

# **PUBLIC DISCLOSURE**

**March 8, 2010**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Bank of Tennessee  
Certificate Number: 21573**

**301 East Center Street  
Kingsport, Tennessee 37660**

**Federal Deposit Insurance Corporation  
Division of Supervision and Consumer Protection  
Dallas Region - Memphis Area Office**

**5100 Poplar Avenue, Suite 1900  
Memphis, Tennessee 38137**

**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.

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## 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 Community Reinvestment Act (CRA) performance of **Bank of Tennessee, Kingsport, Tennessee** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **March 8, 2010**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

## INSTITUTION RATING

***INSTITUTION'S CRA RATING:* This institution is rated Satisfactory.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Outstanding.**

When arriving at the overall rating, the FDIC concluded that the strength of the Community Development Test rating did not sufficiently offset the deficiencies found in the Lending Test, particularly regarding the geographic distribution of loans, when considering whether the bank warranted a more favorable rating.

The points below summarize the bank's records as a whole relative to the applicable tests and performance factors.

### Lending Test

Bank of Tennessee (BOT) demonstrated an overall satisfactory record regarding the Lending Test. Typically, once a bank displays at least some level of satisfactory performance regarding its loan-to-deposit ratio and its loan concentration inside its assessment areas, examiners will then place more weight on the distributions of loans, both geographically and based on the borrowers' profiles, when arriving at the overall rating.

Examiners considered the good distribution based on the borrowers' profiles sufficient to offset the less than reasonable geographic distribution. So, when considered with the other factors, the bank's records warranted the overall satisfactory Lending Test rating.

The loan-to-deposit ratio and lending concentration inside the assessment areas performance factors considered the bank's performance as a whole. Examiners emphasized the bank's records in the Johnson City MSA AA when arriving at the conclusions for the distributions of loans, both geographically and based on the borrowers' profiles. For each of the bank's primary assessment areas, this evaluation weighted the bank's records regarding its small business loans more heavily when arriving at conclusions for the Lending Test's performance factors. The following points summarize the bank's record.

- The bank demonstrated a strong record regarding its loan-to-deposit (LTD) ratio. A strong overall level, at 96.5 percent, and a strong level relative to other institutions support this conclusion. Examiners considered the bank's size, business strategy, and capacity relative to the assessment areas' credit needs when arriving at this conclusion.
- The institution exhibited a good record of concentrating its loans inside its assessment areas. For the three years of small business loans reviewed, the bank granted a clear majority, 87 percent by number and 86 percent by dollar volume, inside its assessment areas.
- BOT displayed a good record of distributing its loans based on the borrowers' profiles. A good record in the Johnson City MSA AA as well as a reasonable record

in the Kingsport MSA AA supports this conclusion. This factor only considered loans granted inside the assessment areas.

- BOT displayed a less than reasonable record of geographically distributing its loans throughout its assessment areas. Despite the good record in the Kingsport MSA AA, the poor record in the Johnson City MSA AA warranted the overall lower conclusion. As previously noted, examiners weighted performance in the Johnson City MSA AA more heavily. This factor only considered loans granted inside the assessment areas.
- The bank did not receive any CRA related complaints since the previous evaluation; therefore, this factor did not affect the rating.

### Community Development Test

The bank exhibited strong overall performance regarding the Community Development Test. Strong records regarding each community development activity type support this conclusion. The institution's leadership role and the activities' strong responsiveness to community development needs combined with good numbers and dollar volumes of community development loans and investments as well as a strong level of community development services contributed to the strong performance.

The bank granted community development loans equaling 1.78 percent of the bank's average total assets since the last evaluation and obtained qualified investments equaling 0.55 percent of average total assets. In addition, the institution provided 130 community development services.

## SCOPE OF EXAMINATION

This evaluation covers the time period from May 24, 2007, to March 8, 2010, the date of the previous evaluation to this evaluation's date. To evaluate performance, examiners applied the CRA Intermediate Small Bank tests: Lending Test and Community Development Test.

CRA Intermediate Small Bank procedures require examiners to determine the bank's major product lines for consideration in the evaluation, and as an initial matter, examiners may select from among the same loan categories used for CRA Large Bank evaluations: home mortgages, small business, small farm, and consumer loans. The following table shows loan activity for the previous 12 months, which is consistent with the bank's lending patterns since the last evaluation.

<b>Table A - Loan Originations for the 12 Months Ended February 28, 2010</b>				
<b>Loan Type</b>	<b>Dollar Amount (000)</b>	<b>Percent of Dollars</b>	<b>Number of Loans</b>	<b>Percent of Number</b>
Construction and Land Development	\$9,222	7.0	18	1.8
Secured by Farmland	0	0.0	0	0.0
Open-end 1-4 Family Residential	11,668	8.9	195	19.1
Closed-end 1-4 Family Residential	37,004	28.3	240	23.6
Multi-Family (5 or more) Residential	5,088	3.9	8	0.8
Commercial Real Estate	48,226	36.9	65	6.4
<b>Total Real Estate Loans</b>	<b>\$111,208</b>	<b>85.0</b>	<b>526</b>	<b>51.7</b>
Commercial and Industrial	16,988	13.0	182	17.9
Agricultural	0	0.0	0	0.0
Consumer	2,574	2.0	309	30.4
Other	0	0.0	0	0.0
<b>Gross Loans</b>	<b>\$130,770</b>	<b>100.0</b>	<b>1,017</b>	<b>100.0</b>

*Source: Bank Data – 2/28/2010*

Based on the lending emphasis highlighted in the previous table, focusing on the percent of dollars, examiners considered the bank's small business and home mortgage loans collected and reported pursuant to CRA data collection, 1,203 small business loans, and Home Mortgage Disclosure Act (HMDA) requirements, 874 home mortgage loans, for the years 2007, 2008, and 2009.

As seen in the table, no other loan products represented a significant enough percentage, by dollar volume, of the bank's activities to influence this evaluation's conclusions and ratings. Consequently, examiners did not consider agricultural or consumer loans. Consistent with their relative dollar percentages in the above table, examiners weighted small business loans slightly more heavily when arriving at conclusions for the applicable Lending Test performance factors. Examiners considered all 23 community development activities originated during 2007, 2008, and 2009.

Based on the data in the following table, examiners performed full-scope review procedures for the Johnson City Metropolitan Statistical Area (MSA) and the Kingsport MSA assessment areas (AAs) and limited scope procedures for the Nashville MSA AA.

Additionally, examiners weighted performance in the Johnson City MSA AA more heavily, correlating to the relative percentage of loans granted in that assessment area.

<b>Table B – Assessment Area Weighting</b>			
<b>Assessment Area</b>	<b>% of Loans</b>	<b>% of Deposits</b>	<b>% of Branches</b>
Johnson City MSA	56.67	38.31	50.00
Kingsport MSA	41.41	60.75	41.67
Nashville MSA	1.92	0.94	8.33
<b>Totals</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

*Source: HMDA and CRA Data Collection (2007 – 2009) and Summary of Deposits (2007 – 2009)*

## **DESCRIPTION OF INSTITUTION**

### ***Background***

Bank of Tennessee began retail operations in 1973 and operated from 12 full-service branches throughout East and Middle Tennessee. The bank did not open or close any locations in the Johnson City or Kingsport MSA Assessment Areas (AA) since the last evaluation. The bank did close its original Harding Pike location and moved it to a middle-income tract in Nashville. The following table shows the bank’s office distribution.

<b>Table C – Office Distribution</b>			
<b>Assessment Area / City</b>	<b># of Branches</b>	<b># of Full-Service ATMs</b>	<b># of Non-Deposit Taking ATMs</b>
<b>Johnson City MSA AA:</b>			
Johnson City	3	3	
Erwin	1		1
Gray	1	1	1
Jonesborough	1	1	
<b>Kingsport MSA AA:</b>			
Kingsport*	3	4	
Blountville	1	1	
Bristol	1		1
<b>Nashville MSA AA:</b>			
Nashville	1		
<b>Other Locations:</b>			
Fall Branch			1
<b>Total</b>	<b>12</b>	<b>10</b>	<b>4</b>

\* Includes main office location.

Since the bank provided no ATM service in Nashville, it allowed its Nashville customers to use any ATM without incurring any fees from either BOT or the ATM proprietor. Finally, the bank allowed its customers to use the ATMs of Carter County Bank and Cornerstone Community Bank without incurring any fees. This makes an additional 12 cash-dispensing ATMs available to BOT customers in Chattanooga (4), Elizabethton (3), Hixson (1), Johnson City (1), Ooltewah (1), and Roan Mountain (1) in Tennessee as well as Sugar Mountain, North Carolina (1).

The bank offered telephone banking services that included account inquiry and funds transfers, and it maintained a website used primarily for advertising, electronic mail, bill payer services, and Internet banking.

***Ability and Capacity***

As of December 31, 2009, the bank centered its \$636.4 million in total assets in net loans at \$471.7 million, or 74.1 percent of total assets, and investments at \$93.7 million, or 14.7 percent. Cash and premises primarily comprised the remaining 11.2 percent of total assets. The following table shows the bank’s outstanding loans as of year-end 2009. As seen, the primary loan products, by dollar volume, include commercial lending at 40.9 percent, made up of non-farm, non-residential properties secured by real estate and commercial and industrial loans, and residential lending at 38.9 percent.

