PUBLIC DISCLOSURE

July 17, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Community Bank
RSSD #361279

19 Natchez Trace Drive
Lexington, Tennessee 38351

Federal Reserve Bank of St. Louis

P.O. Box 442
St. Louis, Missouri 63166-0442

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 the 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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INSTITUTION'S CRA RATING: This institution is rated SATISFACTORY.

Community Bank meets the criteria for a Satisfactory rating based on the evaluation of the bank's lending activity. The factors supporting the institution's rating include:

- The loan-to-deposit (LTD) ratio is more than reasonable given the institution's size, financial condition, and credit needs of the assessment areas.
- A majority of loans and other lending-related activities are in the assessment areas.
- Distribution of loans to borrowers reflects excellent penetration among individuals of different income levels, including low- and moderate-income (LMI) levels and businesses of different revenue sizes.
- Geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- There were no CRA-related complaints filed against the bank since the previous CRA evaluation.

SCOPE OF EXAMINATION

The bank's CRA performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC's) small bank procedures. According to the small bank procedures, bank performance is analyzed by the Lending Test and is rated at the institution level. The bank maintains operations in two delineated assessment areas within the state of Tennessee. The bank's primary assessment area is comprised of Henderson County, which is in the nonmetropolitan statistical area (nonMSA) portion of the state. The second assessment area includes Madison County, which is part of the three-county Jackson, Tennessee metropolitan statistical area (Jackson MSA).

The following table details the number of branch offices, breakdown of deposits, and the CRA review procedures applicable to each assessment area completed as part of this evaluation. Deposit information in the following table, as well as deposit information throughout this evaluation, is taken from the Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report data as of June 30, 2016.

Assessment Area	Offices		Deposits as of 6/30/16		Assessment Area Reviews		
	#	%	$ (000s)	%	Full Scope	Limited Scope	TOTAL
Henderson County	2	66.7%	$87,284	76.4%	1	0	**1**
Madison County	1	33.3%	$26,975	23.6%	1	0	**1**
OVERALL	**3**	**100%**	**$114,259**	**100%**	**2**	**0**	**2**

In light of branch structure, loan and deposit activity, and the bank's CRA evaluation history, CRA performance in the Henderson County assessment area was given primary consideration.

Furthermore, Home Mortgage Disclosure Act (HMDA) and small business loans were used to evaluate the bank's lending performance, as these loan categories are considered the bank's core business lines based on lending volume and the bank's stated business strategy. Therefore, the loan activity represented by these credit products is deemed indicative of the bank's overall lending performance. As community contacts in both of the bank's assessment areas noted the strong need for affordable housing and home loans, performance in the HMDA loan category carried the most significance toward the bank's overall performance conclusions.

The following table details the performance criterion and the corresponding time periods used in each analysis.

Performance Criterion	Time Period
LTD Ratio	June 30, 2013 – March 31, 2017
Assessment Area Concentration	January 1, 2015 – December 31, 2015
Loan Distribution by Borrower's Profile	January 1, 2015 – December 31, 2015
Geographic Distribution of Loans	January 1, 2015 – December 31, 2015
Response to Written CRA Complaints	June 17, 2013 – July 16, 2017

Lending Test analyses often entail comparisons of bank performance to assessment area demographics and the performance of other lenders, based on HMDA and CRA aggregate lending data. Unless otherwise noted, assessment area demographics are based on 2010 U.S. Census data; certain business geodemographics are based on 2015 Dun & Bradstreet data. When analyzing bank performance by comparing lending activity to both demographic data and aggregate lending data, greater emphasis is generally placed on the aggregate lending data because it is expected to describe many factors affecting lenders within an assessment area. Aggregate lending datasets are also updated annually and are, therefore, expected to predict more relevant comparisons. In addition, the bank's lending levels were evaluated in relation to those of comparable financial institutions operating within the same general region. Three other banks were identified as similarly situated peers, with asset sizes ranging from $77.4 million to $171.8 million as of March 31, 2017.

To augment this evaluation, four community contact interviews were conducted with members of the local community in order to ascertain specific credit needs, opportunities, and local market conditions within the bank's assessment areas. Key details from these community contact interviews are included in the *Description of Assessment Area* section, applicable to the assessment area in which they were conducted.

DESCRIPTION OF INSTITUTION

Community Bank is a full-service retail bank offering both consumer and commercial loan and deposit products. The bank is wholly owned by Community National Corporation, a one-bank holding company headquartered in Lexington, Tennessee. The bank's branch network consists of three offices (including the main office), each of which offers ATMs and drive-through services.

The bank's main office and one branch are located in Lexington, Tennessee, in the Henderson County assessment area. The main office is a full-service facility, while the branch is a limited-service facility. As there is not currently a loan officer on site, potential loan applicants are referred to the bank's main office. The third office is a full-service facility located in the northern portion of nearby Jackson, Tennessee, in Madison County. Based on this branch network and other service delivery systems including full-service online banking capabilities, the bank is well positioned to provide financial services throughout its Henderson County assessment area. However, based on the bank's branching structure and the level of competition in the market, the bank's ability to serve the entirety of its Madison County assessment area is limited. The bank did not open or close any branch offices during this review period.

For this review period, no legal impediments or financial constraints were identified that would have hindered the bank from serving the credit needs of its customers, and the bank appeared capable of meeting the credit needs of its assessment areas based on its available resources and financial products. As of March 31, 2017, the bank reported total assets of $140.8 million. As of the same date, loans and leases outstanding were $111.4 million (79.1 percent of total assets), and deposits totaled $120.6 million. The bank's loan portfolio composition by credit category is displayed in the following table.

