



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 26, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Traders National Bank
Charter Number 4020

120 North Jackson Street
Tullahoma, TN 37388-0000

Office of the Comptroller of the Currency

NASHVILLE Field Office
The Parklane Building 5200 Maryland Way, Suite 104
Brentwood, TN. 37027-5018

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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

- When compared to competitor, independent banks, **Traders National Bank's (TNB's)** quarterly average loan-to-deposit ratio is reasonable at 74.71% during the evaluation period. TNB's quarterly loan-to-deposit ratio ranged from a low of 64.60% June 2007 to a high of 97.58% in December 2008.
- A majority of TNB's loans are inside the bank's Assessment Areas (AA). Approximately 86.41% of the number and 80.41% of the dollar volume of loans were to borrowers within the AAs during this evaluation period.
- TNB's distribution of loans to borrowers of different income (including low- and moderate-income) levels is lower than the ratio. TNB has a good track record of qualifying low- and moderate-income residential home purchasers under government assisted lending programs. TNB's distribution of loans to businesses of different sizes is reasonable.
- TNB's community development performance demonstrates satisfactory responsiveness to the community development needs in its AA.

SCOPE OF EXAMINATION

This Performance Evaluation (PE) is a full scope review and covers the period January 8, 2004 through July 26, 2010. Results were consolidated for comparative and analysis purposes and evaluated using 2000 Census demographic information. TNB has no bank owned affiliates. A data integrity review was not conducted prior to this evaluation. Although not required for small bank CRA purposes, TNB had generated community development investments and services during this evaluation period. These are included in our review and meet the definition of community development.

Conclusions regarding the Lending Test are based on a sample of residential loans including home purchases, home improvements, and home refinances. TNB is not a Home Mortgage Disclosure Act (HMDA) reporter. For our analysis, the residential loan sample originated from January 1, 2008 through July 26, 2010. A sample of small business loans originated from January 1, 2008 through July 26, 2010 was also considered in the Lending Test.

DESCRIPTION OF INSTITUTION

Traders National Bank (TNB) was chartered in 1889 and is an independent, intrastate \$154 million institution located in Tullahoma (Coffee County), Tennessee. In 1987, the bank became a wholly-owned subsidiary of TraCorp, a one-bank holding company, which is also located in

Tullahoma. TraCorp had total assets of \$166 million as of December 31, 2009. There are no bank owned affiliates and there have been no merger or acquisition activity.

Including the main office, TNB has five branch offices. The main office and a branch are located in Tullahoma (Coffee County). Winchester (Franklin County), Manchester (Coffee County), and Shelbyville (Bedford County), Tennessee have one office each. The bank opened one branch since the last CRA examination. The Shelbyville branch opened January 6, 2010. There have been no branch closings since the January 7, 2004 CRA examination.

The county seat for Coffee County is Manchester, Franklin County is Winchester, Moore County is Lynchburg, and Bedford County is Shelbyville. While these four counties are not part of a Metropolitan Statistical Area (MSA), three of the counties (Coffee, Franklin, and Moore) do comprise the Tullahoma, Tennessee, Micropolitan Statistical Area.

The bank received a satisfactory CRA rating on its last CRA performance evaluation dated January 7, 2004. There are no legal, financial, or other reasons that would impede the bank’s ability to meet the credit needs of its AA.

TNB provides a full array of banking services, including trust services. The bank’s primary product lines are Commercial and Industrial loans and 1-4 family Residential Mortgage Loans. TNB also originates Veterans Administration (VA), Tennessee Housing Development Authority (THDA), and Federal Housing Administration (FHA) loans. At March 31, 2010, the bank had total assets and gross loans of \$154 million and \$117 million, respectively. Gross loans comprised 75.97% of total assets for the period. The following table reflects the composition of TNB’s loan portfolio based on the March 31, 2010 Report of Condition.

	Product Category	
	Dollar (000's)	Percent
Construction & Land Development	10,488	8.95%
Commercial & Industrial Including Commercial Real Estate	55,213	47.11%
Residential Mortgage Loans	45,499	38.82%
Individuals	4,364	3.72%
Miscellaneous	1,638	1.40%
TOTAL	117,202	100.00%

Source: March 31, 2010 Report of Condition.

TNB provides a wide range of traditional deposit and loan products. Branches are generally located in areas that make them accessible to bank customers. Lobby hours and drive-up hours are set to meet customer needs. Four full-service branches and six cash dispersing ATMs are located in middle-income census tracts. One branch and four cash dispersing ATMs are located in upper-income census tract. The non-deposit taking ATMs are all located in convenience stores.

