



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**October 16, 2006**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Commerce National Bank  
Charter Number 23710**

**306 South Cass Street  
Corinth, MS 38834**

**Comptroller of the Currency  
Nashville  
5200 Maryland Way Suite 104  
Brentwood, TN 37027**

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

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

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

- The bank's loan-to-deposit ratio is reasonable and averaged 71% during the evaluation period. CNB's loan-to-deposit ratio ranged from a low of 66% as of December 31, 2001 to a high of 77% as of September 30, 2004.
- Lending in the bank's assessment area is excellent. A substantial majority of CNB's loans are within the bank's Assessment Area. Approximately 93% of the number and 91% of the dollar of loans were to borrowers within the Assessment Area.
- CNB's distribution of loans to borrowers of different income (including low- and moderate-income) levels is reasonable and loans to businesses of different sizes is very good.
- There have been no complaints with respect to CNB's CRA performance.

## **SCOPE OF THE EXAMINATION**

This Performance Evaluation is based on two distinct time periods: January 1, 2004 through December 31, 2004 and January 1, 2005 through October 16, 2006. Results were consolidated into one Evaluation Period for comparative and analysis purposes and evaluated using 2000 Census Demographic information. CNB has no wholly-owned subsidiaries. There has been no data integrity reviews conducted prior to this evaluation.

Conclusions regarding the Lending Test are based on residential loans including home purchases, home improvements, and home refinances. Residential loans considered in the Lending Test originated between January 1, 2004 and October 16, 2006. Small business loans originated during the same time period were also considered in the Lending Test. A sample of loans was selected for each loan category based on internal bank reports. CNB is not a Home Mortgage Disclosure Act (HMDA) reporter. The evaluation covers the period February 6, 2001 through October 16, 2006.

## **DESCRIPTION OF INSTITUTION**

Commerce National Bank (CNB) is an intrastate bank headquartered in Corinth, Mississippi. CNB was chartered January 19, 1999 and as of June 30, 2006, had total assets of \$73 million. CNB is owned by Commerce Holding Company, a one-bank holding company which is also headquartered in Corinth.

There have not been any major changes in the bank's corporate structure, including merger or acquisition activities, since the last Community Reinvestment Act (CRA) examination dated February 5, 2001 when the bank received a **satisfactory** rating. The bank's primary business focus has not changed and continues to be commercial and industrial loans, residential real estate loans, and consumer loans. There are no legal or financial impediments to CNB's ability to meet the credit needs in its Assessment Area including retail and community development loans, qualified investments, and community development services needs. The bank offers a full-range of loan and deposit services. CNB also has a mortgage loan department which originates long-term mortgage loans for the secondary mortgage market.

CNB has a main office located in Corinth, Mississippi. There are no branch offices. There is one 24-hour ATM machine located at the main office and one, free-standing cash disbursing ATM, which is also located in Corinth. Since the previous CRA examination, the bank has neither opened nor closed any branch offices. CNB has invested heavily in data processing systems, which support banking via the Internet.

As of June 30, 2006, CNB had total assets of \$73 million, of which net loans comprised 64.21%. The following table reflects the composition of CNB's loan portfolio based on the June 30, 2006 Report of Condition.

	<b>Product Category</b>	
	<b>Dollar (000's)</b>	<b>Percent</b>
Commercial & Industrial Including Commercial Real Estate	17,545	36.85
Residential Mortgage Loans	15,215	31.95
Construction & Land Development	2,082	4.37
Individuals	10,390	21.82
All Other	941	1.98
Farmland and Agriculture	1,442	3.03
<b>Total</b>	47,615	100.00

Source: June 30, 2006 Report of Condition.

CNB provides a wide range of traditional deposit and loan products. The main office is located in an area that is accessible to persons from different areas of the community. Lobby hours and drive-up hours also help to meet customer needs during the week. Saturday drive-up window service is also available until 12 noon. CNB has an ATM at its main office and one other location in their market to make customer accounts accessible.

<b>Distribution of Bank Offices and ATMs by Census Tract</b>						
<b>Census Tract Income Level</b>	<b>Tracts</b>		<b>Full-Service Branches</b>		<b>Automated Teller Machines*</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Low	0	0.00%	0	0.00%	0	0.00%
Moderate	0	0.00%	0	0.00%	0	0.00%
Middle	5	71.43%	1	100.00%	1	50.00%
Upper	2	28.57%	0	0.00%	1	50.00%
N/A	0	0.00%	0	0.00%	0	0.00%
<b>Total</b>	<b>7</b>	<b>100%</b>	<b>1</b>	<b>100%</b>	<b>2</b>	<b>100%</b>

- One ATM contiguous with main office banking location is cash dispersing and deposit taking. There is one free standing, non-deposit taking ATM.