Distribution of Total Loans as of March 31, 2017		
Credit Category	**Amount ($000s)**	**Percentage of Total Loans**
Construction and Development	$11,712	10.5%
Commercial Real Estate	$35,741	32.1%
Multifamily Residential	$2,044	1.8%
1–4 Family Residential	$42,141	37.8%
Farmland	$676	0.6%
Farm Loans	$2,132	1.9%
Commercial and Industrial	$11,485	10.3%
Loans to Individuals	$4,928	4.4%
Total Other Loans	$519	0.5%
TOTAL	**$111,378**	**100%**

As indicated by the previous table, a significant portion of the bank's lending resources is directed to loans secured by 1–4 family residential properties and commercial real estate. Together, these products account for nearly 70.0 percent of the bank's lending portfolio.

The bank received a Satisfactory rating at its previous CRA evaluation conducted by this Reserve Bank on June 17, 2013.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Community Bank meets the standards for a Satisfactory rating under the small bank procedures, which evaluate bank performance under the following five criteria as applicable.

Loan-to-Deposit (LTD) Ratio

One indication of the bank's overall level of lending activity is its LTD ratio. The following table displays the bank's average LTD ratio in comparison to those of regional peers. The average LTD ratio represents a 16-quarter average, dating back to the bank's last CRA evaluation.

LTD Ratio Analysis			
Name	**Headquarters**	**Asset Size ($000s) as of March 31, 2017**	**Average LTD Ratio**
Community Bank	Lexington, Tennessee	$140,836	88.0%
Regional Banks	Sardis, Tennessee	$77,440	68.2%
	McKenzie, Tennessee	$130,608	49.5%
	Jackson, Tennessee	$171,841	42.4%

Based on data from the previous table, the bank's level of lending is above those of other banks in the region. During the review period, the bank's quarterly LTD ranged from a low of 82.3 percent to a high of 94.2 percent. In general, this figure has followed an increasing trend throughout the review period and was higher than the bank's regional peers in each of the previous 16 quarters. In comparison, the average LTD ratios for the regional peers were lower and had inconsistent trends. Therefore, compared to data from regional banks, the bank's average LTD ratio is more than reasonable given the bank's size, financial condition, and credit needs of its assessment areas.

Assessment Area Concentration

For the loan activity reviewed as part of this evaluation, the following table displays the number and dollar volume of loans inside and outside the bank's assessment areas.

Lending Inside and Outside of Assessment Area January 1, 2015 through December 31, 2015						
Loan Type	**Inside Assessment Area**		**Outside Assessment Area**		**TOTAL**	
HMDA	63	88.7%	8	11.3%	**71**	**100%**
	$4,804	92.8%	$375	7.2%	**$5,179**	**100%**
Small Business	57	82.6%	12	17.4%	**69**	**100%**
	$4,520	89.4%	$536	10.6%	**$5,056**	**100%**
TOTAL LOANS	**120**	**85.7%**	**20**	**14.3%**	**140**	**100%**
	$9,324	**91.1%**	**$911**	**8.9%**	**$10,235**	**100%**

A majority of loans and other lending-related activities were made in the bank's assessment areas. As shown in the preceding table, 85.7 percent of the total loans were made inside the assessment areas, accounting for 91.1 percent of the dollar volume of total loans.

Loan Distribution by Borrower's Profile

This performance criterion analyzes the bank's lending penetration among borrowers of different income levels, with specific emphasis given to LMI borrowers and businesses with gross annual revenues of $1 million or less. As shown in the following table, overall performance by borrower's profile is excellent based on the analyses of lending in both of the bank's assessment areas, with the greatest emphasis on Henderson County.

Assessment Area	Loan Distribution by Borrower's Profile
Henderson County	Excellent
Madison County	Reasonable
OVERALL	**EXCELLENT**

Additional details regarding the loan distribution by borrower's profile are included later in this evaluation under the sections applicable to individual assessment area analyses.

Geographic Distribution of Loans

Geographic distribution performance analyzes the bank's lending penetration among geographies of different income levels, with a specific emphasis on lending in LMI geographies. As displayed in the following table, the bank's overall distribution of lending by income level of census tract reflects reasonable penetration throughout the bank's two assessment areas.

Assessment Area	Geographic Distribution of Loans
Henderson County	Reasonable
Madison County	Reasonable
OVERALL	**REASONABLE**

Additional details regarding the geographic distribution of loans are included later in this evaluation under the sections applicable to individual assessment area analyses.

Responses to Complaints

No CRA-related complaints were filed against the bank during this review period (June 17, 2013 through July 16, 2017).

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Based on findings from the Consumer Affairs examination, including a fair lending analysis performed under Regulation B – Equal Credit Opportunity and the Fair Housing Act requirements, conducted concurrently with this CRA evaluation, no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

HENDERSON COUNTY, TENNESSEE NONMETROPOLITAN STATISTICAL AREA

(Full-Scope Review)

DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE HENDERSON COUNTY ASSESSMENT AREA

Bank Structure

The bank operates its main office and one branch in the city of Lexington in this assessment area. The main office is located in a moderate-income census tract, while the remaining branch is located in a middle-income census tract. Although the bank did not open or close any branches during the review period, the branch in Lexington relocated approximately 0.4 miles. This relocation moved the office from a moderate-income census tract to a middle-income census tract for the stated purpose of providing better access to customers and an improved facility for employees. Based on its branch network and other service delivery systems, the bank is well positioned to deliver financial services to substantially all of the assessment area.

General Demographics

The assessment area is comprised of Henderson County in its entirety, which, as of the 2010 U.S. Census, had a population of 27,769. Henderson County is located in western Tennessee and includes six census tracts, one of which is classified as moderate-income, while the remaining five census tracts are middle-income. During the review period, all five of the middle-income census tracts in Henderson County were designated as distressed due to unemployment. Of the seven FDIC-insured depository institutions with a branch presence in this assessment area as of June 30, 2016, the bank ranked second in terms of deposit market share with 17.1 percent of the total deposit dollars.

Credit needs in the assessment area include a mix of consumer and business loan products. Information gathered from community contacts revealed a greater need for affordable housing for LMI borrowers and easier access to credit for new small business in the area.