<b>Table D - Loan Portfolio Composition as of December 31, 2009</b>				
<b>Loan Category</b>	<b>Dollar Amount (000)</b>	<b>Percent</b>	<b>Number of Loans</b>	<b>Percent</b>
Construction and land development	\$63,634	13.3	298	5.0
Secured by farmland	1,234	0.2	15	0.3
Secured by 1-4 family residential properties	163,617	34.1	2,337	39.5
Secured by multi-family (5 or more) residential	22,930	4.8	37	0.6
Secured by non-farm non-residential properties	144,783	30.2	339	5.7
<b>Total Real Estate Loans</b>	<b>\$396,198</b>	<b>82.6</b>	<b>3,026</b>	<b>51.1</b>
Loans to finance agricultural production	49	< 0.1	18	0.3
Commercial and industrial loans	51,236	10.7	856	14.4
Loans to individuals for household, family and other personal expenditures	5,650	1.2	1,828	30.9
Obligations of states and political subdivisions	4,176	0.9	6	0.1
Other loans	22,354	4.6	188	3.2
<b>Gross Loans</b>	<b>\$479,663</b>	<b>100.0</b>	<b>5,922</b>	<b>100.0</b>

*Source: Report of Condition & Bank Records*

BancTenn Corporation, a one-bank holding company headquartered in Kingsport, Tennessee, wholly-owned the bank. The bank did not operate any subsidiaries, but maintained an affiliate relationship with four other banking entities: Carter County Bank and its parent company, Carter County Bancorp, both headquartered in Elizabethton, Tennessee; and Paragon Commercial Bank and its parent company, Paragon Commercial Corp, both headquartered in Raleigh, North Carolina.

The bank received a Satisfactory rating at its previous May 24, 2007, FDIC evaluation. The institution’s financial condition, size, product offerings, prior performance, and legal impediments did not affect its ability to meet the assessment areas’ credit needs.

## DESCRIPTION OF ASSESSMENT AREAS

### *Assessment Area Details*

BOT designated three assessment areas: (1) Johnson City MSA – comprised of the entire Johnson City, TN MSA; (2) Kingsport MSA – comprised of the entire Kingsport-Bristol-Bristol, TN-VA MSA; and (3) Nashville MSA – comprised of only Davidson County, which is part of the Nashville-Davidson-Murfreesboro, TN MSA. These assessment areas conform to the CRA regulation and do not arbitrarily exclude low- or moderate-income areas.

These assessment areas contain numerous institutions thereby creating a highly competitive environment. Although other institutions saturate the market areas, this competition fails to hinder the bank's ability to offer products and services consistent with its size.

### *Demographic and Economic Data*

BOT's combined assessment areas represented a large geographic area and encompassed a number of diverse communities. Tables 9 through 11 in Appendix C list the bank's assessment areas and their related income and demographic characteristics. This evaluation more fully describes those assessment areas that received full-scope reviews. Appendix C also includes more details regarding the assessment areas.

### **Johnson City MSA Assessment Area**

The bank selected the entire Johnson City, TN Metropolitan Statistical Area as one of its assessment areas. This assessment area consisted of Carter, Unicoi, and Washington Counties in Upper East Tennessee. The area consisted of 40 CTs: 8 moderate-, 27 middle-, and 5 upper-income. Moderate-income CTs accounted for 20.0 percent of the total number of tracts within the assessment area, and only 13.4 percent of the assessment area's total population resided within these tracts.

The 2000 U.S. Census reflects a total population of 181,607 for this assessment area. The population contained 75,267 households, of which 9,870, or 13.1 percent resided in moderate-income tracts. The 2000 Census data also reflects that low- and moderate-income families represented 37.6 percent of the families residing in the assessment area. Approximately 10.9 percent of the families within the assessment area lived below the poverty level. The 2000 Census data shows that of the 81,913 housing units in the assessment area, owner-occupied units represented 65.3 percent, rental units represented 26.5 percent, and vacant units represented 8.2 percent.

In moderate-income tracts, owner-occupied units consisted of 46.8 percent of the total housing units while rental units consisted of 41.4 percent. Approximately 22.0 percent of the households in moderate-income tracts reported incomes below the poverty level. Middle-income tracts contained most of the assessment area's population and owner-occupied housing units. Table 10 in Appendix C contains additional demographic data from the 2000 U.S. Census for this assessment area.

This evaluation used the 2008 and 2009 estimated Department of Housing and Urban Development (HUD) Median Family Incomes (MFIs) of \$44,700 and \$48,100 for the

Johnson City, TN MSA for the borrower distribution analysis in this assessment area. The geographic distribution analysis for this assessment area used the 2000 MFI of \$37,970. The following table provides information on the calculation of each income level.

<b>Table E - Median Family Income Ranges for the Johnson City, TN MSA</b>				
<b>Income Level</b>	<b>Percent of MFI</b>	<b>2000 Income Range (\$37,970)</b>	<b>2008 Income Range (\$44,700)</b>	<b>2009 Income Range (\$48,100)</b>
Low	Less than 50%	Under \$18,985	Under \$22,350	Under \$24,050
Moderate	50 to < 80%	\$18,985 to \$30,375	\$22,350 to \$35,759	\$24,050 to \$38,479
Middle	80 to < 120%	\$30,376 to \$45,563	\$35,760 to \$53,639	\$38,480 to \$57,719
Upper	120% or more	\$45,564 or more	\$53,640 or more	\$57,720 or more

Source: Department of Housing and Urban Development

The Johnson City MSA included a number of community groups and non-profit community development organizations in its predominantly urban area. The area experienced a generally recessionary economy since the last evaluation.

Resilience among the service industries and an expanding public sector provided support for the Johnson City MSA's economy despite continued weakness in the manufacturing industries. The Johnson City MSA did not experience the substantial loss of household wealth associated with the national decline in house prices. The area's housing market showed balance, and although house sales were still down from the 2006 peak, the area's low living costs, the improvement in housing affordability, and the area's status as a regional healthcare hub lifted home sales in recent months. The presence of East Tennessee State University (ETSU) also helped stabilize the area's economy.

The MSA's unemployment rates declined in the last two years, but moderated in recent months to remain generally lower than the comparable data. The following table provides unemployment trends for the individual component counties of the Johnson City MSA, the Johnson City MSA as a whole, the State of Tennessee, and the United States. These trends illustrate the sluggish economy.

<b>Table F - Unemployment Rates in the Johnson City MSA Assessment Area</b>				
<b>Area</b>	<b>December 2009</b>	<b>December 2008</b>	<b>December 2007</b>	<b>December 2006</b>
Carter County, TN	10.5	8.1	5.6	4.4
Unicoi County, TN	12.1	8.3	6.9	5.9
Washington County, TN	8.9	6.1	4.6	4.0
Johnson City MSA	9.7	6.9	5.1	4.3
State of Tennessee	10.6	7.5	5.3	4.4
United States	9.7	7.1	4.8	4.3

Source: Tennessee Department of Labor and Workforce Development

Major employers in the assessment area included Mountain States Health Alliance, medical services; ETSU, secondary education; James H. Quillen VA Medical Center, medical services; American Water Heater Company, water heaters; and Frontier Health, Inc., medical services.

## Kingsport MSA Assessment Area

The bank selected the entire Kingsport-Bristol-Bristol, TN-VA multi-state Metropolitan Statistical Area as another of its assessment areas. This assessment area consisted of Hawkins and Sullivan Counties in Upper East Tennessee along with Scott and Washington Counties in southwestern Virginia and the City of Bristol, Virginia. The area consisted of 65 census tracts (CTs): 11 moderate-, 42 middle-, and 12 upper-income. There were no low-income tracts in the area. Moderate-income tracts represented 16.9 percent of the total assessment area census tracts. Only 13.6 percent of the assessment area's total population resided within these moderate-income census tracts.

The 2000 U.S. Census reflects a total population of 298,484 for this assessment area. The population contained 124,163 households, of which 17,545, or 14.1 percent, resided in moderate-income tracts. The 2000 Census data also reflects that low- and moderate-income families represented 38.0 percent of the families residing in the assessment area. Approximately 10.5 percent of the families within the assessment area lived below the poverty level. The 2000 Census data shows that of the 136,277 housing units in the assessment area, owner-occupied units represented 69.2 percent, rental units represented 21.8 percent, and vacant units represented 9.0 percent.

In moderate-income tracts, owner-occupied units consisted of 56.5 percent of the total housing units while rental units consisted of 30.8 percent. Approximately 23.9 percent of the households in moderate income tracts reported incomes below the poverty level. Middle-income tracts contained most of the assessment area's population and owner-occupied housing units. Additional demographic data from the 2000 U.S. Census for this assessment area can be found in Table 9 located in Appendix C.

This evaluation used the 2008 and 2009 estimated HUD MFIs of \$46,500 and \$49,000 for the Kingsport-Bristol-Bristol, TN-VA MSA for the borrower distribution analysis in this assessment area. The geographic distribution analysis for this assessment area used the 2000 MFI of \$39,138. The following table provides information on the calculation of each income level.

<b>Income Level</b>	<b>Percent of MFI</b>	<b>2000 Income Range (\$39,138)</b>	<b>2008 Income Range (\$46,500)</b>	<b>2009 Income Range (\$49,000)</b>
Low	Less than 50%	Under \$19,569	Under \$23,250	Under \$24,500
Moderate	50 to < 80%	\$19,569 to \$31,309	\$23,250 to \$37,199	\$24,500 to \$39,199
Middle	80 to < 120%	\$31,310 to \$46,965	\$37,200 to \$55,799	\$39,200 to \$58,799
Upper	120% or more	\$46,966 or more	\$55,800 or more	\$58,800 or more

*Source: Department of Housing and Urban Development*

The Kingsport MSA included a number of community groups and non-profit community development organizations in its predominantly urban area. Since the last evaluation, the area experienced a recessionary economy, which began to ease as manufacturing job losses slowed.

