



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**November 5, 2008**

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

The Salyersville National Bank  
Charter Number 8905

Main Street  
Salyersville, KY 41465-0250

Office of the Comptroller of the Currency

Virginia 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 supporting the institution's rating include:

- The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, assessment area (AA), credit needs, and relevant competitive factors;
- A majority of the bank's loans were originated within the designated assessment area;
- The overall borrower distribution of mortgage loans reflects reasonable penetration; and
- The geographic distribution of loans reflects excellent dispersion throughout the assessment area.

## **SCOPE OF EXAMINATION**

CRA activities at Salyersville National Bank (SNB) were completed using full-scope review procedures for its AA. Our review covered the bank's performance from January 1, 2006 through June 30, 2008. Real estate mortgage loans were determined to be the bank's primary loan product and were reviewed as part of this examination.

## **DESCRIPTION OF INSTITUTION**

SNB is a \$101 million intrastate community bank, established in 1902. It is wholly owned by Salyersville National Bancorp, Inc. of Salyersville, Kentucky (KY), a one bank holding company. The bank's main office is located in Salyersville, KY, which is in Magoffin County, KY. SNB operates one full-service facility and one branch location in Magoffin County. A loan production office (LPO) in Somerset, KY, in Pulaski County, was opened in February 2008. SNB has not opened or closed any branches since the last CRA examination.

SNB offers a variety of deposit products to meet consumer and commercial banking needs. The bank's Internet website provides detailed information on products and services for both consumers and businesses. Banking services are standard with the addition of on-line banking with bill payment options.

The bank offers normal business hours during the week and also offers Saturday lobby and drive-in hours at its branch location in Salyersville. Customers are provided with 24 hour access to deposits through the bank's ATM network. ATMs are located at the bank's branch in Salyersville and at a stand-alone location in southern Magoffin County.

As of June 30, 2008, SNB reported \$38 million in net loans and \$86 million in total deposits. Net Tier 1 Capital was \$13 million as of that same date. The bank's loan portfolio consisted of 36% residential mortgages, 41% commercial and commercial real estate loans, 6% construction and development loans, and 13% consumer loans.

During the evaluation period, SNB has not undergone any significant changes in its corporate structure. There are no legal or financial impediments to SNB's ability to meet the credit needs of its assessment area. The bank received a "Satisfactory" rating at the last CRA examination dated May 31, 2004.

## DESCRIPTION OF ASSESSMENT AREA(S)

The bank has not undergone significant changes in size and branch network since the last evaluation. The Board's strategic focus has been on expansion into new markets that offer growth potential. As a result, SNB opened an LPO in Somerset, KY in Pulaski County. SNB's assessment area meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income geographies.

SNB has identified all of Magoffin County and all of Pulaski County as its AA. There are a total of 15 census tracts in this AA, four tracts in Magoffin County and 11 tracts in Pulaski County. The following information in **Table 1** describes this area.

| Demographic Characteristics  | #      | Low % of # | Moderate % of #                    | Middle % of # | Upper % of # | NA* % of # |
|--|--------|------------|------------------------------------|---------------|--------------|------------|
| Geographies (Census Tracts/BNAs)   | 15     | 0.00       | 26.67                              | 66.67         | 6.67         | 0.00       |
| Population by Geography  | 69,549 | 0.00       | 17.01                              | 68.59         | 14.39        | 0.00       |
| Owner-Occupied Housing by Geography  | 21,375 | 0.00       | 17.23                              | 69.19         | 13.59        | 0.00       |
| Business by Geography  | 6,608  | 0.00       | 12.76                              | 69.92         | 17.33        | 0.00       |
| Farms by Geography   | 216    | 0.00       | 5.09                               | 87.50         | 7.41         | 0.00       |
| Family Distribution by Income Level  | 20,265 | 23.95      | 17.63                              | 20.75         | 37.68        | 0.00       |
| Distribution of Low and Moderate Income Families throughout AA Geographies | 8,426  | 0.00       | 22.45                              | 68.31         | 9.23         | 0.00       |
| Median Family Income   |        | 32,884     | Median Housing Value               |               | 59,285       |            |
| HUD Adjusted Median Family Income for 2008                                 |        | 39,100     | Unemployment Rate (2000 US Census) |               | 2.61%        |            |
| Households Below Poverty Level   |        | 23%        |                                    |               |              |            |

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2000 US Census and 2008 HUD updated MFI

The bank's AA in Magoffin County is located in KY in the Eastern Coal Field Region. Salyersville, the county seat, is located along the Licking River. The city had a population of 1,604 according to the 2000 census. Salyersville is located 96 miles southeast of Lexington, Kentucky; 179 miles southeast of Cincinnati, Ohio and 223 miles northeast of Knoxville, Tennessee. The county's 309 square miles of land area are devoted primarily to farmland and forests. Competition within Magoffin County consists of another national bank and a savings association with branches operating

within the bank's AA.

According to the 2000 U.S Census, Magoffin County consists of three moderate-income census tracts and one middle-income census tract. The economic conditions in Magoffin County are stagnant with little industry and very limited tourism opportunities. Retail trade is the largest employment sector, followed by health care and social assistance. The coal industry is the one bright spot as coal is in demand. The local economy is historically linked to the coal industry and is still affected by its cyclical nature. According to the Bureau of Labor Statistics, the August 2008 unemployment rate for Magoffin County was the highest in Kentucky at 10.7%.

