



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

Washington, DC 20219

## **PUBLIC DISCLOSURE**

**March 03, 2009**

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

The First National Bank of Grayson  
Charter Number 12982

200 S. Carol Malone Boulevard, P.O. Box 67  
Grayson, KY 41143

Office of the Comptroller of the Currency

VIRGINIAS FIELD OFFICE  
3800 Electric Road Suite 204  
Roanoke, VA 24018-0503

**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.**

The major factors that support this rating include:

- The bank's quarterly average loan-to-deposit ratio is reasonable based on the bank's size, financial condition, area credit needs, and relevant competitive factors;
- A substantial majority of the bank's loans are made within its assessment area (AA);
- The distribution of loans reflects, given the demographics of the AA, reasonable penetration among borrowers of different incomes;
- The bank's geographic distribution of loans within its AA reflects reasonable dispersion throughout the AA; and
- The bank has received no complaints about its performance in helping to meet the credit needs of its AA.

**SCOPE OF EXAMINATION**

First National Bank of Grayson (FNBG) was evaluated under the small bank Community Reinvestment Act (CRA) examination procedures. Our review covered the bank's CRA performance from January 1, 2006 through December 31, 2008, as this is representative of its lending strategy since the last CRA examination. Based upon the bank's business strategy and the loans originated or purchased during the evaluation period, we determined that both residential mortgage loans and consumer loans are the bank's primary loan products. Therefore, we reviewed a random sample of 20 residential mortgage loans and 20 consumer loans that the bank originated or purchased during the evaluation period.

**DESCRIPTION OF INSTITUTION**

FNBG is a \$199 million locally owned community bank headquartered in Grayson, Kentucky that services the counties of Carter, Elliott, and Morgan. The bank is a full service, intrastate institution, offering a standard array of traditional loan and deposit products. The bank's website at [www.fnbgrayson.com](http://www.fnbgrayson.com) provides a listing and description of all deposit and loan services. FNBG is a wholly owned subsidiary of First Grayson Bancorp, Inc., a one-bank holding company. Both the bank and the holding company are located in Carter County. Neither the bank nor the holding company has any other subsidiaries. There has been no merger or acquisition activity during the evaluation period.

FNBG has a main office and six branches. In October 2008, FNBG acquired the People's Bank branch office located at 380 South Carol Malone Boulevard in Grayson, Kentucky. The main office is located in a middle-income census tract in Carter County.

The Grayson, Olive Hill, Rush, and Willard Branches are also located in middle-income census tracts in Carter County. The Sandy Hook Branch is located in a middle-income census tract in Elliott County. The West Liberty Branch is located in a middle-income census tract in Morgan County. Full service banking is provided at the main office and at each branch, which includes drive through and lobby service. Extended banking hours are available during the business week and on Saturday at all seven locations. Automated Teller Machines (ATMs) are also located at the main office and at each branch. Three additional ATMs are also located offsite at two gas stations or convenience stores and at a local university. No branches have been closed.

As of December 31, 2008, FNBG reported \$108 million in net loans, \$175 million in total deposits, and Tier One capital of \$13 million. The net loans to total assets ratio was 54%. The bank's loan portfolio consists of residential real estate loans (44%), commercial and commercial real estate loans (26%), construction and development loans (1%), and consumer loans (29%). According to the bank's strategic plan, residential mortgage loans and consumer loans are the bank's primary loan products.

Numerous national, state, and savings banks provide major deposit and lending competition. According to the Federal Depository Institution Corporation's (FDIC) Deposit Market Share Report, as of June 30, 2008, FNBG ranked first out of nine institutions in the AA with 30.94% of deposits. Competitors in this market include Commercial Bank of Grayson, ranking second with 24.04% of deposits and Commercial Bank, ranking third with 18.39% of deposits.

There are no known legal, financial or other factors impeding FNBG's ability to help meet the needs of its community. FNBG's last CRA evaluation was performed in January 2004, and FNBG was rated "Satisfactory".