According to Moody's Economy.com, the Kingsport MSA was the second most energy-intensive metropolitan area in the nation. The area's extremely energy-intensive industrial structure made it susceptible to volatility in energy prices. Given that the local chemical industry accounted for approximately nine percent of the area's total wages, the recent easing of cost-cutting measures undertaken by the area's largest employer, Eastman Chemical Company, should help stimulate other consumer industries and local government revenue.

A mild housing correction in the area limited the negative wealth effect that falling home equity created for other homeowners across the country. Though not yet reflected in the employment numbers, the area economy showed signs of recovery with the rebounding of professional services, expanding of education and healthcare, and up ticking housing starts.

The MSA's unemployment rates remained consistently lower than the State of Tennessee and national averages, but well above the State of Virginia's averages. Unemployment continued to increase over the last three years as the local economy deteriorated. The following table provides unemployment trends for the individual components of the Kingsport MSA, the entire Kingsport MSA, the State of Tennessee, the State of Virginia, and the United States. These trends illustrate the recessionary economy.

<b>Table H - Unemployment Rates in the Kingsport MSA Assessment Area</b>				
<b>Area</b>	<b>December 2009</b>	<b>December 2008</b>	<b>December 2007</b>	<b>December 2006</b>
Hawkins County, TN	10.4	7.4	4.9	4.6
Sullivan County, TN	9.3	5.7	4.3	3.9
Scott County, VA	10.4	7.5	5.0	4.9
Washington County, VA	9.0	6.8	4.7	3.8
City of Bristol, VA	10.0	8.0	5.0	4.4
Kingsport MSA	9.5	6.7	4.6	4.1
State of Tennessee	10.6	7.5	5.3	4.4
State of Virginia	6.7	5.1	3.2	2.7
United States	9.7	7.1	4.8	4.3

*Source: Tennessee Department of Labor and Workforce Development and US Bureau of Labor Statistics*

Major employers in the assessment area included Eastman Chemical Company, polymers; Wellmont Health Systems, medical services; Exide Technologies, lead-acid batteries; and Touchstone Wireless, cell phone repair and remanufacturing.

### **Nashville MSA Assessment Area**

The bank selected Davidson County, Tennessee, as another of its assessment areas. The bank added this assessment area in November 2005 with the opening of its Nashville branch in the Nashville-Davidson-Murfreesboro, TN MSA in Middle Tennessee. The area consisted of 144 CTs: 15 low-, 36 moderate-, 66 middle-, 26 upper-income, and 1 tract with no income designation. Low- and moderate-income census tracts accounted for 35.4 percent of the total number of tracts within the assessment area, with 32.0 percent of the assessment area's total population residing within these tracts.

The 2000 U.S. Census shows that owner-occupied housing units represented 51.9 percent of the assessment area's total units while rental units consisted of 41.9 percent and vacant units 6.2 percent of total units. In low- and moderate-income tracts, owner-occupied units represented 37.4 percent of these tracts total units. About 22.9 percent of the households in these low- and moderate-income tracts reported incomes below the poverty level. These demographics present some slight limitations for one-to-four family owner-occupied residential lending in these areas. The middle-income census tracts contained a majority of the assessment area's population and owner-occupied housing units. Table 11 in Appendix C contains additional demographic data from the 2000 U.S. Census for this assessment area.

Davidson County's unemployment rates steadily increased from the levels established over the last few years, but remained consistently below the state and national averages, illustrative of the relatively weak local economy. Major employers in Davidson County included Vanderbilt University and Medical Center, secondary education and medical services; Saint Thomas Health Services, medical services; Gaylord Entertainment Company, entertainment services; and HCA, Inc., medical services.

### ***Community Contact***

In an effort to assist in establishing the performance contexts and credit needs for the communities, examiners utilized a recent community contact of an organization serving a 24-county area in East Tennessee, including the Johnson City and Kingsport MSA assessment areas. The contact stated that the local banks did a good job of making loans to meet housing and consumer needs; however, the contact indicated a need for more loans to small businesses in the areas. The contact identified programs such as the 504 loan program through the Small Business Administration (SBA) as an example of a need in the areas served by the contact's organization that local banks did not sufficiently address. Other information also identified affordable housing as a need in the areas.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

### ***Format***

This evaluation presents a more detailed discussion for the bank as a whole while summarizing the bank's records regarding its performance in each MSA where it operated offices. The Interstate Branching and Banking Efficiency Act ("IBBEA") requires separate conclusions for each MSA where a bank operates a branch.

Appendix C includes detailed data for each assessment area relative to the bank's distribution of loans, both geographically and based on the borrowers' profiles as well as other information. The tabled data shows information for 2008, the most recent year for which aggregate data was available, and 2009. The 2007 data did not present any significant anomalies affecting conclusions.

### ***Overall Conclusion***

The institution established an overall satisfactory CRA record. A satisfactory Lending Test record and an excellent Community Development Test record combined to result in the overall rating. The FDIC concluded that the strength of the Community Development Test

rating did not sufficiently offset the deficiencies found in the Lending Test, particularly regarding the geographic distribution of loans, when considering whether the bank warranted a more favorable rating.

When arriving at the Lending Test and Community Development Test ratings, examiners weighted the bank's records in the Johnson City MSA AA more heavily since this area produced nearly three-fifths of the bank's total loans.

***Conclusions Regarding the Johnson City MSA AA***

BOT's overall performance as well as its performances regarding the Lending Test and the Community Development Test in the Johnson City MSA AA proved similar to the bank's performance as a whole, discussed in detail in this evaluation.

The institution demonstrated satisfactory overall performance in the Johnson City MSA AA supported by a satisfactory Lending Test record and an excellent Community Development Test record. The FDIC concluded that the strength of the Community Development Test insufficiently offset the bank's deficiencies in its Lending Test record, particularly regarding its geographic distribution of loans, to warrant a stronger conclusion.

The bank's Lending Test conclusion relied on a reasonable distribution of loans based on the borrowers' profiles to offset a poor geographic distribution. The institution's leadership role and the community development activities' strong responsiveness to community development needs as well as a strong level of community development services drove the Community Development Test conclusion.

***Conclusions Regarding the Kingsport MSA AA***

BOT's overall performance as well as its performances regarding the Lending Test and the Community Development Test in the Kingsport MSA AA proved similar to the bank's performance as a whole, discussed in detail in this evaluation.

The bank exhibited satisfactory overall performance in the Kingsport MSA AA supported by a satisfactory Lending Test record and an excellent Community Development Test record. The FDIC concluded that the strength of the Community Development Test insufficiently offset the bank's only satisfactory Lending Test record to warrant a stronger conclusion.

The bank's Lending Test conclusion relied on reasonable loan distributions, both geographically and based on the borrowers' profiles. While still satisfactory, however, this area generated a much smaller percentage of loans from local deposits, approximately 66 percent, than the bank as a whole. The institution's leadership role and the community development activities' strong responsiveness to community development needs as well as a strong level of community development services drove the Community Development Test conclusion.

***Conclusions Regarding the Nashville MSA AA***

BOT's overall performance as well as its performance regarding the Community Development Test in the Nashville MSA AA proved dissimilar to the bank's performance as

a whole, discussed in detail in this evaluation. The bank's record regarding the Lending Test proved similar to the bank as a whole.

The bank displayed less than reasonable overall performance in the Nashville MSA AA. Less than reasonable Community Development Test performance warranted the MSA's overall conclusion.

The bank's reasonable Lending Test performance stemmed from reasonable conclusions regarding the bank's distribution of loans, both geographically and based on the borrowers' profiles. Although the bank granted only a small number of loans during the period under review, the dollar volume of loans generated by this area represented almost 200 percent of the deposits garnered in this assessment area.

The bank only granted a total of 12 HMDA-, CRA, or Community Development-reportable loans in 2007, 9 in 2008, and 9 in 2008, as partly shown in Table 1 in Appendix C, in this assessment area. Despite the limited number of loans, the bank did grant some small business and home mortgage loans in moderate-income geographies as well as all of its small business loans to business entities with gross annual revenues of \$1 million or less and some home mortgage loans to moderate-income borrowers.

The bank's Community Development Test record suffered from the complete lack of any community development investments or services. The institution did, however, establish a strong record regarding its community development loans by granting 3 such loans totaling \$4.1 million.

## **LENDING TEST**

Bank of Tennessee (BOT) demonstrated an overall satisfactory record regarding the Lending Test. Typically, once a bank displays at least some level of satisfactory performance regarding its loan-to-deposit ratio and its loan concentration inside its assessment areas, examiners will then place more weight on the distributions of loans, both geographically and based on the borrowers' profiles, when arriving at the overall rating.

Examiners considered the good distribution based on the borrowers' profiles sufficient to offset the less than reasonable geographic distribution. So, when considered with the other factors, the bank's records warranted the overall satisfactory Lending Test rating.

The loan-to-deposit ratio and lending concentration inside the assessment areas performance factors considered the bank's performance as a whole. Examiners emphasized the bank's records in the Johnson City MSA AA when arriving at the conclusions for the distributions of loans, both geographically and based on the borrowers' profiles. For each of the bank's primary assessment areas, this evaluation weighted the bank's records regarding its small business loans more heavily when arriving at conclusions for the Lending Test's performance factors.

## **Loan-to-Deposit Ratio**

The bank demonstrated a strong record regarding its loan-to-deposit (LTD) ratio. A strong overall level and a strong level relative to other institutions support this conclusion. Examiners considered the bank's size, business strategy, and capacity relative to the assessment areas' credit needs when arriving at this conclusion.