Presently, educational, health and social service industries provide 32.88% of employment and retail trade provides 25.79% of employment. The five largest employers in the county are Magoffin County Board of Education, Continental Conveyor and Equipment, Magoffin County Mineral Labs, Inc., Salyersville Information Technology Center, and Salyersville Health Care and Rehabilitation Center. However, the largest portion of the population commutes to jobs outside the County due to very limited employment opportunities in the area and a depressed local economy.

The second county in the bank's AA is Pulaski County. SNB opened an LPO in Somerset, the county seat for Pulaski County. The city is located at the eastern end of Kentucky's "Mississippian Plateau"; however, the micropolitan area extends eastward into the "Appalachian Plateau" (or "Eastern Kentucky Coalfields"), and northward to Kentucky's "Outer Bluegrass" region. The micropolitan area, as compared to the incorporated city, is more suburban in flavor and has a significantly younger housing stock, a higher income, and contains most of the area's school age population. Over the last 20 years, significant housing growth has occurred along the Fishing Creek tributary of Lake Cumberland, which lies just to the west of the City of Somerset, and along the main body of Lake Cumberland between the City of Burnside and Fishing Creek.

According to the 2000 U.S Census, Pulaski County consists of one moderate-income census tract, nine middle-income tracts and one upper-income tract. The economic conditions in Pulaski County are stable. According to the Bureau of Labor Statistics, the Pulaski County unemployment rate as of August 2008 was 6.7%, which is just below the statewide unemployment rate of 6.8%. Leading industries are educational, health and social services, followed by retail trade and manufacturing. Tourism is one of most important economic aspects of Somerset, due to its proximity to Lake Cumberland and several other events that are held throughout the year. Lake Cumberland alone generates approximately \$150 million in revenue each year. This location also makes Somerset a major houseboat manufacturing center.

## **COMMUNITY CONTACTS**

We completed two community contacts as part of this Small Bank CRA Examination. The first was a non-profit community action agency serving low-income residents of Floyd, Johnson, Martin, Magoffin, and Pike counties in eastern KY. This organization

provides services and programs to help people meet daily living expenses. The contact stated that area financial institutions are doing what they can to address the needs of the community.

The second contact was a government sponsored initiative group designed to help bring social and economic development activity to the downtown Salyersville area. The contact also helps business owners by helping them to secure grants and by providing technical assistance through small business workshops. The group indicated that the area could benefit from more manufacturing-type jobs to help curtail the high unemployment rate. They also indicated that there was a need for access to credit for small businesses in the community. The contact stated that all area banks are supportive of the community.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

SNB's performance under the Lending Test is "Satisfactory".

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

The bank's average loan-to-deposit ratio is reasonable in light of their capacity to lend, other similarly situated institutions in their AA, demographic and economic facts about the AA, and the lending opportunities available in the bank's AA.

We reviewed the quarterly average loan-to-deposit ratios for the seventeen quarters from June 30, 2004 through June 30, 2008, inclusive. During this period, SNB's loan-to-deposit ratio averaged 43%, which is well below the national peer bank average of 72% during the same period.

### **Lending in Assessment Area**

A majority of mortgage loans originated during the evaluation period were within the AA. SNB meets the standards for satisfactory performance for lending in the AA. An analysis of our initial random sample of 20 mortgage loans disclosed that 80% of the loans were originated within the AA.

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

**Table 2** indicates a reasonable penetration of the number of mortgage loans made to low- and moderate-income families when compared with the percentage of families in each of those income levels.

| Table 2 - Borrower Distribution of Mortgage Loans in Salyersville NB AA |                  |                      |                  |                      |                  |                      |                  |                      |
|---|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| 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 |
| Mortgage loans  | 23.95%           | 0.00%                | 17.63%           | 60%                  | 20.75%           | 0.00%                | 37.68%           | 40%                  |

Source: Loan Samples & 2000 U.S. Census data.

Although our sample did not identify any loans to low-income borrowers, this can be attributed to the high unemployment rate within the AA, particularly in Magoffin County. Additionally, demographic data for the AA indicates that 23% of households within the AA are below the poverty level, making it more difficult for applicants to qualify for a loan. The distribution of mortgage loans to moderate-income borrowers is excellent and significantly exceeds the percentage of moderate-income families in the AA.

**Geographic Distribution of Loans**

The geographic distribution of loans reflects excellent dispersion throughout SNB's AA. We evaluated the lending distribution within the AAs, considering branch locations, competition, market conditions, and demographic information. We did not identify any unexplained conspicuous gaps.

**Table 3** shows the geographic distribution of mortgage loans among geographies of different income levels compared to the percentage of owner-occupied housing in each income census tract. The distribution of loans between geographies in the bank's AA shows excellent dispersion. The AA has no low-income tracts. The distribution of loans to borrowers in moderate-income geographies is excellent and exceeds the percentage of owner-occupied housing in the moderate income tracts.

| Table 3 - Geographic Distribution of Mortgage Loans in Salyersville NB AA |                                |                      |                                |                      |                                |                      |                                |                      |
|---|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| 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 |
| Mortgage loans  | 0.00%                          | 0.00%                | 17.23%                         | 80%                  | 69.19%                         | 20%                  | 13.59%                         | 0.00%                |

Source: Loan samples & 2000 U.S. Census data.

## **Responses to Complaints**

SNB did not receive any complaints about its performance in helping to meet credit needs in the assessment area during this evaluation period.

## **Fair Lending Review**

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