Distribution of Bank Offices and ATMs by Census Tract

Census Tract Income Level	Tracts		Full-Service Branches		Automated Teller Machines *	
	#	%	#	%	#	%
Low	0	0	0	0	0	0
Moderate	1	3.57	0	0	0	0
Middle	22	78.57	4	80.00	6	60.00
Upper	5	17.86	1	20.00	4	40.00
NA	0	0	0	0	0	0
TOTAL	28	100.00%	5	100.00%	10	100.00%

Four of the five offices have contiguous ATMs. All of these ATM machines accept deposits and dispense cash. There are an additional six free-standing ATMs which dispense cash only.

Customers may also access their accounts through telephone banking or by the Internet (<http://www.tradersbank.com/>). Internet and telephone banking include transfers between TNB accounts, review of bank balances and transactions, access loan account information and bill-paying capability for the Internet banking product. The also offers Visa debit cards that can be used to access customer accounts at point of sale (POS) or ATM locations.

TNB’s business strategy includes continued marketing of commercial credit to small businesses and farms and individuals through its products, staff, and locations. The bank actively generates commercial, mortgage, and consumer loans to customers located primarily in Coffee, Franklin, Moore, and Bedford Counties, Tennessee. Commercial loan activity includes all types of commercial real estate development and construction. TNB also supports the purchase and long-term financing of residential home loans through its conventional secondary market home mortgages, Farmers Home Administration (FHA), Veterans Administration (VA), Tennessee Housing Development Agency (THDA), USDA Rural Development (RD), and Federal National Mortgage Association (Fannie Mae).

DESCRIPTION OF ASSESSMENT AREA(S)

The bank’s AA consists of 28 census tracts in Coffee, Franklin, Moore, and Bedford Counties, TN. The AA includes all census tracts in each county. Coffee, Franklin, Moore, and Bedford Counties are in a Non-MSA. However, the counties of Coffee, Franklin, and Moore comprise the Tullahoma Micropolitan Statistical Area.

Demographic Information for Non MSA Assessment Area (AA)

Coffee, Franklin, Moore, & Bedford Counties, Tennessee

Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	28	0	3.57	78.57	17.86	0
Population by Geography	130,610	0	3.12	73.56	23.32	0
Owner-Occupied Housing by Geography	55,064	0	2.17	73.39	24.44	0
Businesses by Geography	11,045	0	4.55	76.77	18.68	0
Farms by Geography	748	0	0.74	79.01	19.25	0
Family Distribution by Income Level	37,036	16.50	16.21	21.49	45.80	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	12,116	50.44	49.56	-	-	0
Median Family Income (MFI)	= \$41,481			Median Housing Value	= \$80,082	
HUD Adjusted Median Family Income (MFI) for 2010	= \$46,400			Unemployment Rates	= 10.9%*	
Households Below the Poverty Level	= 7,197					

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

Source: 2000 U.S. Census and 2010 HUD estimated MFI. Unemployment rate is as of June 2010.

*Coffee, Franklin, Moore, and Bedford Counties had respective unemployment rates of 10.6%, 10.8%, 9.7%, and 12.6% for an average of 10.9%. For the same period, the State of Tennessee and the U.S. had unemployment rates of 10.1% and 9.6%. Source: State of Tennessee Labor web-site..

Coffee, Franklin, Moore, and Bedford Counties (Non-MSA AA) are located in Central Tennessee. The counties are contiguous to each other. The City of Tullahoma is located in both Coffee and Franklin Counties and is approximately 75 miles southeast of Nashville and 69 miles northwest of Chattanooga, Tennessee. The bank's AA consists of 28 census tracts. Census tracts are broken down as follows: no low-income, 1 moderate-income (3.57%), 22 middle-income (78.57%), and 5 upper-income (17.86%). The AA has approximately 37,036 families of which 16.50% are low-income and 16.21% are moderate-income families. The Median Family Income is \$41,481 and the average median home value is \$80,082. As of June 30, 2010, the average unemployment rate is 10.9% which is higher than the 9.6% National unemployment rate and 10.1% Tennessee unemployment rate.