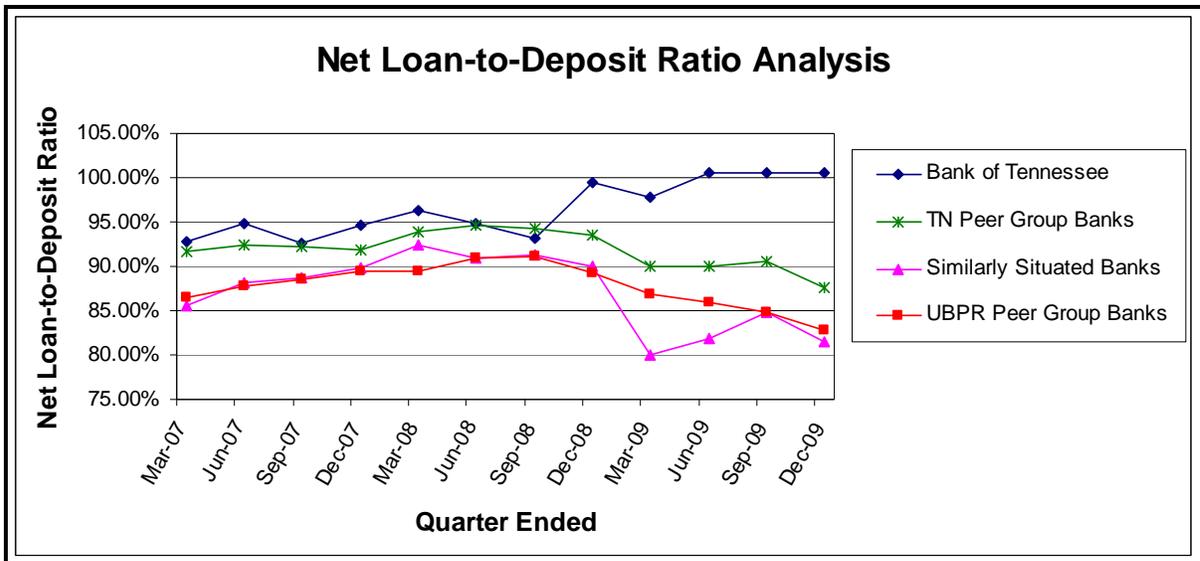
The overall level of the bank's average, net LTD ratio reflected strong performance. For the 12 quarters since the previous evaluation, the bank recorded a 96.5 average, net LTD ratio. The bank's quarterly net LTD ratios consistently remained strong, varying from a low of 92.6 percent to a high of 100.6 percent during the review period.

The bank's ratio relative to other banks also reflected strong performance. The following table lists two similarly situated institutions and includes categories for the bank's Uniform Bank Performance Report (UBPR) Peer Group and for all banks headquartered in Tennessee, excluding BOT, within the noted asset range (TN Peer Group).

As seen in the table, BOT's ratio exceeded all other comparable ratios. In addition, the following graph shows that while the other ratios experienced general declines during 2009, the bank's ratio remained at strong levels. Consequently, based on the overall level and the level relative to other comparable data, the bank demonstrated a strong record regarding its LTD ratio.

<b>Table I - Net Loan-to-Deposit Ratios</b>		
<b>Bank Name and Location</b>	<b>Total Assets (\$Millions) As of 12/31/09</b>	<b>Average Net LTD Ratio (%)</b>
Bank of Tennessee Kingsport, TN	636	96.5
First Volunteer Bank of Tennessee Chattanooga, TN	640	85.5
Mountain National Bank Sevierville, TN	638	88.6
TN Peer Group	500 – 1,000	92.2
UBPR Peer Group	500 – 1,000	87.8

Source: Call Reports and UBPRs.



### Loan Concentration in the Assessment Area

The institution exhibited a good record of concentrating its loans inside its assessment areas. Good records by both number and dollar volume for the bank’s primary loan product, small business loans, support this conclusion. Examiners considered the bank’s asset size, office structure, and loan products reviewed relative to the assessment areas’ sizes and credit needs when arriving at this conclusion.

The following table shows that the bank granted a majority of its small business loans inside its assessment areas. This held true for the percentages by both number and dollar volume of loans. In addition, the table reveals that for home mortgage loans, the bank granted a significant majority by number, and a majority by dollar volume inside the assessment areas. Consequently, within the context of the previously noted considerations, the institution exhibited a good record of concentrating its loans inside its assessment area.

Loan Type	Number of Loans					Dollar in Loans (000)					
	Inside		Outside		Total	Inside		Outside		Total	
	#	%	#	%		\$	%	\$	%		
Small Business	2007	374	94.2	23	5.8	397	42,907	89.6	4,994	10.4	47,901
	2008	318	84.8	57	15.2	375	36,144	85.2	6,272	14.8	42,416
	2009	358	83.1	73	16.9	431	40,424	83.1	8,208	16.9	48,632
<b>Subtotal</b>		<b>1,050</b>	<b>87.3</b>	<b>153</b>	<b>12.7</b>	<b>1,203</b>	<b>119,475</b>	<b>86.0</b>	<b>19,474</b>	<b>14.0</b>	<b>138,949</b>
Home Mortgage	2007	318	92.7	25	7.3	343	35,948	87.2	5,290	12.8	41,238
	2008	251	91.6	23	8.4	274	30,214	89.8	3,430	10.2	33,644
	2009	245	95.3	12	4.7	257	32,039	85.1	5,612	14.9	37,651
<b>Subtotal</b>		<b>814</b>	<b>93.1</b>	<b>60</b>	<b>6.9</b>	<b>874</b>	<b>98,201</b>	<b>87.4</b>	<b>14,332</b>	<b>12.6</b>	<b>112,533</b>

Source: HMDA (2007 – 2009) and CRA Data Collection (2007 – 2009)

## **Borrower Profile**

BOT displayed a good record of distributing its loans based on the borrowers' profiles. A good record in the Johnson City MSA AA as well as a reasonable record in the Kingsport MSA AA supports this conclusion. As previously noted, examiners weighted performance in the Johnson City MSA AA more heavily. This factor only considered loans granted inside the assessment areas.

### **Borrower Profile in Johnson City MSA AA**

The bank established a good record of distributing its loans in the Johnson City MSA AA based on the borrowers' profiles. A good record regarding the bank's small business loans as well as a satisfactory record regarding home mortgage loans primarily supports this conclusion. As previously noted, examiners weighted performance regarding small business loans more heavily.

#### ***Small Business Loans***

The institution achieved a good record of distributing its small business loans in the Johnson City MSA AA. Examiners focused on the percentage of the number of loans to entities reporting gross annual revenues of \$1 million or less compared to the demographic figure when arriving at this conclusion.

Table 5 in Appendix C shows that for 2008, the bank's percentage of small business loans to entities reporting gross annual revenues of \$1 million or less clearly exceeds the comparable demographic figure, 75 percent versus 62 percent. Although the gap noticeably narrowed in 2009, 80 percent versus 77 percent, the bank's level remained higher than the percent of businesses in the assessment area reporting revenues of \$1 million or less. Consequently, the institution achieved a good record of distributing its small business loans in the Johnson City MSA AA.

#### ***Home Mortgage Loans***

The bank's record reflected satisfactory performance regarding its distribution of home mortgage loans to borrowers with different incomes in the Johnson City MSA AA. Examiners focused on the bank's records to low- and to moderate-income borrowers relative to the applicable aggregate figures when arriving at this conclusion.

Table 4 in Appendix C shows that for 2008, the bank's percentage to low-income borrowers nearly equaled the applicable aggregate figure, 8 percent versus 7 percent. The bank increased its percent in 2009 to over 11 percent of its loans. Likewise, for 2008, the bank's percentage to moderate-income borrowers also nearly equaled the applicable aggregate figure, 15 percent versus 16 percent. Again, the bank increased its percentage in 2009 to 20 percent. Consequently, considering the nearly equal records to both low- and to moderate-income borrowers, the bank's record reflected satisfactory performance.

## **Borrower Profile in Kingsport MSA AA**

The bank established a reasonable record of distributing its loans in the Kingsport MSA AA based on the borrowers' profiles. A reasonable record regarding the bank's small business loans as well as a good record regarding home mortgage loans primarily supports this conclusion. As previously noted, examiners weighted performance regarding small business loans more heavily.

### ***Small Business Loans***

The institution achieved a reasonable record of distributing its small business loans in the Kingsport MSA AA. Examiners focused on the percentage of the number of loans to entities reporting gross annual revenues of \$1 million or less compared to the demographic figure when arriving at this conclusion.

Table 5 in Appendix C shows that for 2008, the bank's percentage of small business loans to entities reporting gross annual revenues of \$1 million or less falls within a satisfactory range, although slightly lower, of the appropriate demographic figure, 54 percent versus 59 percent. For 2009, the gap grew to 22 percent, 54 percent versus 76 percent, although the bank's level still fell within an adequate range. Consequently, the institution achieved a reasonable record of distributing its small business loans in the Kingsport MSA AA.

### ***Home Mortgage Loans***

The bank's record reflected good performance regarding its distribution of home mortgage loans to borrowers with different incomes in the Kingsport MSA AA. Examiners focused on the bank's records to low- and to moderate-income borrowers relative to the applicable aggregate figures when arriving at this conclusion.

Table 4 in Appendix C shows that for 2008, the bank's percentage to low-income borrowers notably exceeded the applicable aggregate figure, 14 percent versus 7 percent. The bank slightly increased it percent in 2009 to nearly 15 percent of its loans. For 2008, the bank's percentage to moderate-income borrowers slightly trailed the applicable aggregate figure, 17 percent versus 19 percent; however, the bank's level fell in 2009 to just under 11 percent. Consequently, despite the slight drag on the institution's record from its performance with moderate-income borrowers, the bank's record still reflected good overall performance regarding its distribution of home mortgage loans to borrowers with different incomes.