Income and Wealth Demographics

The following table summarizes the distribution of assessment area census tracts by income level and the family population within those tracts.

Assessment Area Demographics by Geography Income Level						
Dataset	**Low-**	**Moderate-**	**Middle-**	**Upper-**	**Unknown**	**TOTAL**
Census Tracts	0 0.0%	1 16.7%	5 83.3%	0 0.0%	0 0.0%	**6** **100%**
Family Population	0 0.0%	1,213 15.4%	6,673 84.6%	0 0.0%	0 0.0%	**7,886** **100%**

Henderson County contains no low- or upper-income census tracts. As demonstrated in the previous table, 84.6 percent of families in the assessment area reside in middle-income census tracts, which aligns with the percentage of geographies in the county that are middle-income (83.3 percent). In several years during the review period, all five of the middle-income census tracts in Henderson County were designated as distressed due to unemployment.

Based on 2010 U.S. Census data, the median family income for the assessment area was $45,461. At the same time, the median family income for nonMSA Tennessee was $44,386. More recently, the FFIEC estimates the 2015 nonMSA Tennessee median family income to be $47,800. The following table displays population percentages of assessment area families by income level compared to the nonMSA Tennessee family populations.

Family Population by Income Level					
Dataset	**Low-**	**Moderate-**	**Middle-**	**Upper-**	**TOTAL**
Henderson County Assessment Area	1,348 17.1%	1,390 17.6%	1,789 22.7%	3,359 42.6%	**7,886** **100%**
NonMSA Tennessee	85,065 21.0%	71,924 17.8%	83,703 20.7%	163,968 40.5%	**404,660** **100%**

Based on the data in the preceding table, the assessment area's income balance is slightly more affluent than nonMSA Tennessee as a whole. The portion of families classified as LMI in Henderson County is 34.7 percent, which is slightly lower than nonMSA Tennessee (38.8 percent). The assessment area also has a larger upper-income family population (42.6 percent) compared to 40.5 percent in nonMSA Tennessee. Lastly, 12.6 percent of assessment area families live below the poverty line compared to 14.6 percent throughout all of nonMSA Tennessee.

Housing Demographics

Based on median home values, housing in the assessment area is more affordable than in nonMSA Tennessee as a whole. The median housing value for the assessment area is $90,704, which is lower than the figure for nonMSA Tennessee of $100,004. The affordability ratio, which calculates the extent to which a family earning the median household income in the assessment area can afford a median-priced home, is higher in Henderson County (42.6) than in nonMSA Tennessee (35.0), indicating that housing is more affordable in Henderson County. Based on rental costs, however, housing in the assessment area is slightly more expensive than nonMSA Tennessee. Median gross rent in the assessment area is $560, while the same figure in nonMSA Tennessee is $544. Additionally, the portion of renters paying more than 30 percent of their income on rental costs in the assessment area is 41.6 percent, which is slightly higher than nonMSA Tennessee (38.8 percent).

Industry and Employment Demographics

The three largest sectors of the local economy are manufacturing, retail trade, and health care and social assistance, which account for 58.5 percent of the jobs in the assessment area. Per 2015 County Business Patterns data from the U.S. Census Bureau, the number of paid employees in the assessment area is 6,257. Of that amount, 25.5 percent are employed in the manufacturing industry, 16.7 percent in retail trade, and 16.3 percent in health care and social assistance.

The following table details unemployment data from the U.S. Department of Labor, Bureau of Labor Statistics (not seasonally adjusted) for the assessment area compared to the state of Tennessee.

Unemployment Levels

Dataset	Time Period (Annual Average)		
	2014	2015	2016
Henderson County Assessment Area	8.6%	7.9%	7.0%
Tennessee	6.5%	5.6%	4.8%

As shown in the previous table, unemployment levels for the assessment area and the state of Tennessee have shown a consistently decreasing trend since 2014. Unemployment in the assessment area, however, has remained more than two percentage points greater than the state average since 2014. Information gathered from both community contacts for this assessment area noted that unemployment in Henderson County was a persistent problem and that economic recovery had been slower in the area compared to the state as a whole.

Community Contact Information

Information from two community contacts was used to help shape the performance context in which the bank's activities in this assessment area were evaluated. Of these interviews, one was with an individual working in small business development, and the other was with an individual knowledgeable about housing needs in Lexington.

Both contacts described the local economy as slowly improving. Though local unemployment has mirrored the downward trend seen throughout the state as a whole, both contacts stated that recovery in the assessment area has been slower than the rest of the state, and unemployment remains a major issue in the local economy. Exacerbating the problem was the uncertainty surrounding two major manufacturing plants in Henderson County. According to one community contact, two local manufacturing plants laid off over 450 combined workers in 2016, the negative impact to local employment caused by the layoffs has yet to be offset by the entry of any major new employers in the area.

Regarding local financial institutions, both contacts stated that competition in the assessment area is strong due to a mix of regional and community banks offering a variety of products and services. Information provided by the contacts in this assessment area indicates that local credit needs include more affordable housing in the city of Lexington and easier access to credit for new small businesses. One contact noted that small business lending in the assessment area has been tight in recent years and, as a result, many new businesses have increasingly sought nontraditional funding. When describing the performance of local banks, one contact noted that Community Bank is active in meeting the credit needs of the local area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE HENDERSON COUNTY ASSESSMENT AREA

Loan Distribution by Borrower's Profile

Overall, the bank's loan distribution by borrower's profile is excellent based on performance from both loan categories reviewed. Borrowers are classified into low-, moderate-, middle-, and upper-income categories by comparing their reported income to the applicable median family income figure as estimated by the FFIEC ($47,800 for nonMSA Tennessee as of 2015). The following table shows the distribution of HMDA-reported loans by borrower income level in comparison to family population income demographics for the assessment area. Additionally, 2015 aggregate data for the assessment area is displayed.