Cities and towns in **Coffee County** are: Hillsboro, Manchester, Noah, and Tullahoma. Cities and towns in **Franklin County** are: Belvidere, Cowan, Decherd, Estill Springs, Huntland, Sewanee, Sherwood, Tullahoma, and Winchester. The only city in **Moore County** is Lynchburg. Cities and towns in **Bedford County** are Bell Buckle, Normandy, Shelbyville, Unionville, and Wartrace. A major music festival, Bonnaroo Music Festival, has been held annually in Coffee County (Manchester) since 2002. The 2010 festival drew 80,000 music fans throughout the U.S.

Coffee County's economic base is diverse. The economy has moved from an agricultural

economy into an industrial and service economy. There are approximately 22,500 people employed full-time and part-time in Coffee County. Arnold Engineering Development Center (AEDC) straddles Coffee and adjoining Franklin County, Tennessee. It is the most advanced and largest complex of flight simulation test facilities in the world. The center operates 58 aerodynamic and propulsion wind tunnels, rocket and turbine engine test cells, space environmental chambers, arc heaters, ballistic ranges and other specialized units. AEDC is an Air Force Materiel Command organization and an important national resource. It is the area's largest employer with 2,700 workers in fiscal year 2008 with an annual payroll in excess of \$247 million. During fiscal 2008, the aggregate economic impact for the area exceeded \$728 million.

Other major employers in Coffee County are: M-Tek, Inc. (manufacturer of hardware and motor vehicle parts and accessories) employs 1,370 workers; Cubic Transportation Systems, Inc., (surveying instruments & accessories) and Deutsch Engineered Connecting Devices (electrical connectors for aircraft industry) 300 workers each; Tennessee Apparel Corp (men's & youths' military uniforms) 280 employees; DESA Specialty LLC (motors or generators; chain type saw blades) 200 employees; Goodrich Corp. (aircraft landing gear & aerospace frame components) 170 employees; Viam TN LP (aircraft & automobile floor coverings) 135 employees; Createc Corp (foamed plastic packaging & shipping materials) 130 employees; and Lin Pac, Inc. (corrugated display items) 125 employees. Thirty-one other manufacturers, fabricators, and service providers employ from 25 to 300 workers each. These firms offer a variety of manufactured products and services including auto floor mats, metal stampings, power tools, wiring harnesses, warehousing, wire products, steel tubing, military dress and government apparel, envelopes and letterheads, airport landing gear, Styrofoam packaging material, precision machinery, soft drink bottling services, newspaper printing and publishing, boat trailers, and other products. Residents also commute to Murfreesboro and Nashville for suitable employment.

Major employers in **Franklin County** are: Tepro Inc. (mechanical automotive rubber products) 507 employees; Shaw Industries Group, Inc. (spun carpet yarn; carpet & rug mill) 193 employees; CST Industries, Inc. (welded storage tanks) 120 employees; Baxter Enterprises LLC (injection molded plastic products) 116 employees; Universal Technologies, Inc. (military aircraft equipment & armament) 110 employees; and 5 other industries with from 90 to 32 employees.

The major employer in **Moore County** is Jack Daniels Distillery (produces bourbon whiskey) 300 employees. Major employers in **Bedford County** are: Tyson Food Inc. (chicken slaughtering & processing) 1,200 employees; Calsonic North America Inc., (motor vehicle parts & accessories) and Sanford LP (pencils & art goods; retail writing supplies) 1,000 employees each; Calsonic North American, Inc. (heating equipment) 803 employees; Rexam Beverage Can Co (plastic tubes) 600 employees; Cerbal Americas (plastic tubes) 350 employees; National Pen Co. LLC (mfg writing ink pens) 150 employees; Corsicana Bedding, Inc. (innerspring or box spring mattresses) 131 employees; and Economy Pencil Co., Inc. (ball point pen, pencil, marker & erasers) 120 employees.

TNB's competition consists of 12 other independent community banks within the four county AA. Additional competition is also afforded by three large regional banks with 12 branches in the AA, a large West Tennessee bank with one branch in the AA, and a large \$1.3 billion federal credit union which is headquartered in Tullahoma. The federal credit union is a major competitor both in the retail and residential loan markets.

A community contact was made to an affordable housing non-profit organization. The contact did not identify any banking or specific credit needs that were not being met. The contact did report that there is a huge demand for affordable housing in one of the AA counties. The contact reported that a competitor institution had provided a 0% interest Line of Credit for development purposes. However, the Line had not been used.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank’s performance under the Lending Test is rated “**satisfactory.**” Based on a full-scope review, the bank’s performance in the AA is satisfactory.