## **Geographic Distribution**

BOT displayed a less than reasonable record of geographically distributing its loans throughout its assessment areas. Despite the good record in the Kingsport MSA AA, the poor record in the Johnson City MSA AA warranted the overall lower conclusion. As previously noted, examiners weighted performance in the Johnson City MSA AA more heavily. This factor only considered loans granted inside the assessment areas.

## **Geographic Distribution in Johnson City MSA AA**

The bank established a poor record of geographically distributing its loans in the Johnson City MSA AA. A poor record regarding the bank's small business loans warranted the lower conclusion despite a satisfactory record regarding home mortgage loans. As previously noted, examiners weighted performance regarding small business loans more heavily. This assessment area did not include any low-income census tracts.

### ***Small Business Loans***

The institution's record reflected poor performance regarding its geographic distribution of small business loans in the Johnson City MSA AA. Examiners focused on the percentage of loans in moderate-income geographies compared to the applicable demographic data when arriving at this conclusion.

Table 3 in Appendix C shows that for 2008, the bank's percentage was less than one-half of the percentage of businesses located in moderate-income tracts, 6 percent versus 15 percent. In addition, while the demographic figure remained relatively the same for 2009, the bank's level dropped even further to under 4 percent. Consequently, the institution's record reflected poor performance.

### ***Home Mortgage Loans***

The bank achieved a satisfactory record of geographically distributing its home mortgage loans in the Johnson City MSA AA. Examiners focused on the percentage of loans in moderate-income geographies compared to the aggregate figure when arriving at this conclusion.

Table 2 in Appendix C shows that for 2008, the bank's percentage of loans to moderate-income borrowers nearly equaled, although just below, the applicable aggregate figure, 7 percent versus 8 percent. The bank's level for 2009 remained at 7 percent. Consequently, the bank achieved an overall satisfactory record of geographically distributing its home mortgage loans in the Johnson City MSA AA.

## **Geographic Distribution in Kingsport MSA AA**

The bank established a good record of geographically distributing its loans in the Kingsport MSA AA. A strong record regarding the bank's small business loans slightly deflated by an only satisfactory record regarding the bank's home mortgage loans supports this conclusion. As previously noted, examiners weighted performance regarding small business loans more heavily. This assessment area did not include any low-income census tracts.

### ***Small Business Loans***

The institution's record reflected strong performance regarding its geographic distribution of small business loans in the Kingsport MSA AA. Examiners focused on the percentage of loans in moderate-income geographies compared to the applicable demographic data when arriving at this conclusion.

Table 3 in Appendix C shows that for 2008, the bank's percentage substantially exceeded the percentage of businesses located in moderate-income geographies, 27 percent versus 17 percent. In addition, despite the slight narrowing in the gap for 2009, 24 percent versus 16 percent, the bank's level remained substantially higher than the applicable demographic figure. Consequently, the institution's record reflected strong performance.

### ***Home Mortgage Loans***

The bank achieved a satisfactory record of geographically distributing its home mortgage loans in the Kingsport MSA AA. Examiners focused on the percentage of loans in moderate-income geographies compared to the aggregate figure when arriving at this conclusion.

Table 2 in Appendix C shows that for 2008, the bank's percentage of loans to moderate-income borrowers clearly exceeds the applicable aggregate figure, 19 percent versus 12 percent. However, the bank's level dramatically dropped in 2009, down to under 4 percent. Regardless of the unavailability of aggregate data for 2009 at the time of this evaluation, the drop in 2009 offsets the strong record established in 2008. Consequently, the bank achieved an overall satisfactory record of geographically distributing its home mortgage loans in the Johnson City MSA AA.

### **Response to Complaints**

The bank did not receive any CRA related complaints since the previous evaluation; therefore, this factor did not affect the rating.

## **COMMUNITY DEVELOPMENT TEST**

The bank exhibited strong overall performance regarding the Community Development Test. Strong records in both the Johnson City MSA AA and Kingsport MSA AA support this conclusion as do strong records regarding each community development activity type. The institution's leadership role and the activities' strong responsiveness to community development needs combined with good numbers and dollar volumes of community development loans and investments as well as a strong level of community development services contributed to the strong performance.

### ***Community Development Lending***

BOT demonstrated an overall strong record regarding its community development lending. The strong responsiveness to community development needs and the bank's leadership capacity lifted a good level regarding the number and dollar volume of community development loans to warrant this conclusion.

As seen in the following table, the bank granted 23 community development loans totaling over \$11 million, which equated to 1.78 percent of the bank's average assets since the last evaluation and 2.43 percent of its average net loans. Relative to the institution's capacity and the assessment areas' opportunities, these percentages reflect good levels.

In addition, the tables shows that over 84 percent of the dollar volume of total community development loans benefited affordable housing needs, an identified need inside the bank's assessment areas. This high level reflects the strong responsiveness of the bank's community development loans to the areas' community development needs.

<b>Table K - Qualified Community Development Lending Activity by Assessment Area</b>										
Assessment Area	Affordable Housing		Revitalize & Stabilize LMI Geographies		Economic Development		Community Services Targeted to LMI		TOTALS	
	#	\$(000)	#	\$(000)	#	\$(000)	#	\$(000)	#	\$(000)
Johnson City MSA AA	2	190.0	0	0.0	2	1,402.5	3	212.5	7	1,805.0
Kingsport MSA AA	8	3,957.2	0	0.0	0	0.0	3	212.5	11	4,169.7
Nashville MSA AA	3	4,125.3	0	0.0	0	0.0	0	0.0	3	4,125.3
Outside Areas	2	1,350.0	0	0.0	0	0.0	0	0.0	2	1,350.0
<b>Total</b>	<b>15</b>	<b>9,622.5</b>	<b>0</b>	<b>0.0</b>	<b>2</b>	<b>1,402.5</b>	<b>6</b>	<b>425.0</b>	<b>23</b>	<b>11,450.0</b>

Source: Bank Records

The following table presents the bank's community development lending activity by the year in which the bank originated the loans and the loans' qualifying community development purpose.

<b>Table L - Qualified Community Development Lending Activity by Origination Year</b>								
Loan Category	2007*		2008		2009		YTD 2010	
	#	\$(000)	#	\$(000)	#	\$(000)	#	\$(000)
Affordable Housing	5	3,103.6	3	253.6	7	6,265.3	0	0.0
Revitalize or Stabilize LMI Geographies	0	0.0	0	0.0	0	0.0	0	0.0
Economic Development	2	1,402.5	0	0.0	0	0.0	0	0.0
Community Services Targeted to LMI	3	225.0	1	50.0	2	150.0	0	0.0
<b>Total</b>	<b>10</b>	<b>4,731.1</b>	<b>4</b>	<b>303.6</b>	<b>9</b>	<b>6,415.3</b>	<b>0</b>	<b>0.0</b>

Source: Bank Records \*April 18, 2007 through December 31, 2007

The following points highlight certain lending community development activities in which the institution took a leadership role.

- FHLB Loan Grant Programs – the bank led the way in its communities through its extensive use of the grant programs with community development purposes available through the Federal Home Loan Bank of Cincinnati. During the review period, BOT made use of nearly \$2.3 million in grants that it leveraged into more than \$6 million in loans.
- H.E.L.P. Program – the bank developed a number of specialized products to assist either potential or existing homeowners, including its Homeownership Education Lending Partnership Program. The Program formalized the bank's assistance

programs including foreclosure forbearance, loan modifications, and debt consolidation plans to mortgage loan customers experiencing financial or other forms of adversity.

- Your Own Home Program – this bank developed program addressed the needs of non-traditional homebuyers with limited or no credit history. The Program allows for acceptance of non-traditional credit references, such as phone bills and utility bills, as well as higher loan-to-value and debt-to-income ratios. This mortgage product mirrored a similar product created for non-real estate secured consumer loans.

***Qualified Investments***

The institution exhibited an overall strong record regarding its community development investments. The strong responsiveness to community development needs and the bank’s leadership capacity lifted a good level regarding the number and dollar volume of community development investments to warrant this conclusion.

As seen in the following table, the bank used granted 59 community development investments, including grants and donations, totaling over \$3.5 million, which equated to 0.55 percent of the bank’s average assets since the last evaluation and 3.37 percent of its average investments. Relative to the institution’s capacity, somewhat limited by its previously noted high loan-to-deposit ratio, and the assessment areas’ opportunities, these percentages reflect good levels.

In addition, the table shows that over 91 percent of the dollar volume of total community development investments benefited small businesses through economic development, an identified need inside the bank’s assessment areas. This high level reflects the strong responsiveness of the bank’s community development loans to the areas’ community development needs.

<b>Table M - Qualified Community Development Investment Activity by Assessment Area</b>										
<b>Assessment Area</b>	<b>Affordable Housing</b>		<b>Revitalize &amp; Stabilize LMI Geographies</b>		<b>Economic Development</b>		<b>Community Services Targeted to LMI</b>		<b>TOTALS</b>	
	<b>#</b>	<b>\$(000)</b>	<b>#</b>	<b>\$(000)</b>	<b>#</b>	<b>\$(000)</b>	<b>#</b>	<b>\$(000)</b>	<b>#</b>	<b>\$(000)</b>
Johnson City MSA AA	1	1.4	0	0.0	2	1,920.9	21	83.6	24	2,005.9
Kingsport MSA AA	3	126.3	0	0.0	2	1,282.0	30	93.0	35	1,501.3
Nashville MSA AA	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>4</b>	<b>127.7</b>	<b>0</b>	<b>0.0</b>	<b>4</b>	<b>3,202.9</b>	<b>51</b>	<b>176.6</b>	<b>59</b>	<b>3,507.2</b>

Source: Bank Records

The following table presents the bank’s community development investment activity by the year in which the bank obtained or granted the investment or donation and the activity’s qualifying community development purpose.

