



PUBLIC DISCLOSURE

September 28, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Morehead National Bank
Charter #18433**

**P.O. Box 829
Morehead, Kentucky 40351**

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 Morehead National Bank prepared by **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of September 28, 1998. 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.”

- A majority of the bank's loans were made within the assessment area.
- Loans are reasonably distributed throughout the assessment area.
- The average loan-to-deposit ratio since the bank's last CRA examination is excellent.
- Management's record of lending to borrowers of different income levels, including low-and moderate-income individuals, is reasonable.
- Management has a very good record of lending to small businesses.

DESCRIPTION OF INSTITUTION

Morehead National Bank (MNB) has total assets of \$34 million as of June 30, 1998. MNB is wholly-owned by the Whitaker Bank Corporation of Kentucky, Inc., a bank holding company. The bank is located in the city of Morehead, Kentucky in a middle income block number area (BNA). MNB operates one office with two drive-thru lanes and one external automated teller machine.

MNB offers traditional banking and lending services. They offer a variety of lending products to accommodate borrowers within their assessment area (AA). MNB's primary business focus is real estate lending to individuals and small businesses. The bank codes its loans by borrower income level and geographic area. Approximately 84% of the portfolio is coded by income level. During our examination, we verified the accuracy of the bank's internal coding.

The loan portfolio is comprised of 69% residential real estate and individual loans, and 31% commercial loans. There are no financial or legal impediments that affect the bank's ability to help meet the credit needs of its AA.

DESCRIPTION OF ROWAN COUNTY

The bank's assessment area is Rowan County. There are four block numbering areas (BNA's) in the assessment area. Two are designated moderate income and two are middle income. Rowan County does not have any low or upper income BNA's. The 1990 Census median family income for Rowan County is \$20,354. The 1998 statewide median family income for non-metropolitan areas is \$29,800.

Rowan County is a rural county in northeastern Kentucky with a population of 21,540. Morehead is the largest city in the county and serves as the county seat of government. The unemployment rate is below state and national averages. The local economy is diversified and growing. Major area employers include: Morehead State University, St. Claire Medical Center, the Rowan County Board of Education, Guardian Automotive Trim, and various lumber companies.

Competition from other financial institutions in the county is strong. The bank's primary competitors include two state-chartered banks, one savings and loan, four finance companies, a branch office of a large regional bank, and a credit union. Management has identified residential real estate loans to consumers and commercial real estate loans to small businesses as the major credit needs of the community.

In understanding the Rowan County loan market, consideration must be given to demographics of the AA population. Based on 1990 census data, 47% of families in Rowan county are low or moderate income, 30% of the households are below the poverty level, and 10% receive public assistance. In addition, 25% of households receive social security, and 12% are retired. It is likewise important to note that 40% of the AA population are Morehead State University students.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Lending in the Assessment Area

Management internally codes all loans to track lending in the assessment area. We verified the accuracy of the bank's coding system during our examination. The distribution of loans inside and outside Rowan county is shown in the table below:

Lending in Assessment Area				
Location	Number	%	\$(000's)	%
Inside Assessment Area	865	73%	20,092	78%
Outside Assessment Area	312	27%	5,669	22%
Total	1,177	100%	25,761	100%

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Following is a table outlining the bank's level of lending to borrowers of different income. We also used testing techniques to evaluate these criteria. Consumer lending to borrowers of different incomes is reasonable. MNB's mortgage lending to low- and moderate-income borrowers falls below the proportion of the low- and moderate-income segment in the assessment area. However, considering the demographic and financial context of the assessment area, MNB's level of mortgage lending is reasonable.

The following factors likely reduce the demand for mortgage loans and mitigate this seemingly low level of lending:

- Lending levels of comparable local, long-established institutions are similar.
- 30% of the population is below the poverty level.
- 10% of the population is on public assistance.
- 25% of the population receives social security, and 12% are retired.
- Approximately 40% of the AA population are students of Morehead State University.

Lending to Borrowers of Different Incomes					
Income Level	Income Levels of Families within Assessment Area*	Number of Mortgage Loans	Percent of Mortgage Loans	Number of Consumer Loans	Percent of Consumer Loans
Low	30%	7	3%	85	15%
Moderate	17%	12	6%	108	18%
Middle	17%	37	17%	130	22%
Upper	36%	158	74%	263	45%
Total	100%	214	100%	586	100%

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

The bank has done a very good job of lending to small businesses. A small business is one with gross annual revenues less than one million dollars. The chart below shows that 93% of the number of loans and 74% of the dollar amount of commercial loans were to small businesses with gross annual revenues under \$1,000,000.

Lending Distribution to Businesses of Different Sizes			
Revenues < \$1 Million Annually		Revenues > \$1 Million Annually	
# of Loans	Loans (In \$000's)	# of Loans	Loans (In \$000's)
106	4,895	8	1,677
93%	74%	7%	26%

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable penetration of loans throughout BNA's in Rowan County. Our results were based on a review of the bank's geographic analysis which we reviewed for accuracy.

Geographic Distribution of Loans						
Income Level	BNA	Total Number of Loans	Percent of Number of Loans	Total Volume of Loans In (000's)	Percent Volume of Loans	Percent Population of BNA
Middle	9501	203	23%	5,343	27%	64%
Middle	9502	364	42%	8,705	43%	
Moderate	9503	124	15%	2,665	13%	36%
Moderate	9504	174	20%	3,379	17%	
Totals		865	100%	20092	100%	100%

Loan-to-Deposit Ratio

MNB's loan-to-deposit ratio for the 11 quarters ended June 30, 1998 was 102%. This ratio is well above local competition and national peer.

Response to Complaints

No consumer complaints have been received in the five months covered by this evaluation.

Compliance with Anti-Discrimination Laws

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