Customers have 24-hour access to their accounts through telephone banking and through the Internet (<http://www.cnbcorinth.com>). Internet and phone banking services include transfers between CNB accounts, review of account balances or transactions, access to loan account information, and making loan payments. Internet banking customers also have bill-paying capability. On-line applications are available to apply for a loan. The bank also offers Visa Check Cards that provide customers with additional access to their accounts at point of sale or ATM locations.

CNB's business strategy includes continued marketing of commercial credit to small businesses through its products, staff, and location. The bank offers Small Business Administration (SBA) loans for new business startups and to expand an existing business. CNB supports the purchase and long-term financing of residential home loans through its conventional secondary market home mortgage and United States Department of Agriculture (USDA) home mortgage loans.

## **DESCRIPTION OF CNB's ASSESSMENT AREA (AA)**

The bank's assessment area (AA) includes all census tracts in Alcorn County, Mississippi. Of the 7 census tracts, 5 (71.43%) are middle income and 2 (28.57%) are upper income census tracts. There are no low- or moderate-income census tracts in the bank's AA. The AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income areas. There are no natural boundaries within the AA that hinder accessibility. All census tracts are contiguous.

CNB is located in northeastern Mississippi approximately three miles south of the Tennessee State Line and 30 miles west of the Alabama State Line. Corinth, the county seat of Alcorn County, is located on U.S. Highway 72, a major east-west interstate connector. Corinth is also located on U.S. Highway 45, a major north-south interstate connector. Other towns located in Alcorn County include Farmington, Glen, Kossuth, and Rienzi.

Demographic Information for Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	7	0.00%	0.00%	71.43%	28.57%	0
Population by Geography	34,558	0.00%	0.00%	66.25%	33.75%	0
Owner-Occupied Housing by Geography	15,818	0.00%	0.00%	64.65%	35.35%	0
Businesses by Geography	4,114	0.00%	0.00%	77.54%	22.46%	0
Farms by Geography	56	0.00%	0.00%	67.86%	32.14%	0
Family Distribution by Income Level	9,907	19.89%	14.99%	20.05%	45.07%	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	3,456	0.00%	0.00%	72.14%	27.86%	0
Median Family Income HUD Adjusted Median Family Income for 2006 Households Below the Poverty Level	= \$33,550 = \$36,000 = 20.00%		Median Housing Value Unemployment Rate	= \$58,886 = 7.2%		

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2000 U.S. Census and 2005 HUD updated MFI. Unemployment rate is as of September 2006.

There are no low-and moderate-income census tracts within CNB's AA. Of the 9,907 families residing within the bank's AA, 1,971 (19.89%) and 1,485 (14.99%), respectively, are low- and moderate-income families based on the family distribution by income levels. As of September 30, 2006, 7.2% unemployment rate for the State of Mississippi exceeded the national average of 4.6%.

Major employers in Alcorn County are: CM Solutions, Inc., electronics contract manufacturer, 109 employees; Caterpillar, Inc. re-manufacturing diesel engines, 643 employees; Corinthian, Inc., upholstered furniture, 625 employees, Kimberly-Clark Corporation, non-woven fabrics, 254 employees; Kimberly-Clark Professional Products Mill, manufacturing site, 119 employees; King Manufacturing Co., Inc., metal stamping/screw machine product; 150 employees; Magnolia Regional Health Center, medical hospital, 916 employees; Mississippi Polymers, Inc., vinyl products, 250 employees; Quebecor World, publications/printing, 700 employees; Timber Products, hardwood plywood and overlay, 125 employees; Alcorn County 400 employees; and, City of Corinth 150 employees. Additionally, there are some 23 other industries which employs 10 to 100 employees.

Agriculture products include beef cattle, row crops (soybeans, cotton, corn, sorghum, and hay), poultry, swine, and orchards.

No business opportunities were identified by CNB through outreach activities or through bank surveys during this evaluation period. A community contact was also made during this evaluation. The contact did not identify any specific credit needs.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

Based on a full-scope review, the bank's small business and home mortgage lending performance in the AA is satisfactory. CNB also has an active mortgage loan department which generates loans through the secondary market. For the years 2004, 2005, and through October 16, 2006, CNB originated approximately 192 residential loans totaling in excess of \$20 million. Through other long-term lenders, CNB underwrote innovative and flexible home loan purchase products targeted to low- and moderate-income individuals in the form of 100% home loan financing. Of the \$20 million, approximately \$2 million (31 loans) were 100% financed by the USDA and approximately \$1.5 million (9 loans) were 100% financed by a conventional mortgage lender. Conclusions to support CNB's satisfactory rating are based on the following:

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

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

CNB's loan-to-deposit ratio is reasonable when compared to similarly situated banks. CNB's competition consists of one, independent community bank, which has a branch office located in Corinth. The bank is headquartered in Russellville, Alabama. For the twenty-three quarters from March 2001 to September 2006, CNB's quarterly average loan-to-deposit ratio was 70.54%. During the same time period, the similarly situated bank's quarterly average loan-to-deposit ratio was 61.13%.