<b>Table N – Qualified Community Development Investment Activity by Year</b>										
<b>Loan Category</b>	<b>Prior Period</b>		<b>2007*</b>		<b>2008</b>		<b>2009</b>		<b>YTD 2010</b>	
	<b>#</b>	<b>\$(000)</b>	<b>#</b>	<b>\$(000)</b>	<b>#</b>	<b>\$(000)</b>	<b>#</b>	<b>\$(000)</b>	<b>#</b>	<b>\$(000)</b>
Affordable Housing	0	0.0	0	0.0	3	2.8	1	124.9	0	0.0
Revitalize or Stabilize LMI Geographies	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Economic Development	1	3,194.9	1	2.0	1	3.0	1	3.0	0	0.0
Community Services Targeted to LMI	0	0.0	12	41.4	14	50.3	16	52.2	9	32.7
<b>Total</b>	<b>1</b>	<b>3,194.9</b>	<b>13</b>	<b>43.4</b>	<b>18</b>	<b>56.1</b>	<b>18</b>	<b>180.1</b>	<b>9</b>	<b>32.7</b>

Source: Bank Records \*April 18, 2007 through December 31, 2007

The following points highlight certain qualified investment or donation activities in which the institution took a leadership role.

- Appalachian Fund for Growth II, LLC (AFG) – this Certified Community Development Entity provides investment capital to businesses building, renovating, and equipping their facilities. The Fund targets high job creation and retention throughout the 113 counties in the Appalachian regions of Georgia, North Carolina, and Tennessee, including counties in the bank’s assessment areas. The bank’s investment grew to a total of \$3,194,940 as of the examination date.
- Affordable Housing Limited Partnership – the bank acquired a 15.6 percent ownership interest totaling \$124,877 in a limited partnership whose stated purpose includes the development of 38 units of affordable housing in Kingsport. Thirty of the units are designated to low-income individuals and eight units designated to moderate-income individuals. The project’s scope expects to reach \$12.5 million and includes multiple institutions, Low-Income Housing Tax Credits, and HOPE VI grant proceeds.

### ***Community Development Services***

The bank established an overall strong record regarding its community development services. A strong number of community development services together with their strong responsiveness to community development needs and the bank’s leadership capacity support this conclusion.

As seen in the following table, 23 different bank employees and directors contributed their financial expertise to 28 different community development organizations through 130 different community development services throughout the bank’s assessment areas. Relative to the institution’s capacity and the assessment areas’ opportunities, these percentages reflect good levels.

In addition, the table shows that nearly 84 percent of the number of total community development services benefited organizations with community development as their primary

purpose. This high level reflects a strong responsiveness to the areas' community development needs.

<b>Table O – Qualified Community Development Services by Assessment Area</b>					
<b>Assessment Area (# Bank Officers)</b>	<b>Affordable Housing</b>	<b>Rev. &amp; Stabilize</b>	<b>Econ. Dev.</b>	<b>CD Services</b>	<b>Total</b>
Johnson City MSA (22)	6	0	2	69	77
Kingsport MSA (48)	6	0	7	40	53
Nashville MSA (2)	0	0	0	0	0
<b>Total</b>	<b>12</b>	<b>0</b>	<b>9</b>	<b>109</b>	<b>130</b>

Source: Bank Records

The following table presents the bank's community development services activity by the year in which the bank performed the service and the service's qualifying community development purpose.

<b>Table P - Qualified Community Development Services by Year</b>					
<b>Activity</b>	<b>2007*</b>	<b>2008</b>	<b>2009</b>	<b>2010**</b>	<b>Total</b>
Affordable Housing	2	4	3	3	12
Revitalize or Stabilize LMI Geographies	0	0	0	0	0
Economic Development	1	2	3	3	9
Community Services Targeted to LMI	24	29	28	28	109
<b>Total</b>	<b>27</b>	<b>35</b>	<b>34</b>	<b>34</b>	<b>130</b>

Source: Bank Records \* 4/18/2007 to 12/31/2007 \*\* 1/1/2010 to 3/8/2010

The following points highlight certain community development services in which the institution took a leadership role.

- Financial Education - bank employees conducted financial education classes to local area students, small business owners, and first-time homebuyers. BOT continues to sponsor a financial literacy program, How to do Your Banking, in 10 area high schools. The program is similar to the FDIC-sponsored "Money Smart" program, but targets high school students.

The program teaches students how to budget, balance a checking account, and save toward a goal as well as the importance of obtaining and a maintaining a good credit rating. The bank provides text books and instructor guides at no cost to the schools. A number of BOT employees also taught the classes. Three of the 10 high schools serve student bases from economically disadvantaged families. During the evaluation period, the bank provided more than 4,100 free text books to students who participated in the program.

- FHLB Grants – the bank assisted numerous families in filing and processing grant applications through Federal Home Loan Bank affordable housing programs including its American Dream Homeownership Challenge Program, the Affordable Housing Program, and the Preserving the American Dream Program.

The American Dream Homeownership Challenge Program increases homeownership for low- and moderate-income minority and disabled families through such help as down payment and closing cost assistance, individual counseling, and homeownership classes. The bank received \$454,361 in grants under this program and assisted 31 families, generating loans totaling over \$2.4 million.

The Affordable Housing Program funds affordable housing projects. The bank received \$1.6 million in grants. To date, projects include 106 affordable housing units for projects with estimated total costs of over \$14 million.

The Preserving the American Dream Program allows existing first lien mortgage customers an opportunity to preserve homeownership while facing economic distress, mortgage rate resets, and foreclosures. The program includes “rescue funds” to help homeowners bring mortgage payments current or to pay late fees or other charges. The FHLB awarded \$300,000 to BOT, in partnership with two other financial institutions. As of this evaluation date, BOT used 48 percent, or \$51,421, of the currently utilized funds by the three participating institutions. Nearly 60 percent of BOT’s grants went to rescue funds to keep homeowners in their homes.

- Board and Other Membership – several BOT employees served on the boards of multiple organizations with community development missions, including the Easter Eight Community Development Corporation which builds affordable housing, the Interfaith Hospitality Network of Greater Johnson City which provides community development services, CASA of Northeast Tennessee which provides representation in the juvenile court system for foster youth, and as Chairman of the Board of the Bristol Tennessee Housing and Redevelopment Authority which is Bristol’s public housing authority.

Bank employees also served on the loan committee for AFG, previously described under Qualified Investments, on the finance committee of Friends in Need, Inc. which provides medical and dental services to low- and moderate-income individuals.

- Financial Products and Services – BOT continued to partner with the Upper East Tennessee Human Development Agency (UETHDA) to establish individual development accounts (IDAs) low- and moderate-income first-time homebuyers. This program helps participants establish accounts with BOT with specific dollar goals, which UETHDA then matches two-for-one. The participants use the funds for down payment assistance or closing costs to obtain housing. BOT provides these savings accounts with no monthly service charges, no minimum balance requirements, no fees, and special interest rates. The bank presently holds 40 IDAs totaling nearly \$24,300.

The bank also operated two offices, including its main office, in moderate-income census tracts. BOT provided alternative delivery systems, including 10 full-service

ATMs capable of paying cash, receiving deposits, and making transfers 24 hours a day.

The American Bankers Association (ABA) recognized the Bank of Tennessee during 2010 for the bank's "outstanding service to its community." Overall, the combination of community development loans, qualified investments, and services represent excellent responsiveness to its assessment areas' needs and opportunities.

#### **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Examiners did not discover any evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs found.

## APPENDIX A

### SCOPE OF EXAMINATION

<b>Bank of Tennessee</b>
<b>SCOPE OF EXAMINATION:</b> Full scope reviews were performed on the Kingsport MSA and Johnson City MSA assessment areas, while a limited scope review was performed on the Nashville MSA assessment area. The bank's assessment areas consist of: 1) Johnson City, TN MSA in its entirety, which is comprised of Carter, Unicoi, and Washington Counties in Tennessee, 2) Kingsport-Bristol-Bristol, TN-VA MSA in its entirety, which is comprised of Hawkins and Sullivan Counties in Tennessee, Scott and Washington Counties in Virginia, and the City of Bristol, Virginia, and 3) Davidson County, Tennessee, which is part of the Nashville-Davidson-Murfreesboro, TN MSA.
<b>TIME PERIOD REVIEWED:</b> HMDA Information: January 1, 2007 through December 31, 2009. CRA Information January 1, 2007 through December 31, 2009. Community Development Lending, Investments, and Services: April 18, 2007 through March 8, 2010.
<b>PRODUCTS REVIEWED:</b> HMDA reported information for 2007, 2008, and 2009 and CRA collected information for 2007, 2008, and 2009.

<b>LIST OF AFFILIATES AND PRODUCTS REVIEWED</b>		
<b>AFFILIATE(S):</b>	<b>AFFILIATE RELATIONSHIP:</b>	<b>PRODUCTS REVIEWED:</b>
BancTenn Corporation, Kingsport, TN	Holding Company	None
Carter County Bancorp, Elizabethton, TN	Holding Company	None
Carter County Bank, Elizabethton, TN	Commercial Bank	None
Paragon Commercial Corp, Raleigh, NC	Holding Company	None
Paragon Commercial Bank, Raleigh, NC	Commercial Bank	None

<b>LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION</b>			
<b>ASSESSMENT AREA:</b>	<b>TYPE OF EXAMINATION:</b>	<b>BRANCHES VISITED:</b>	<b>OTHER INFORMATION:</b>
Johnson City MSA	Full	1	None
Kingsport MSA	Full	None	None
Nashville MSA	Limited	None	None

## APPENDIX B - GLOSSARY

**Aggregate lending:** The number of loans originated by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated by all reporting lenders in the metropolitan area/assessment area.