Distribution of Loans Inside Assessment Area by Borrower Income January 1, 2015 through December 31, 2015												
	Borrower Income Level										**TOTAL**	
	Low-		**Moderate-**		**Middle-**		**Upper-**		**Unknown**			
Home Purchase	1	7.7%	5	38.5%	2	15.4%	5	38.5%	0	0.0%	**13**	**100%**
Refinance	0	0.0%	2	28.6%	1	14.3%	2	28.6%	2	28.6%	**7**	**100%**
Home Improvement	0	0.0%	1	33.3%	1	33.3%	1	33.3%	0	0.0%	**3**	**100%**
Multifamily	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	**0**	**100%**
TOTAL HMDA	**1**	**4.3%**	**8**	**34.8%**	**4**	**17.4%**	**8**	**34.8%**	**2**	**8.7%**	**23**	**100%**
Family Population	17.1%		17.6%		22.7%		42.6%		0.0%		**100%**	
2015 HMDA Aggregate	5.6%		21.3%		21.5%		37.3%		14.4%		**100%**	

The bank's percentage of loans to low-income borrowers (4.3 percent), while below the low-income family population (17.1 percent), is similar to the 2015 aggregate lending (5.6 percent), representing reasonable performance. The bank's percentage of loans to moderate-income borrowers (34.8 percent) far exceeds both the family population level (17.6 percent) and the aggregate (21.3 percent) and is considered excellent. In total, 39.1 percent of the bank's HMDA loans were made to LMI borrowers, exceeding both the LMI family population of 34.7 percent and combined LMI aggregate level of 26.9 percent. Additionally, the bank's mix of home loan products (home purchase, refinance, and home improvement) to LMI borrowers reflects excellent performance in meeting credit needs. Loans to LMI borrowers accounted for 46.2 percent of the bank's home purchase loans, 28.6 percent of refinance loans, and 33.3 percent of home improvement loans as compared to aggregate lending levels of 30.1 percent, 19.5 percent, and 35.7 percent, respectively. Therefore, overall borrower distribution of HMDA loans is considered excellent.

Next, small business loans were reviewed to determine the bank's lending levels to businesses of different sizes. The following table shows the distribution of 2015 small business loans by loan amount and business revenue size compared to Dun & Bradstreet and aggregate data.

Distribution of Loans Inside Assessment Area by Business Revenue January 1, 2015 through December 31, 2015								
Gross Revenue	**Loan Amounts in $000s**						**TOTAL**	
	≤$100		**>$100 and ≤$250**		**>$250 and ≤$1,000**			
$1 Million or Less	33	82.5%	2	5.0%	0	0.0%	**35**	**87.5%**
Greater than $1 Million/Unknown	3	7.5%	1	2.5%	1	2.5%	**5**	**12.5%**
TOTAL	**36**	**90.0%**	**3**	**7.5%**	**1**	**2.5%**	**40**	**100%**
Dun & Bradstreet Businesses ≤ $1MM							**91.3%**	
2015 CRA Aggregate Data							**69.2%**	

As shown in the previous table, the portion of the bank's loans to businesses with revenues less than $1 million (87.5 percent) was slightly below the proportion of businesses in the assessment area with annual revenue of $1 million or less (91.3 percent) in 2015. Of the total aggregate reported business loans made in the assessment area, 69.2 percent were made to businesses with annual revenue of $1 million or less. Furthermore, the fact that 94.3 percent of the bank's small business loans are in amounts of $100,000 or less demonstrates that the bank is meeting a specific credit need identified by community contacts. Based on this analysis and the bank's performance in meeting this credit need, the bank's distribution of small business loans by borrower profile is excellent.

Geographic Distribution of Loans

As noted previously, the Henderson County assessment area includes one moderate-income census tract and five middle-income census tracts. Given that there are no low-income census tracts by which to assess the bank's performance, performance within moderate-income geographies will reflect the bank's overall performance in each loan category. Overall, the bank's geographic distribution of loans in this assessment area reflects reasonable penetration throughout the LMI census tract, based on HMDA and small business loan performance with primary emphasis on the bank's HMDA lending. The following table displays the geographic distribution of 2015 HMDA loans compared to owner-occupied housing demographics for the assessment area and aggregate data.

Distribution of Loans Inside Assessment Area by Income Level of Geography January 1, 2015 through December 31, 2015												
	Geography Income Level										TOTAL	
	Low-		Moderate-		Middle-		Upper-		Unknown			
Home Purchase	0	0.0%	2	15.4%	11	84.6%	0	0.0%	0	0.0%	**13**	**100%**
Refinance	0	0.0%	3	42.9%	4	57.1%	0	0.0%	0	0.0%	**7**	**100%**
Home Improvement	0	0.0%	1	33.3%	2	66.7%	0	0.0%	0	0.0%	**3**	**100%**
Multifamily	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	**0**	**100%**
TOTAL HMDA	**0**	**0.0%**	**6**	**26.1%**	**17**	**73.9%**	**0**	**0.0%**	**0**	**0.0%**	**23**	**100%**
Owner-Occupied Housing	0.0%		12.3%		87.7%		0.0%		0.0%		**100%**	
2015 HMDA Aggregate	0.0%		13.8%		86.2%		0.0%		0.0%		**100%**	

The analysis of HMDA loans revealed excellent lending performance to borrowers residing in moderate-income geographies. The bank's total penetration of moderate-income census tracts by number of loans (26.1 percent) more than doubles the percentage of assessment area owner-occupied housing units in moderate-income census tracts (12.3 percent). Similarly, the bank outperformed other lenders in the assessment area based on 2015 aggregate data, which indicate that 13.8 percent of all reported HMDA loans in this assessment area were made to borrowers residing in moderate-income census tracts.

Second, the bank's geographic distribution of small business loans was reviewed. The following table displays 2015 small business loan activity by geography income level compared to the location of businesses throughout this assessment area and 2015 small business aggregate data.