At **79.71%**, the quarterly average loan-to-deposit ratio for TNB is reasonable for the twenty-five quarters ending March 31, 2010. TNB’s average loan-to-deposit ratio was acceptable when compared to competitor banks in the AA for the period. Of the thirteen independent banks headquartered in the AA, TNB had the ninth highest average loan-to-deposit ratio at **79.71%**. The newly chartered Bank of Tullahoma (Tullahoma) had the highest at 100.32%, followed by Coffee County Bank (Manchester) 98.04%, newly chartered First Vision Bank of Tennessee (Tullahoma) 98.94%, Citizens Community Bank (Winchester) 85.56%, American City Bank (Tullahoma) 84.42%, Peoples Bank of Bedford County (Shelbyville) 82.42%, First Community Bank of Bedford County (Shelbyville) 81.57%, newly chartered Franklin County United Bank (Decherd) 79.72%, and TNB 79.71%. The remaining four bank’s quarterly average loan-to-deposit ratio ranged from 74.22% to 66.43% for the period.

Loan-To-Deposit Ratios		
Institution	Assets as of 12/31/09(*)	Average LTD Ratio % (**)
Traders National Bank, Tullahoma, TN	\$154	79.71%
The Bank of Tullahoma, Tullahoma, TN***	\$99	100.32%
Coffee County Bank, Manchester, TN	\$127	99.17%
First Vision Bank of Tennessee, Tullahoma, TN***	\$123	98.04%
Citizens Community Bank, Winchester, TN	\$171	85.56%
American City Bank, Tullahoma, TN	\$229	84.42%
Peoples Bank of Bedford County, Shelbyville, TN	\$99	82.53%
First Community Bank of Bedford County, Shelbyville, TN	\$280	81.57%
Franklin County United Bank, Decherd, TN****	\$98	79.72%
Citizens Tri-County Bank, Dunlap, TN	\$517	72.82%
The First National Bank of Manchester, Manchester, TN	\$188	74.22%
The Farmers Bank of Lynchburg, Lynchburg, TN	\$218	73.64%
Peoples Bank & Trust Co., Manchester, TN	\$78	66.43%

* Asset sizes of institutions are in millions (000,000’s)

** Source: Institution Reports of Condition for 25 quarter period from March 2004 through March 2010

*** These banks filed their first Reports of Condition for the period ending December 2005.

**** This bank filed their first Report of Condition for the period ending December 2004.

Lending in Assessment Area

TNB's record of lending in its AA is reasonable. Based on our loan sample, the number of residential and business loans inside the bank's AA was 88.89% and 87.50%, respectively. Similarly, the dollar amount of residential and business inside the bank's AA was 81.82% and 90.97%. Collectively, 88.20% and 86.40% of the number and dollar amount of residential and business loans were inside the bank's AA.

Lending in TNB's Non-MSA AA Coffee, Franklin, Moore, and Bedford Counties, TN										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Loans	64	88.89	8	11.11	72	\$6,973	81.82	\$1,550	18.18	\$8,523
Business Loans	56	87.50	8	12.50	64	\$8,139	90.97	\$808	9	\$8,947
Total	120	88.20	16	11.81	136	\$15,112	86.40	\$2,358	13.59	\$17,470

Source: Residential loan sample included residential home purchases, home improvement loans, and home refinance loans originated during 2008, 2009, and through July 26, 2010. Business loan sample included business loans originated during 2008, 2009, and through July 26, 2010; 2000 U.S. Census Data.

Borrower Distribution of Loans

TNB's overall record of lending to borrowers of different incomes is reasonable. TNB's record of lending to residential borrowers and businesses of different incomes range of performance is from lower than ratio to near the ratio. TNB's record of lending to businesses reflects adequate penetration with 71.43% of the number of loans made to AA businesses with annual revenues or sales of less than \$1 million. This compares favorable to the 78.37% of AA businesses. At 10.94% and 7.81%, the number of residential loans to low- and moderate-income families within the AA is less than the percentage of low- and moderate-income families of 16.50% and 16.21%, respectively. The bank attributes its record of lending to borrowers of different incomes, particularly low- and moderate-income families, as a by-product of loan demand by these borrowers. The bank frequently directs low- and moderate-income home loans into government home loan programs such as USDA Rural Development (RD), Farmers Home Administration (FHA), Tennessee Housing Development Authority (THDA), and Federal National Mortgage Association (Fannie Mae). These type loans are not included in the tables on page 8.