**Census tract:** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community development:** All agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved non-metropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

**Community Development Corporation (CDC):** A CDC allows banks and holding companies to make equity type of investments in community development projects. The equity investments are subject to limits specified by the bank's regulator. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community as well as to the financial and marketing needs of the bank. A CDC may purchase, own, rehabilitate, construct, manage and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization. Any real estate ownership should generally be temporary, with ownership reverting to members or organizations in the community.

**Community Development Financial Institutions (CDFIs):** CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. They procure loans and investments that conventional financial institutions are unable to invest in, and they link financing to other developmental activities. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. CDFIs share a common mission and can be chartered as a credit union or bank. CDFIs can also be unregulated nonprofit institutions that gather private capital from a range of social investors for community development lending or investing. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, microenterprise funds, and community development venture capital funds. A certified CDFI must meet eligibility requirements, which include: having a primary mission of promoting community development; serving an investment area or target population; providing development services; maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means; and not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

**Full-scope review:** Performance under the Lending and Community Development Tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and income of applicants, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

**Home mortgage loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited-scope review:** Performance under the Lending and Community Development Tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Low Income Housing Tax Credits:** The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended, which is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department, through the Internal Revenue Service, distributes low-income housing tax credits to housing credit agencies. The housing agencies allocate tax credits on a competitive basis. Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits or sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains in place throughout the compliance period, usually 30 years.

**Market share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Metropolitan area (MA):** A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

**Middle-income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

**Moderate-income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated area:** A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

**Small loan(s) to business(es):** A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by non-farm or non-residential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by non-farm residential real estate as "small business loans" if the loans are reported on the TFR as non-mortgage, commercial loans.

**Upper-income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.

## APPENDIX C – CRA DATA TABLES

Institution ID: Bank of Tennessee

**Table 1. Lending Volume**

2008 LENDING VOLUME		Geography: TENNESSEE				Evaluation Period: JANUARY 1, 2008 TO DECEMBER 31, 2008				
MA/Assessment Area:	% of Rated Area Loans (#) in MA/ASSESSMENT AREA*	Home Mortgage		Small Loans to Businesses**		Community Development Loans****		Total Reported Loans		% of Rated Area Deposits in MA/ASSESSMENT AREA***
		#	\$ (000)	#	\$ (000)	#	\$ (000)	#	\$(000)	
<b>Full Review:</b>										
Johnson City MSA	55.50	149	17,964	170	13,471	4	1,540	323	32,975	35.90
Kingsport MSA	42.95	99	12,008	142	21,563	9	3,345	250	36,916	63.40
<b>Limited Review:</b>										
Nashville MSA	1.55	3	242	6	1,110	0	0	9	1,352	0.70

2009 LENDING VOLUME		Geography: TENNESSEE				Evaluation Period: JANUARY 1, 2009 TO DECEMBER 31, 2009				
MA/Assessment Area:	% of Rated Area Loans (#) in MA/ASSESSMENT AREA*	Home Mortgage		Small Loans to Businesses**		Community Development Loans****		Total Reported Loans		% of Rated Area Deposits in MA/ASSESSMENT AREA***
		#	\$ (000)	#	\$ (000)	#	\$ (000)	#	\$(000)	
<b>Full Review:</b>										
Johnson City MSA	57.12	135	17,129	211	20,458	3	265	349	37,852	40.07
Kingsport MSA	41.41	108	14,663	143	18,875	2	825	253	34,363	58.94
<b>Limited Review:</b>										
Nashville MSA	1.47	2	247	4	1,091	3	4,125	9	5,463	0.99

\* Loan Data as of December 31, 2008 and December 31, 2009. Rated area refers to either state or multi-state MA rating area.

\*\* The bank collected CRA data during 2008 and 2009, but was not required to report CRA data during these years.

\*\*\* Deposit Data as of June 30, 2008 and June 30, 2009. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

\*\*\*\* The evaluation period for Community Development Loans is from April 18, 2007 through December 31, 2008 (2008 Lending Volume) and January 1, 2009 to March 8, 2010 (2009 Lending Volume).

Institution ID: Bank of Tennessee (Included)

**Table 2. Geographic Distribution of Home Mortgage (includes Home Purchase, Home Improvement, Home Refinance, and Multi-Family Loans)**

Geographic Distribution: COMBINED HOME MORTGAGE LOANS												Geography: TENNESSEE				Evaluation Period: JANUARY 1, 2008 TO DECEMBER 31, 2008			
MA/Assessment Area:	Total Home Mortgage Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income*								
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Low	Mod	Mid	Upp					
<b>Full Review:</b>																			
Johnson City MSA	149	59.36	N/A	N/A	9.81	7.38	71.89	68.46	18.30	24.16	N/A	8.43	68.08	23.49					
Kingsport MSA	99	39.44	N/A	N/A	11.96	19.19	70.74	52.53	17.30	28.28	N/A	11.47	68.65	19.88					
<b>Limited Review:</b>																			
Nashville MSA	3	1.20	3.81	33.33	17.75	33.33	53.63	33.34	24.81	0.00	4.53	16.35	51.66	27.46					

Geographic Distribution: COMBINED HOME MORTGAGE LOANS												Geography: TENNESSEE				Evaluation Period: JANUARY 1, 2009 TO DECEMBER 31, 2009			
MA/Assessment Area:	Total Home Mortgage Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income								
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Low	Mod	Mid	Upp					
<b>Full Review:</b>																			
Johnson City MSA	135	55.10	N/A	N/A	9.81	6.67	71.89	70.37	18.30	22.96	N/A	N/A	N/A	N/A					
Kingsport MSA	108	44.08	N/A	N/A	11.96	3.70	70.74	67.60	17.30	28.70	N/A	N/A	N/A	N/A					
<b>Limited Review:</b>																			
Nashville MSA	2	0.82	3.81	0.00	17.75	50.00	53.63	0.00	24.81	50.00	N/A	N/A	N/A	N/A					

\* Based on 2008 Peer Mortgage Data (Eastern)

\*\* Home mortgage loans originated in the MA/Assessment Area as a percentage of all home mortgage loans originated in the rated area during the respective year.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2000 Census information.

**Institution ID:** Bank of Tennessee (Included)

**Table 3. Geographic Distribution of Small Loans to Businesses**

Geographic Distribution: SMALL LOANS TO BUSINESSES DECEMBER 31, 2008		Geography: TENNESSEE					Evaluation Period: JANUARY 1, 2008 TO			
MA/Assessment Area:	Total Small Business Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies	
	#	% of Total**	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans
<b>Full Review:</b>										
Johnson City MSA	170	53.46	N/A	N/A	15.20	5.88	62.32	70.00	22.48	24.12
Kingsport MSA	142	44.65	N/A	N/A	16.59	26.76	66.51	45.07	16.90	28.17
<b>Limited Review:</b>										
Nashville MSA*	6	1.89	6.55	0.00	25.68	0.00	47.78	83.33	19.99	16.67

Geographic Distribution: SMALL LOANS TO BUSINESSES DECEMBER 31, 2009		Geography: TENNESSEE					Evaluation Period: JANUARY 1, 2009 TO			
MA/Assessment Area:	Total Small Business Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies	
	#	% of Total**	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans
<b>Full Review:</b>										
Johnson City MSA	211	58.94	N/A	N/A	14.73	3.79	62.80	68.25	22.47	27.96
Kingsport MSA	143	39.94	N/A	N/A	16.09	23.78	66.72	46.15	17.19	30.07
<b>Limited Review:</b>										
Nashville MSA*	4	1.12	6.40	0.00	25.38	25.00	47.53	50.00	20.69	25.00

\*\* Small loans to businesses originated in the MA/Assessment Area as a percentage of all small loans to businesses originated in the rated area.

\*\*\* Source Data - D&B (2008 and 2009).

\* Percentage of businesses represents the number of businesses in a particular geography divided by the number of businesses in the area that are in geographies reporting an income, based on 2000 Census information. No income information was reported for one census tract in the Nashville MSA assessment area. The number of businesses in this one census tract represented 0.64% of all businesses in the area during 2008 and 0.63% during 2009.