Distribution of Loans Inside Assessment Area by Income Level of Geography January 1, 2015 through December 31, 2015												
	Geography Income Level										TOTAL	
	Low-		Moderate-		Middle-		Upper-		Unknown			
Small Business Loans	0	0.0%	5	12.5%	35	87.5%	0	0.0%	0	0.0%	**40**	**100%**
Business Institutions	0.0%		28.0%		72.0%		0.0%		0.0%		**100%**	
2015 Small Business Aggregate	0.0%		20.7%		78.8%		0.0%		0.5%		**100%**	

The bank's level of lending in moderate-income census tracts (12.5 percent) is below the estimated percentage of businesses operating inside these census tracts (28.0 percent) and 2015 aggregate lending levels in moderate-income census tracts (20.7 percent). Consequently, the bank's overall geographic distribution of small business loans is considered poor.

Lastly, based on reviews from both loan categories, Community Bank had HMDA and small business loan activity in all of the assessment area census tracts. Therefore, no conspicuous lending gaps were noted in the assessment area.

JACKSON, TENNESSEE METROPOLITAN STATISTICAL AREA

(Full-Scope Review)

DESCRIPTION OF INSTITUTION'S OPERATIONS IN MADISON COUNTY ASSESSMENT AREA

Bank Structure

The bank operates one full-service branch (located in an upper-income census tract) in the northern portion of the city of Jackson, which is the county seat of Madison County, Tennessee. Madison County is adjacent to Henderson County to the east. Based on this branch network and high competition in the market, the bank is not adequately positioned to deliver financial services to the entire Madison County assessment area. The bank's single branch location in northern Jackson limits its ability to fully serve the entire county, as most of the assessment area's LMI geographies are clustered in the southern portion of the city of Jackson. As a result, the FDIC Deposit Market Share Report ranks the bank tenth out of 14 FDIC-insured depository institutions with 1.6 percent of the total assessment area deposit dollars as of June 30, 2016.

General Demographics

The bank's assessment area includes all of Madison County, one of three counties comprising the Jackson MSA, which is located in the western portion of Tennessee. The assessment area is comprised of all 27 census tracts in Madison County. Of these 27 census tracts, there are 5 low-, 4 moderate-, 10 middle-, and 8 upper-income tracts. The population in the assessment area is 98,294 according to 2010 U.S. Census data.

Credit needs in the area are varied and include a blend of consumer and small business products. Information gathered from community contacts emphasized the need for home improvements and home mortgages, especially in certain low-income geographies in the city, to improve the persistent problems posed by population loss and blight in those areas. Also stressed was the need for small business funding and technical assistance, which would help to revitalize certain areas of Jackson.

Income and Wealth Demographics

The following table summarizes the distribution of assessment area census tracts by income level and the family population within those tracts.

Assessment Area Demographics by Geography Income Level						
Dataset	**Low-**	**Moderate-**	**Middle-**	**Upper-**	**Unknown**	**TOTAL**
Census Tracts	5 18.5%	4 14.8%	10 37.0%	8 29.6%	0 0.0%	**27** **100%**
Family Population	2,382 9.6%	4,034 16.3%	10,327 41.8%	7,984 32.3%	0 0.0%	**24,727** **100%**

The previous table demonstrates that the family population distribution is generally in line with the distribution of geographies by income level for moderate-, middle-, and upper-income geographies. The portion of census tracts in the assessment area that are low-income (18.5 percent), however, is much higher than the percentage of families that reside in those tracts (9.6 percent).

Based on 2010 U.S. Census data, the median family income for the assessment area was $52,052, slightly lower than the median family income of Tennessee as a whole ($53,246). More recently, the FFIEC estimated 2015 median family income for the Jackson MSA is $55,000. The following table displays population percentages of assessment area families by income level compared to the state of Tennessee as a whole.

Family Population by Income Level					
Dataset	**Low-**	**Moderate-**	**Middle-**	**Upper-**	**TOTAL**
Madison County Assessment Area	5,546 22.4%	4,045 16.4%	4,426 17.9%	10,710 43.3%	**24,727** **100%**
Tennessee	354,832 21.6%	283,361 17.2%	332,697 20.2%	674,015 41.0%	**1,644,905** **100%**

Based on the data in the preceding table, families are similarly disbursed by income level in the bank's assessment area when compared to the state of Tennessee as a whole. In total, 38.8 percent of assessment area families are LMI, which equals the percentage of LMI families in the state of Tennessee. Additionally, the level of assessment area families living below the poverty line (14.3 percent) is higher than that of the statewide level in Tennessee (12.4 percent). However, the assessment area also has a slightly higher upper-income family population (43.3 percent) compared to the state of Tennessee (41.0 percent).

Housing Demographics

Based on median home values, housing in the assessment area is more affordable than in Tennessee as a whole. The median housing value for the assessment area is $112,145, which is lower than the statewide figure of $134,100. The affordability ratio for owner-occupied housing in the assessment area is 35.8 compared to 32.3 in Tennessee, indicating that housing is slightly more affordable in the assessment area. Conversely, housing in the assessment area is less affordable than the rest of the state when considering rental costs, especially for lower-income borrowers. While the median monthly gross rent in the assessment area ($685) and in Tennessee ($678) are nearly equal, rent in the assessment area is much less affordable when taking into account renter's income. The portion of renters paying more than 30 percent of their income on rental costs is much higher in the assessment area (52.4 percent) than in Tennessee as a whole (43.8 percent).

Industry and Employment Demographics

Based on the U.S. Census Bureau's 2015 County Business Patterns, the three largest sectors of Madison County's economy are health care and social assistance, manufacturing, and retail trade. Of the 51,155 employed workers in the county, 11,910 (23.3 percent) are in the health care and social assistance industry, 8,822 (17.2 percent) are in manufacturing, and 7,084 (13.8 percent) are in retail trade.