TNB supports the purchase and long-term financing of residential home loans through the THDA and the USDA RD programs. These government-sponsored home ownership programs are designed for low- and moderate-income borrowers. TNB underwrites these loans to agency guidelines and sells them on the secondary market. As such, these loans were not included in our loan sample.

In 2008, TNB completed two RD loans and three THDA loans for a total of \$456,150 and 29 Fannie Mae loans totaling \$4,320,400. In 2009, the bank completed three RD loans and two THDA loans for \$466,000 and 76 Fannie Mae loans totaling \$11,951,202. Year-to-date 2010, TNB has completed one RD loan and four THDA loans for a total of \$492,400 and 27 Fannie

Mae loans totaling \$3,695,000. Since 2008, there are a sum total of 147 RD, THDA, and Fannie Mae loans aggregating \$21,381,000.

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

Borrower Distribution of Residential Real Estate Loans in Non MSA-AA (Coffee, Franklin, Moore, and Bedford Counties, TN)								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential Loans	16.50	10.94	16.21	7.81	21.49	15.63	45.80	65.62

Source: Residential loan sample included residential home purchases, home improvement loans, and home refinance loans originated during 2008, 2009, and through July 26, 2010. U.S. Census data.

Borrower Distribution of Loans to Businesses in Non MSA-AA (Coffee, Franklin, Moore, and Bedford Counties, TN)				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses/Farms	78.37%	2.94%	18.69%	100%
% of Bank Loans in AA by #	71.43%	23.21%	5.36%	100%
% of Bank Loans in AA by \$	39.35%	60.30%	0.35%	100%

Source: 2009 Geodemographic data. Business loan sample originated during 2008, 2009, and through July 26, 2010.

Geographic Distribution of Loans

A geographic distribution of residential real estate loans and business and farm loans would not be meaningful since there are no low-income and only one moderate-income census tracts in the banks 28 census tract AA.

Qualified Investments and CD Services (Optional)

The bank’s performance under Qualified Investments and CD Services is rated **“Satisfactory.”** TNB demonstrated satisfactory responsiveness to qualified investments and Community Development Services. Based on a full-scope review, the bank’s performance is satisfactory.

Number and Amount of Qualified Investments

Qualified investments are investments, deposits, membership shares, or grants that have as their purpose community development, as defined in the CRA regulation.

During 2009, TNB purchased a \$716,852 investment in the above bond issue. Funds were used to rebuild this school which is located in Coffee County. 85% of the students enrolled in this school are from low- and moderate-income families.

Franklin County School District

In 2009, TNB purchased a \$150,000 investment in the above bond issue. Funds were used to improve lighting at the football field. 51% of the students enrolled in this school are from low- and moderate-income families.

Donations

During 2008, 2009, and year-to-date 2010, TNB made 41 donations totaling \$14,938. These donations were to various local organizations which predominately supported food donations and other services to low- and moderate-income families. These funds are designated for children (clothing, shoes, and toys) from low- and moderate-income families, insurance funds, and health care for low- and moderate income families including the elderly. Organizations such as 5 Loaves 4 Kids program raise funds for food baskets. 5 Loaves 4 Kids program is a local organization which works in conjunction with the local school system to identify children in need of food. These at risk students are from low- and moderate- income families.

Community Development Investments in AA			
Community Development Investments			
Qualified Investments	AA	2	867
Originated Grants/Donations	AA	41	15
Unfunded Commitments*	N/A	0	0
Total Qualified Investments		43	882
Total Community Development Investments	AA	43	882

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

Extent to Which the Bank Provides Community Development Services

The bank's community development services reflect satisfactory responsiveness.

TNB designed a demand deposit account which targets low- and moderate-income individuals. The bank's "Best Account" demand deposit account is a no fee checking account that earns interest. A good marketing feature of this account is that it offers no check return.

Bank directors, officers, and employees participate in a number of local community civic clubs during normal banking hours. These clubs provide services to the general population and demonstrate the bank's commitment to improve the quality of life for local citizens. TNB has taken a leadership role in the 5 Loaves 4 Kids Program. Established in 2007, this volunteer organization provides food on the weekend for needy children in preschool, elementary school, and middle school in Tullahoma. Bank employees volunteer two hours per week to help fill bags

of food and deliver the food bags to seven area schools. TNB supports the organization as a top corporate sponsor with a \$5,000 yearly donation.

Responses to Complaints

There have been no consumer complaints relating to the bank's CRA performance during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.