## **DESCRIPTION OF ASSESSMENT AREA(S)**

FNBG has defined the counties of Carter, Elliott, and Morgan as its AA. These counties are located in the northeastern region of Kentucky. Since the counties are not included in a Metropolitan Statistical Area (MSA) and are homogenous, we combined all three counties for our analysis. The bank's AA totals 14 census tracts. It is comprised of three moderate-income tracts (21%) and 11 middle-income tracts (79%). There are no low-income tracts or upper-income tracts. Carter County contains seven census tracts, all of which are middle-income tracts. Elliott County contains two census tracts. One is a moderate-income tract. The other is a middle-income tract. Morgan County contains the remaining five census tracts. Two are moderate-income tracts. Three are middle-income tracts. Although the overall AA is not considered a distressed or underserved area, 11 of the 14 census tracts are designated as distressed or underserved tracts. The bank's AA complies with the regulation and does not arbitrarily exclude low- or moderate-income areas.

According to the 2000 US Census data, the population of the AA is approximately 47,585. The AA contains 13,284 families and 17,768 households. Demographics indicate that approximately 27% of the families are categorized as low-income, 18% as

moderate-income, 20% as middle-income, and 35% as upper-income. Updated 2008 median family income was \$41,000 for the AA, and the median value of a home was \$47,483. There are 20,128 housing units with owner-occupied units at 71%, rental-occupied units at 17%, and vacant-housing units at 12% in the AA. Approximately 4,336 or 24% of households are below the poverty level standard.

The local economy of the bank's AA is diverse with retail, manufacturing, and service industries providing the majority of employment opportunities. The bank's AA is also located within commutable distances to employment sources in Ohio and West Virginia.

Carter County is located in northeastern Kentucky. According to the 2000 US Census data, the population of Carter County is approximately 26,889, comprising 18% urban population and 82% rural population. Its boundaries are Greenup, Boyd, Lawrence, Elliott, Rowan, and Lewis Counties. The county seat is Grayson. The county's top three industries by distribution of employees are retail trade, manufacturing, and accommodation and food services. According to the Bureau of Labor Statistics, the December 2008 unemployment rate for Carter County was 9.80% compared the state unemployment rate at 7.60% and the national unemployment rate at 7.20%.

Elliott County lies in the foothills of the Appalachian Mountains in northeastern Kentucky. According to the 2000 US Census data, the population of Elliott County is approximately 6,748, comprising 14% urban population and 86% rural population. Its boundaries are Carter, Lawrence, Morgan, and Rowan Counties. The county seat is Sandy Hook. The land is characterized by rolling hills and mountainous terrain, much eroded by early mining and logging operations. A state penitentiary just north of Sandy Hook contributes to the local economy and other counties. The county's top three industries by distribution of employees are retail trade, healthcare and social assistance, and accommodation and food services. According to the Bureau of Labor Statistics, the December 2008 unemployment rate for Elliott County was 9.10% compared the state unemployment rate at 7.60% and the national unemployment rate at 7.20%.

Morgan County is located in east central Kentucky. According to the 2000 US Census data, the population of Morgan County is approximately 13,948, comprising 20% urban population and 80% rural population. Its boundaries are Rowan, Elliott, Menifee, Wolfe, Magoffin, Johnson, and Lawrence Counties. West Liberty is the county seat. A state penitentiary located in West Liberty is a strong contributor to the local economy. The county's top three industries by distribution of employees are public administration, healthcare and social assistance, and retail trade. According to the Bureau of Labor Statistics, the December 2008 unemployment rate for Morgan County was 10.40% compared the state unemployment rate at 7.60% and national unemployment rate at 7.20%.

During this evaluation, we made one community contact to discuss the credit needs of the AA. The organization's primary focus is economic development. The community contact identified small business development and the creation of jobs as the primary needs of the community. According to this community contact, the local financial institutions have been providing their expertise, supporting business development initiatives, and providing the funding needed to complete community projects.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank’s overall lending performance is “Satisfactory”. This conclusion is based upon the results of the following specific lending tests used to determine if the bank is meeting the credit needs of the AA. All criteria of the specific lending tests are documented below:

**Loan-to-Deposit Ratio (LTD)**

FNBG’s quarterly average net loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, area credit needs, and relevant competitive factors. The LTD ratio meets the standards for satisfactory performance. The bank’s quarterly average net LTD ratio for the 19 quarters since the last CRA evaluation was 66%. During this time period, the LTD ratio ranged from a low of 59% to a high of 71%. The bank’s LTD ratio ranks 21<sup>st</sup> among the bank’s peer group, which consisted of 27 similarly-sized institutions in the state of Kentucky. The peer group quarterly average net LTD was 79%, with peer ratios ranging from a low of 52% to a high of 140%.

