent	Number of Loans	Percent
Sevier County (CTs 0801.00, 0802.00, 0803.00, 0804.00, 0805.00, 0806.00, 0807.00, 0808.00, 0809.00, 0810.00, 0811.00)				
Low	3,505	23%	1	2%
Moderate	3,466	23%	9	18%
Middle	3,901	26%	15	29%
Upper	4,244	28%	26	51%
Total	15,116	100%	51	100%

The number of loans to low income borrowers appears to be low. However, with median housing costs of \$63,000, ownership appears out of the reach of most low-income borrowers, with median family incomes of \$22,750 or less. Over 14% of households in the assessment area are below the poverty level.

Distribution of Credit Within the Assessment Area

- **The geographic distribution of loans reveals satisfactory dispersion throughout the assessment area.**

MNB has a satisfactory record of lending to all segments of its assessment area. We utilized and reviewed loans secured by commercial and industrial or nonfarm nonresidential properties originated by the bank since November 1998 and the HMDA LAR loans secured by 1-4 family residential properties originated by the bank from January 1, 2000 through July 31, 2000, to determine the distribution of lending activity by Census Tract (CT). The following table illustrates this distribution by number and dollar volume of loans originated and purchased. The second column of this table also shows the distribution by income levels of the CTs in MNB's assessment area. As discussed earlier in this report, Sevier County does not have any CTs designated low- or upper-income. MNB originated at least one loan in most of the eleven CTs. The bank's level of penetration throughout its assessment area and distribution of credit is reasonable and consistent with the bank's ability to help meet the credit needs of its community.

Geographic Distribution of loans by Census tract									
Sevier County (CTs 0801.00, 0802.00,0803.00, 0804.00, 0805.00, 0806.00, 0807.00, 0808.00, 0809.00, 0810.00, 0811.00)									
Income Designation	% of CTs	Small business loans				1-4 family residential loans			
		#	%	\$ (000s)	%	#	%	\$ (000s)	%
Low	0%	0	0%	0	0%	0	0%	0	0%
Mod	27%	71	22%	4,768	16%	14	28%	1,390	29%
Mid	73%	247	78%	24,360	84%	37	72%	3,337	71%
Upper	0%	0	0%	0	0%	0	0%	0	0%
Total	100%	318	100%	29,128	100%	51	100%	4,727	100%

Response to Complaints

- **No complaints have been received since the previous examination.**

Institution’s Record of Complying with the Anti-discrimination Laws

- **We found no evidence of discrimination or other illegal credit practices. No violations of the substantive provisions of anti-discrimination laws and regulations were identified.**

We also conducted a review of the bank’s fair lending practices. The loan product selected was one-to-four family loans secured by residential real estate. This review compared loan terms of a sample of five approved white female applicants, our prohibited basis group, to twenty approved married applicants, our control group. We did not identify any discriminatory lending practices or violations of the substantive provisions of Federal antidiscrimination laws and regulations.

We then reviewed the bank’s denial and training procedures. The loan committee meets weekly and reviews proposed consumer credit denials a second time prior to mailing the official notice. Loan officers are provided regular training to ensure compliance with antidiscrimination laws.

The bank has a good record of complying with anti-discrimination laws including Equal Credit Opportunity Act (ECOA) and the Fair Housing Act (FHA). During this review, there was no evidence of discrimination or other illegal credit practices based on our review of sampled files. This conclusion is based on our file testing, policy review, and discussions with management.