During the twenty-three quarter period from March 2001, CNB's highest quarterly loan-to-deposit ratio was 76.57% as of September 30, 2004. The lowest quarterly loan-to-deposit ratio was 65.69% as of December 31, 2001. CNB's loan-to-deposit ratio was reasonably consistent during the quarters reviewed.

As of June 30, 2006, seven financial institutions with 14 offices controlled \$489 million in deposits within the AA. CNB ranked 5<sup>th</sup> and controlled \$65 million, or 13.32%, of the market. Citizens Bank & Trust, headquartered in Russellville, AL, controlled 2.96% of the market. A federal savings bank controlled 14.72% of the deposit market for the period. Four large regional banks controlled 22.74%, 21.74%, 17.68%, and 6.85%, respectively, of total deposits for the period.

### **Lending in Assessment Area**

#### **Lending in Assessment Area Exceeds the Standards for Satisfactory Performance.**

Lending in the bank's assessment area is excellent. Based on our residential and business loan samples for the period 2004 through June 2006, 90.48% and 87.57% of the number were made in the bank's assessment area. Similarly, 95.56% and 94.99% of the dollar amounts were made in the bank's assessment area. This resulted in an average of 93.10% and 91.19%, respectively, for the number and dollar amount of loans sampled. These are strong numbers and reflect positively on the bank's effort to lend within its assessment area.

<b>Lending in CNB AA</b>										
Loan Sample	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
2004-2006 Residential Loans	38	90.48%	4	9.52%	42	1,931	87.57%	274	12.43%	2,205
2004-2006 Business Loans	43	95.56%	2	4.44%	45	1,990	94.99%	105	5.01%	2,095
<b>Total</b>	<b>81</b>	<b>93.10%</b>	<b>6</b>	<b>6.90%</b>	<b>87</b>	<b>3,921</b>	<b>91.19%</b>	<b>379</b>	<b>8.81%</b>	<b>4,300</b>

Source: Loan Sample for 2004, 2005, and 2006.

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

**Lending to Borrowers of Different Incomes and to Businesses of Different Sizes Meets the Standard for Satisfactory Performance.** CNB's distribution by borrower income for residential loans is low. The percentage of the number and dollar of bank loans to low- and moderate-income borrowers is less than the percentage of low- and moderate-income families in the AA. Typically, residential loan applications from low- and moderate-income individuals are fewer in number and for smaller dollars. The percentages are somewhat reasonable and mitigated by the high percent of households below the poverty level and higher than average rate of unemployment.

<b>2004 – 2006 Borrower Distribution of Residential Real Estate Loans for AA</b>								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	19.89%		14.99%		20.05%		45.07%	
Loan Type(s)	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Residential Loan Sample	11.91%	4.22%	9.52%	5.60%	21.43%	12.61%	57.14%	77.57%

Source: Residential loan sample included residential home purchases, home improvement loans, and home refinance loans. (Data reported under 2004, 2005, and 2006 is 2000 U.S. Census data.)

CNB's distribution of loans to small businesses is very good. Our review of business loans show that 86.67% of the number and 47.35% of the dollar amount of loans sampled were made to small businesses. These results compare favorably with the 35.52% of small businesses in the AA. The bank has done a good job in collecting income information on all the business loans within our loan sample. The results of our business loan sample are somewhat skewed as 62% (approximately 6 in 10) of the businesses in the demographics data failed to provide adequate income information.

<b>2004 – 2006 Borrower Distribution of Loans to Businesses in AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	35.52%	2.30%	62.18%	100%
% of Bank Loans in AA by #	86.67%	8.89%	4.44%	100%
% of Bank Loans in AA by \$	47.35%	28.02%	24.63%	100%

Source: 2005 Geodemographic data and loan sample.

### **Geographic Distribution of Loans**

There are no low- or moderate-income census tracts within CNB's AA. Therefore, we did not perform an analysis of geographic distribution of residential and business loans since the analysis would not reveal meaningful information.

### **Responses to Complaints**

There have been no consumer complaints relating to the bank's Community Reinvestment Act performance during the 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.