



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

PUBLIC DISCLOSURE

January 25, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The State National Bank of Frankfort
Charter Number 4090**

**130 West Main Street
Frankfort, Kentucky 40602**

Office of the Comptroller of the Currency

**9200 Shelbyville Road, Suite 505
Louisville, Kentucky 40222**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The State National Bank of Frankfort** prepared by **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of January 25, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated: Satisfactory Record of Meeting Community Credit Needs.

- The bank's loan-to-deposit ratio since our last CRA examination is reasonable.
- A majority of the number of the bank's loans are made within its assessment area.
- The bank makes loans throughout its entire assessment area.
- The bank actively lends to borrowers of different income levels, including low- and moderate-income individuals.
- The bank actively extends loans to small businesses.

DESCRIPTION OF INSTITUTION

The State National Bank of Frankfort (SNB) is a \$110 million institution located in the state capital of Frankfort, Kentucky. The bank is 100 percent owned by Whitaker Bank Corporation of Kentucky. The bank operates three full service branches and one branch which is only a drive-thru location. SNB also operates twelve automated teller machines (ATM) in Franklin County, eight of which are joint ventures with another local financial institution. The bank has not opened or closed any branches since our last CRA examination.

As of September 30, 1998 SNB's loan portfolio represented approximately 59% of total assets. Management focuses lending efforts on commercial loans. The bank's \$64 million loan portfolio is comprised of approximately 65 percent commercial loans, 21 percent residential real estate loans, 8 percent consumer loans, and 6 percent agricultural loans.

There are no constraints on the bank's ability to meet local credit needs. At their previous CRA examination in February 1996, SNB was rated: Satisfactory Record of Meeting Community Credit Needs.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area is Franklin County, Kentucky. The population of Franklin County is approximately 44,000. Franklin County consists of eleven census tracts (701-711). Of these 11 tracts, one is moderate-income, two are middle-income, and eight are upper-income. There are no low-income census tracts in the bank's assessment area, and only 1% of the county's population resides in the moderate-income tract. There are approximately 12,000 families in Franklin County. Of these, 10% are low-income, 11% moderate-income, 18% middle-income, and 61% upper-income. The 1990 median family income for Franklin County was \$32,953. The 1998 median family income for non-metropolitan areas in Kentucky is \$29,800.

Frankfort, the largest city in Franklin County, is the state capital. Approximately 60% of the county workforce is employed by the state government. The county has experienced some retail growth in the last few years with hotels, restaurants, and businesses opening close to the interstate exits. The county is also working to fill three industrial parks. The unemployment rate has been historically low, averaging under 3% in recent years. The high employment rate and concentration of state government jobs provides a good economic base.

The nine financial institutions competing in Franklin County provide a strong competitive environment. These include branches of two regional banks, community banks, a savings and loan, and the state's largest credit union.

In conjunction with this examination and a January 1998 examination of another Franklin County bank, two individuals representing the business community were contacted. These individuals represented the local chamber of commerce and the industrial development authority. Both stated the local financial institutions were meeting the credit needs of the area. They also stated that money for start-up businesses or venture capital loans was not readily available; however, they felt this was not necessarily the responsibility of the local banks.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

SNB's average loan-to-deposit ratio of 67% since their last CRA examination is reasonable. The bank's main and most similarly-situated competitor averaged 66% for this same time period.

Lending in the Assessment Area

A majority of the number of the bank's loans are in its assessment area. The bank internally codes all loans by location and generates a quarterly report showing new loan originations by location. We verified the accuracy of the bank's reports using a sample of 20 residential real estate and consumer loans originated in 1998. We analyzed the bank's reports of new loan originations since its last CRA examination. Bank reports for the period of January 1, 1996 through December 31, 1998 showed the bank originated 2,507 loans totaling \$72 million. Of these, 1,812 or 72% of the number and \$33 million or 46% of the dollar amount of loans were in Franklin County. Although the dollar amount of loans originated in the county is less than 50%, the bank does originate a large number of smaller dollar loans and operates in a very competitive environment. In addition, the bank's focus on commercial lending often results in large commercial loans being extended to businesses in surrounding counties.

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

The bank does a good job of lending to borrowers of different income levels. SNB began coding their loans by borrower income level in January 1996. We verified the accuracy of the bank's coding using our sample of 20 residential real estate and consumer loans described previously. Based on a January 1999 bank report, the current number of loans outstanding by borrower income level is reflective of general population characteristics. For example, as the table below shows, 10% of the families in the assessment area are low-income, and 9% of the bank's loans were made to low-income individuals.

| Income Level | Percentage of families in Assessment Area* | Percentage of loans outstanding |
|---------------------|---|--|
| Low | 10% | 9% |
| Moderate | 11% | 19% |
| Middle | 18% | 27% |
| Upper | 61% | 45% |
| Total | 100% | 100% |

* According to 1990 Census Data, U.S. Bureau of the Census

Because commercial loans are a major product line for the bank, we analyzed the bank's lending to small businesses and small farms. In January 1996, the bank began tracking lending to small businesses and small farms. A January 1999 bank report showed the bank had 246 loans totaling \$43.2 million outstanding to small businesses. This same report also showed 50 loans totaling \$2.5 million to small farms. To verify the accuracy of the bank's report, we reviewed all new commercial and agricultural loans greater than \$25,000 originated from October to December 1998. This sample of 18 loans showed 72% were to small businesses or farms. Of the 18 loans, 11 or 61% were to businesses in Franklin County. Based on this information, the bank's lending to small businesses is reasonable.

Geographic Distribution of Loans

The main focus of analyzing the bank's geographic distribution of loans is to determine the dispersion of loans among low, moderate, middle and upper-income geographies. Franklin County does not have any low-income census tracts, and the only moderate-income tract is located in the downtown business district and contains just 1% of the population. Therefore, an analysis of the geographic distribution of loans would not be meaningful.

Response to Complaints

There have been no CRA-related complaints since the bank's last examination.

Compliance with Antidiscrimination Laws

We did not identify any violations of the substantive provisions of the antidiscrimination laws and regulations during our examination.