The following table details unemployment data from the U.S. Department of Labor, Bureau of Labor Statistics (not seasonally adjusted) for the assessment area compared to the state of Tennessee.

Unemployment Levels			
Dataset	**Time Period (Annual Average)**		
	2014	**2015**	**2016**
Madison County Assessment Area	6.7%	5.9%	5.0%
Tennessee	6.5%	5.6%	4.8%

As shown in the previous table, unemployment levels in both the assessment area and Tennessee as a whole have followed a decreasing trend since 2014. During each full year of the review period, unemployment in Madison County was slightly higher than the statewide figure.

Community Contact Information

Information from two community contacts was used to help shape the performance context in which the bank's activities in this assessment area were evaluated. Of these interviews, one was with an individual working in small business development, and the other was with an individual knowledgeable about housing needs in Jackson. In addition, information from one contact for the Henderson County assessment area was also referenced, as the individual's organization operates throughout both counties.

According to two of the contacts, there have been significant demographic changes in Jackson in recent years. One contact estimated that Jackson has grown by 10,000 people since 2010, which indicates the need for more home mortgage loans in the assessment area. Another contact singled out the area of Jackson that is comprised of low-income census tracts as having experienced significant population loss recently, which has resulted in many housing units being abandoned or converted into rental units. The demographic and housing stock change in these census tracts could decrease the mortgage loan demand. A further challenge, the same contact also stated that the median family income in those four low-income census tracts is less than half of the city as a whole. One specific problem facing the area according to two community contacts is that of blight. Many homes in low-income areas of the city have been abandoned, have inattentive property owners, or are old and in need of repair; as such, the contacts pointed to the need for mortgage loans to combat these issues. Additionally, two of the contacts specified the need for more small business loans and easier access to credit for new businesses; for small businesses, poor credit history was noted as a significant obstacle to obtain credit.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE MADISON COUNTY ASSESSMENT AREA

Loan Distribution by Borrower's Profile

Overall, the bank's loan distribution by borrower's profile is reasonable based on performance from both loan categories reviewed. As previously stated, greater emphasis is placed on the HMDA loan category when determining overall bank performance.

Borrowers are classified into low-, moderate-, middle-, and upper-income categories by comparing their reported income to the applicable median family income figure as estimated by the FFIEC ($55,000 in the Jackson MSA as of 2015). The following table shows the distribution of HMDA-reported loans by borrower income level in comparison to family population income demographics for the assessment area. Additionally, 2015 aggregate data for the assessment area is displayed.

Distribution of Loans Inside Assessment Area by Borrower Income

January 1, 2015 through December 31, 2015

	Borrower Income Level										**TOTAL**	
	Low-		**Moderate-**		**Middle-**		**Upper-**		**Unknown**			
Home Purchase	6	22.2%	2	7.4%	1	3.7%	12	44.4%	6	22.2%	**27**	**100%**
Refinance	1	10.0%	1	10.0%	1	10.0%	1	10.0%	6	60.0%	**10**	**100%**
Home Improvement	0	0.0%	0	0.0%	1	33.3%	2	66.7%	0	0.0%	**3**	**100%**
Multifamily	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	**0**	**100%**
TOTAL HMDA	**7**	**17.5%**	**3**	**7.5%**	**3**	**7.5%**	**15**	**37.5%**	**12**	**30.0%**	**40**	**100%**
Family Population	22.4%		16.4%		17.9%		43.3%		0.0%		**100%**	
2015 HMDA Aggregate	6.2%		16.3%		16.6%		36.5%		24.4%		**100%**	

While the bank's lending to low-income borrowers in this assessment area (17.5 percent) is below the low-income family population (22.4 percent), the bank's performance is more than double the aggregate lending level of other institutions to low-income borrowers (6.2 percent), reflecting excellent performance. Furthermore, information gathered from community contacts pointed to the need for home mortgage loans, especially to low-income borrowers, in order to improve the housing stock in the city and decrease blight. As a percentage of total HMDA purchase loans in this assessment area, 22.2 percent of the bank's loans were home purchase loans to low-income borrowers as compared to the aggregate level of 6.7 percent. This demonstrates the bank's responsiveness in meeting a specific credit need in the community, which further supports an excellent conclusion.

In contrast, lending to moderate-income borrowers (7.5 percent) is below both the percentage of moderate-income families in this assessment area (16.4 percent) and the aggregate lending level (16.3 percent) and is considered poor. Nevertheless, the bank made 25.0 percent of its HMDA loans to LMI borrowers combined. Although this percentage is below the total LMI family population (38.8 percent), the bank's performance exceeds the combined aggregate lending level to LMI borrowers of 22.5 percent and is considered reasonable, particularly in light of performance context applicable to low-income borrowers.

A review of small business loans was also conducted to determine the bank's lending levels to businesses of different sizes. The following table shows the distribution of 2015 small business loans by loan amount and business revenue size compared to Dun & Bradstreet and aggregate data.

Distribution of Loans Inside Assessment Area by Business Revenue
January 1, 2015 through December 31, 2015

Gross Revenue	Loan Amounts in $000s						TOTAL	
	≤$100		>$100 and ≤$250		>$250 and ≤$1,000			
$1 Million or Less	8	47.1%	3	17.6%	3	17.6%	**14**	**82.4%**
Greater than $1 Million/Unknown	2	11.8%	0	0.0%	1	5.9%	**3**	**17.6%**
TOTAL	**10**	**58.8%**	**3**	**17.6%**	**4**	**23.5%**	**17**	**100%**
Dun & Bradstreet Businesses ≤ $1MM							**90.6%**	
2015 CRA Aggregate Data							**49.1%**	

As displayed in the previous table, a majority of the bank's small business loans was made to businesses with $1 million or less in gross annual revenues (82.4 percent). When compared to business geodemographic estimates, the bank's performance is below the percentage of small businesses in the assessment area (90.6 percent). However, the bank's performance is considered excellent because it is over 30 percentage points higher than the aggregate percentage of loans made to small businesses (49.1 percent) despite the bank ranking 17th in the Jackson MSA market for small business lending. In addition, 57.1 percent of the bank's total small business loans were in amounts less than $100,000, which further demonstrates the willingness of the bank to meet the identified credit needs of area businesses and supports an excellent conclusion.