**Institution ID:** Bank of Tennessee (Included)

**Table 4. Borrower Distribution of Home Mortgage (excludes loans with income reported as NA)**

Borrower Distribution: COMBINED HOME MORTGAGE LOANS		Geography: TENNESSEE					Evaluation Period: JANUARY 1, 2008 TO DECEMBER 31, 2008							
MA/Assessment Area:	Total Home Mortgage Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Aggregate Lending Data*			
	#	% of Total	% Families***	% BANK Loans**	% Families***	% BANK Loans**	% Families***	% BANK Loans**	% Families***	% BANK Loans**	Low	Mod	Mid	Upp
<b>Full Review:</b>														
Johnson City MSA	149	59.36	19.61	7.69	18.00	14.69	23.45	16.08	38.94	61.54	6.46	16.40	25.65	51.49
Kingsport MSA	99	39.44	19.42	13.69	18.61	16.84	23.07	20.00	38.90	49.47	7.30	19.32	24.78	48.60
<b>Limited Review:</b>														
Nashville MSA	3	1.20	22.32	0.00	18.76	50.00	22.59	0.00	36.33	50.00	9.15	25.36	24.40	41.09

Borrower Distribution: COMBINED HOME MORTGAGE LOANS		Geography: TENNESSEE					Evaluation Period: JANUARY 1, 2009 TO DECEMBER 31, 2009							
MA/Assessment Area:	Total Home Mortgage Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Aggregate Lending Data			
	#	% of Total	% Families***	% BANK Loans**	% Families***	% BANK Loans**	% Families***	% BANK Loans**	% Families***	% BANK Loans**	Low	Mod	Mid	Upp
<b>Full Review:</b>														
Johnson City MSA	135	55.10	19.61	11.11	18.00	19.66	23.45	19.66	38.94	49.57	N/A	N/A	N/A	N/A
Kingsport MSA	108	44.08	19.42	14.89	18.61	10.64	23.07	14.89	38.90	59.58	N/A	N/A	N/A	N/A
<b>Limited Review:</b>														
Nashville MSA	2	0.82	22.32	0.00	18.76	0.00	22.59	0.00	36.33	100.00	N/A	N/A	N/A	N/A

\* Based on 2008 Peer Mortgage Data (Eastern)

\*\* As a percentage of loans with borrower income information available. No income information was available for 4.38% of all HMDA loans originated by the bank during 2008 and for 13.47% of the loans during 2009.

\*\*\* Percentage of Families is based on the 2000 Census information.

**Table 5. Borrower Distribution of Small Loans to Businesses**

Borrower Distribution: SMALL LOANS TO BUSINESSES DECEMBER 31, 2008		Geography: TENNESSEE			Evaluation Period: JANUARY 1, 2008 TO DECEMBER 31, 2008		
MA/Assessment Area:	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size		
	#	% of Total**	% of Businesses***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000
<b>Full Review:</b>							
Johnson City MSA	170	53.46	61.67	75.29	84.12	7.06	8.82
Kingsport MSA	142	44.65	58.92	54.23	64.79	14.08	21.13
<b>Limited Review:</b>							
Nashville MSA	6	1.89	62.61	100.00	83.33	0.00	16.67

Borrower Distribution: SMALL LOANS TO BUSINESSES DECEMBER 31, 2009		Geography: TENNESSEE			Evaluation Period: JANUARY 1, 2009 TO DECEMBER 31, 2009		
MA/Assessment Area:	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size		
	#	% of Total**	% of Businesses***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000
<b>Full Review:</b>							
Johnson City MSA	211	58.94	76.74	80.09	78.67	10.43	10.90
Kingsport MSA	143	39.94	75.73	53.85	67.83	17.48	14.69
<b>Limited Review:</b>							
Nashville MSA	4	1.12	72.62	100.00	0.00	25.00	75.00

\*\* Small loans to businesses originated in the MA/Assessment Area as a percentage of all small loans to businesses originated in the rated area for the respective year.

\*\*\* Businesses with revenues of \$1 million or less as a percentage of all businesses (Source D&B 2008 and 2009).

\*\*\*\* Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses. No information was available for 7.55% of small loans to businesses originated by the bank during 2008 and 2.79% of the loans during 2009.

Institution ID: Bank of Tennessee

**Table 6. Qualified Investments**

QUALIFIED INVESTMENTS									
			Geography: TENNESSEE			Evaluation Period: APRIL 18, 2007 TO MARCH 8, 2010			
MA/Assessment Area:	Prior Period Investments*		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$ (000)	#	\$ (000)	#	\$ (000)	% of Total	#	\$ (000)
<b>Full Review:</b>									
Johnson City MSA	1	1,916.9	23	89.0	24	2,005.9	57.19	0	0
Kingsport MSA	0	1,278.0	35	223.3	35	1,501.3	42.81	0	0
<b>Limited Review:</b>									
Nashville MSA	0	0.0	0	0.0	0	0.0	0.00	0	0

\* 'Prior Period Investments' means investments made in a previous period that are outstanding as of the examination date. The bank had one prior period investment that was split 60% to the Johnson City MSA assessment area and 40% to the Kingsport MSA assessment area.

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

Institution ID: Bank of Tennessee

**Table 7. Distribution of Branch Delivery System and Branch Openings/Closings**

DISTRIBUTION OF BRANCH DELIVERY SYSTEM AND BRANCH OPENINGS/CLOSINGS				Geography: TENNESSEE				Evaluation Period: APRIL 18, 2007 TO MARCH 8, 2010									
MA/Assessment Area:	Deposits	Branches						Branch Openings/Closings				Population					
	% of Rated Area Deposits in AA*	# of BANK Branches	% of Rated Area Branches in AA	Location of Branches by Income of Geographies (%)				# of Branch Openings	# of Branch Closings	Net change in Location of Branches (+ or -)				% of Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
<b>Full Review:</b>																	
Johnson City MSA	40.07	6	50.00	0.00	16.67	50.00	33.33	0	0	0	0	0	0	0.00	13.39	69.79	16.82
Kingsport MSA	58.94	5	41.67	0.00	20.00	40.00	40.00	0	0	0	0	0	0	0.00	13.60	69.84	16.56
<b>Limited Review:</b>																	
Nashville MSA	0.99	1	8.33	0.00	0.00	100.00	0.00	1	1	0	0	+1	-1	8.38	23.61	49.42	18.59

\* Deposits as of June 30, 2009

**Table 8. Distribution of Branch and ATM Delivery System**

DISTRIBUTION OF BRANCH and ATM DELIVERY SYSTEM																	
Geography: TENNESSEE																	
Evaluation Period: APRIL 18, 2007 TO MARCH 8, 2010																	
MA/Assessment Area:	Deposits	Branches						ATMs						Population			
	% of Total Bank Deposits*	# of BANK Branches	% of Total Bank Branches	Location of Branches by Income of Geographies (%)				# of Bank ATMs**	% of Total Bank ATMs	Location of ATMs by Income of Geographies (%)				% of Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
<b>Full Review:</b>																	
Johnson City MSA	40.07	6	50.00	0.00	16.67	50.00	33.33	5	50.00	0.00	20.00	40.00	40.00	0.00	13.39	69.79	16.82
Kingsport MSA	58.94	5	41.67	0.00	20.00	40.00	40.00	5	50.00	0.00	20.00	40.00	40.00	0.00	13.60	69.84	16.56
<b>Limited Review:</b>																	
Nashville MSA	0.99	1	8.33	0.00	0.00	100.00	0.00	0	0.00	0.00	0.00	0.00	0.00	8.38	23.61	49.42	18.59

\* Deposits as of June 30, 2009

\*\* Includes full-service ATMs only

**Table 9. JOHNSON CITY MSA**

Demographic Information for Full Scope Area: Johnson City MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	40	0.00	20.00	67.50	12.50	0.00
Population by Geography	181,607	0.00	13.39	69.79	16.82	0.00
Owner-Occupied Housing by Geography	53,462	0.00	9.81	71.89	18.30	0.00
Business by Geography	12,651	0.00	14.73	62.80	22.47	0.00
Farms by Geography	388	0.00	6.70	71.91	21.39	0.00
Family Distribution by Income Level	51,355	19.61	18.00	23.45	38.94	0.00
Distribution of Low and Moderate Income Families throughout Assessment Area Geographies	19,316	0.00	17.38	72.96	9.66	0.00
Median Family Income for 2000 HUD Adjusted Median Family Income for 2008 HUD Adjusted Median Family Income for 2009		37,970 44,700 48,100	Households Below Poverty Level Median Housing Value		16.01% 85,333	

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census, 2008 and 2009 HUD updated MFI, and 2009 D&B

**Table 10. KINGSPORT MSA**

Demographic Information for Full Scope Area: Kingsport MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	65	0.00	16.92	64.62	18.46	0.00
Population by Geography	298,484	0.00	13.60	69.84	16.56	0.00
Owner-Occupied Housing by Geography	94,344	0.00	11.96	70.74	17.30	0.00
Business by Geography	21,431	0.00	16.09	66.72	17.19	0.00
Farms by Geography	710	0.00	11.69	76.48	11.83	0.00
Family Distribution by Income Level	87,972	19.42	18.61	23.07	38.90	0.00
Distribution of Low and Moderate Income Families throughout Assessment Area Geographies	33,453	0.00	18.79	70.69	10.52	0.00
Median Family Income for 2000 HUD Adjusted Median Family Income for 2008 HUD Adjusted Median Family Income for 2009		39,138 46,500 49,000	Households Below Poverty Level Median Housing Value		14.85% 81,579	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2000 US Census, 2008 and 2009 HUD updated MFI, and 2009 D&B

**Table 11. NASHVILLE MSA**

Demographic Information for Limited Scope Area: Nashville MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	144	10.42	25.00	45.83	18.06	0.69
Population by Geography	569,891	8.38	23.61	49.42	18.59	0.00
Owner-Occupied Housing by Geography	131,384	3.81	17.75	53.63	24.81	0.00
Business by Geography	66,050	6.36	25.22	47.23	20.56	0.63
Farms by Geography	806	4.34	20.47	51.37	23.20	0.62
Family Distribution by Income Level	139,234	22.32	18.76	22.59	36.33	0.00
Distribution of Low and Moderate Income Families throughout Assessment Area Geographies	57,199	15.03	32.24	45.22	7.51	0.00
Median Family Income for 2000 HUD Adjusted Median Family Income for 2008 HUD Adjusted Median Family Income for 2009		51,844 63,200 64,900	Households Below Poverty Level Median Housing Value		11.90% 134,873	

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census, 2008 and 2009 HUD updated MFI, and 2009 D&B