**Lending in Assessment Area**

The bank’s lending in its AA exceeds the standard for satisfactory performance. A substantial majority of FNBG’s primary loan products were originated within the bank’s AA. Of the 40 loans sampled for our review, 35 or 88% were located within the bank’s AA.

**Lending to Borrowers of Different Incomes**

The distribution of loans reflects reasonable penetration among individuals of different income levels, and FNBG’s record of lending to borrowers of different incomes meets the standard for satisfactory performance.

Table 1 below reflects the distribution by borrower income level of residential mortgage loans.

<b>Table 1 - Borrower Distribution of Residential Real Estate Loans in FNBG NonMSA AA</b>								
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 Mortgage Loan Sample	27%	0%	18%	15%	20%	20%	35%	65%

*Source: FNBG loan sample; 2008 Dun and Bradstreet data.*

FNBG’s borrower distribution of residential mortgage loans is reasonable. In our analysis of lending to low-income borrowers, we took into consideration the lack of affordability for low-income individuals to purchase a home. Based on the 2000 U.S. Census data, the median cost of housing in the AA is \$47,438. The updated median family income is \$41,000, based on the 2008 data from the U.S. Department of Housing and Urban Development (HUD). This means that low-income individuals earn less than \$20,500. Furthermore, approximately 24% of households are below the poverty level. In addition, the unemployment rate was 9.10% in Elliott County, 9.80% in Carter County, and 10.40% in Morgan County. Based on the affordability of housing in the AA, the percentage of households below the poverty level, and the unemployment statistics, it would be difficult for low-income individuals to purchase housing in the AA. Therefore, we placed more emphasis on the bank’s moderate-income performance.

No residential mortgage loans in our sample were originated to low-income borrowers. The percentage of loans made to moderate-income borrowers is near to the percentage of moderate-income families in the AA.

Table 2 below reflects the distribution by borrower income level of consumer loans.

<b>Table 2 - Borrower Distribution of Consumer Loans in FNBG NonMSA AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loan Sample	32%	30%	17%	25%	18%	25%	33%	20%

*Source: FNBG loan sample; 2008 Dun and Bradstreet data.*

FNBG’s borrower distribution of consumer loans is reasonable. The percentage of loans made to low-income borrowers is near to the percentage of low-income households in the AA. The percentage of loans made to moderate-income borrowers exceeds the percentage of moderate-income households in the AA.

**Geographic Distribution of Loans**

The bank’s geographic distribution of loans reflects reasonable dispersion throughout the AA, and FNBG’s performance meets the standard for satisfactory performance. No conspicuous gaps or areas of low penetration were identified.

Table 3 reflects the distribution by geographic income level of residential mortgage loans.

<b>Table 3 - Geographic Distribution of Residential Real Estate Loans in FNBG NonMSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential Mortgage Loan Sample	0%	0%	16%	5%	84%	95%	0%	0%

Source: FNBG loan sample; 2008 Dun and Bradstreet data.

FNBG’s geographic distribution of residential mortgage loans is reasonable. There are no low-income geographies in the AA. The distribution of loans to borrowers in moderate-income geographies was lower than the percentage of owner-occupied housing in moderate-income tracts. When taking into consideration the relatively low level of owner-occupied housing units in moderate-income tracts, the competition from other institutions, the limited road networks in mountainous regions of southern Elliot and southwestern Morgan counties, the location of the bank’s branches in relation to the three moderate-income geographies, and the bank’s lending in the eleven underserved and/or distressed middle-income geographies, the bank’s performance is considered reasonable.

Table 4 below reflects the distribution by geographic income level of consumer loans.

<b>Table 4 - Geographic Distribution of Consumer Loans in FNBG NonMSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loan Sample	0%	0%	15%	0%	85%	100%	0%	0%

Source: FNBG loan sample; 2008 Dun and Bradstreet data

FNBG’s geographic distribution of consumer loans is reasonable. Based on our loan sample, no consumer loans were originated to borrowers in moderate-income geographies. However, according to a bank prepared consumer loan report, the bank did lend to borrowers in moderate-income geographies. When taking into consideration the lending in moderate-income geographies that was not reflected in our loan sample, the relatively limited number of households in moderate-income geographies, the location of the bank’s branches in relation to the moderate-income geographies, and the lending done in the eleven middle-income distressed and/or underserved geographies, the bank’s geographic distribution of consumer loans is reasonable.

### **Responses to Complaints**

FNBG did not receive any CRA related complaints 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.