<u>Geographic Distribution of Loans</u>

As noted in the description, the Madison County assessment area includes five low-, four moderate-, ten middle-, and eight upper-income census tracts. Overall, the bank's geographic distribution of loans in this assessment area reflects reasonable penetration throughout the LMI census tracts, based on HMDA and small business loan performance with primary emphasis on the bank's HMDA lending. The following table displays the geographic distribution of 2015 HMDA loans compared to owner-occupied housing demographics for the assessment area and aggregate data.

Distribution of Loans Inside Assessment Area by Income Level of Geography January 1, 2015 through December 31, 2015												
	Geography Income Level										**TOTAL**	
	Low-		**Moderate-**		**Middle-**		**Upper-**		**Unknown**			
Home Purchase	0	0.0%	4	14.8%	14	51.9%	9	33.3%	0	0.0%	**27**	**100%**
Refinance	0	0.0%	4	40.0%	3	30.0%	3	30.0%	0	0.0%	**10**	**100%**
Home Improvement	0	0.0%	2	66.7%	0	0.0%	1	33.3%	0	0.0%	**3**	**100%**
Multifamily	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	**0**	**100%**
TOTAL HMDA	**0**	**0.0%**	**10**	**25.0%**	**17**	**42.5%**	**13**	**32.5%**	**0**	**0.0%**	**40**	**100%**
Owner-Occupied Housing	6.6%		12.6%		44.5%		36.3%		0.0%		**100%**	
2015 HMDA Aggregate	1.3%		11.6%		41.0%		46.1%		0.0%		**100%**	

The bank's ability to make HMDA loans in low-income geographies is impacted by the limited opportunity for home loans in those census tracts. According to community contacts, the low median family income of potential homeowners in these census tracts limits the number of qualified borrowers in these geographies. Additionally, housing data reveals that 68.9 percent of all housing units in these geographies are either rental units or are vacant, which further limits the opportunities the bank has to make HMDA loans. As such, the bank made no HMDA loans in low-income geographies in 2015 compared to the aggregate lending level of 1.3 percent and the percentage of owner-occupied housing within the low-income census tracts of 6.6 percent. This performance is reasonable given the context described above and in considering the bank has only a single location in this assessment area.

The percentage of the bank's HMDA loans originated within moderate-income geographies (25 percent) is well above both the aggregate lending level (11.6 percent) and the percentage of owner-occupied houses within these census tracts (12.6 percent) and is considered excellent. The combined percentage of the bank's HMDA loans in this assessment area to LMI borrowers is 25.0 percent, which exceeds both the combined owner-occupied housing percentage (19.2 percent) and combined aggregate lending level for LMI geographies (12.9 percent) and reflects excellent overall geographic distribution of HMDA loans in this assessment area.

Second, the bank's geographic distribution of small business loans was reviewed. The following table displays 2015 small business loan activity by geography income level compared to the location of businesses throughout this assessment area and 2015 small business aggregate data.

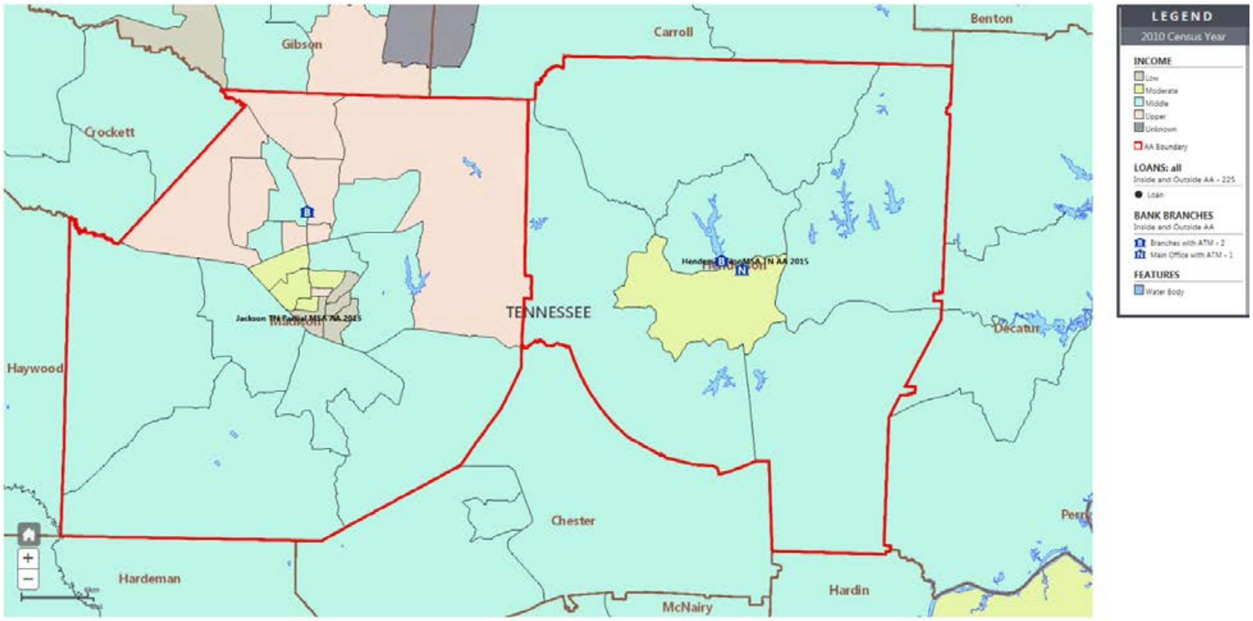
Distribution of Loans Inside Assessment Area by Income Level of Geography January 1, 2015 through December 31, 2015												
	Geography Income Level										TOTAL	
	Low-		Moderate-		Middle-		Upper-		Unknown			
Small Business Loans	3	17.6%	1	5.9%	3	17.6%	10	58.8%	0	0.0%	**17**	**100%**
Business Institutions	11.4%		23.0%		36.6%		29.0%		0.0%		**100%**	
2015 Small Business Aggregate	20.6%		17.5%		30.1%		31.2%		0.6%		**100%**	

The analysis of small business loans in this assessment area reveals that the bank's penetration in low-income census tracts (17.6 percent) is reasonable. This penetration is above the geodemographic estimate of small businesses located in low-income census tracts (11.4 percent) and is slightly below the percentage of total reported small business loans made in low-income census tracts (20.6 percent). However, the bank's performance in moderate-income census tracts (5.9 percent) is well below both the business geodemographic estimate (23.0 percent) and the aggregate lending level (17.5 percent) and is considered poor. When combined, the bank made 23.5 percent of its small business loans in LMI geographies in 2015, which is below both the combined estimated percentage of total assessment area small businesses in those geographies (34.4 percent) and the combined aggregate lending level (38.1 percent). As previously mentioned, the bank faces challenges in lending to all LMI geographies based on the distance from the sole branch and high levels of competition. However, overall geographic distribution of small business loans in this assessment area is still considered poor.

Lastly, based on reviews from both loan categories, Community Bank had loan activity in 74.1 percent of all assessment area census tracts. In total, seven of the assessment area census tracts contained no loan activity, four of which were LMI. As previously noted, the bank's single branch location in the northern portion of Jackson limits the bank from fully serving a market as large as Madison County, particularly in the southern portion of Jackson where all of the LMI geographies are located. Based on this analysis, this disparity in the bank's lending is consistent with the reasonable geographic distribution of loans in this assessment area.

ASSESSMENT AREA DETAIL

Community Bank - Lexington, TN
Tract Income



GLOSSARY

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

Assessment area: One or more of the geographic areas delineated by the bank and used by the regulatory agency to assess an institution's record of CRA performance.

Census tract: A small subdivision of metropolitan and non-metropolitan 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 contact: Interviews conducted as part of the CRA examination to gather information that might assist examiners in understanding the bank's community, available opportunities for helping to meet local credit and community development needs, and perceptions on the performance of financial institutions in helping meet local credit needs. Communications and information gathered can help to provide a context to assist in the evaluation of an institution's CRA performance.

Community development: An activity associated with one of the following five descriptions: (1) affordable housing (including multifamily rental housing) for low- or moderate-income individuals; (2) community services targeted to low- or moderate-income individuals; (3) 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; (4) activities that revitalize or stabilize low- or moderate-income geographies, designated disaster areas, or distressed or underserved non-metropolitan middle-income geographies; or (5) Neighborhood Stabilization Program (NSP) eligible activities in areas with HUD-approved NSP plans, which are conducted within two years after the date when NSP program funds are required to be spent and benefit low-, moderate- and middle-income individuals and geographies.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Demographics: The statistical characteristics of human populations (such as age, race, sex, income, etc.) used especially to identify markets.

Distressed non-metropolitan middle-income geography: A middle-income, nonmetropolitan geography will be designated as distressed if it is in a county that meets one or more of the following triggers: (1) an unemployment rate of at least 1.5 times the national average, (2) a poverty rate of 20 percent or more, or (3) a population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

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, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., 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 the income of applications, the amount of loan requested, and the disposition of the application (e.g., 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 refinancing of home improvement and home purchase loans.

Household: One or more persons who occupy a housing unit. The occupants may be a single family, one person living alone, two or more families living together, or any other group of related or unrelated persons who share living arrangements.

Housing affordability ratio: Is calculated by dividing the median household income by the median housing value. It represents the amount of single family, owner-occupied housing that a dollar of income can purchase for the median household in the census tract. Values closer to 100 percent indicate greater affordability.

Limited-scope review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., 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.

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.

Median family income: The dollar amount that divides the family income distribution into two equal groups, half having incomes above the median, half having incomes below the median. The median family income is based on all families within the area being analyzed.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. An 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. An MD is a division of an MSA based on specific criteria including commuting patterns. Only an 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.

Nonmetropolitan statistical area (nonMSA): Not part of a metropolitan area. (See metropolitan area.)

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

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.

Performance context: The performance context is a broad range of economic, demographic, and institution- and community-specific information that an examiner reviews to understand the context in which an institution’s record of performance should be evaluated. The performance context is not a formal or written assessment of community credit needs.

Performance criteria: These are the different criteria against which a bank's performance in helping to meet the credit needs of its assessment area(s) is measured. The criteria relate to lending, investment, retail service, and community development activities performed by a bank. The performance criteria have both quantitative and qualitative aspects. There are different sets of criteria for large banks, intermediate small banks, small banks, wholesale/limited purpose banks, and strategic plan banks.

Performance evaluation (PE): A written evaluation of a financial institution's record of meeting the credit needs of its community, as prepared by the federal financial supervision agency responsible for supervising the institution.

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 multistate metropolitan area.

Small businesses/small farms: A small business/farm is considered to be one in which gross annual revenues for the preceding calendar year were $1 million or less.

Small loan(s) to business(es): That is, "small business loans" are included in "loans to small businesses" as defined in the Consolidated Reports 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 secured either by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as non-mortgage, commercial loans.

Small loan(s) to farm(s): That is, "small farm loans" are included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Reports of Condition and Income (Call Report). These loans have original amounts of $500,000 or less and are either secured by farmland or are classified as loans to finance agricultural production and other loans to farmers.

Underserved middle-income geography: A middle-income, nonmetropolitan geography will be designated as underserved if it meets criteria for population size, density, and dispersion that indicate the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

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