



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 11, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Jackson
Charter Number 9320

1124 Main Street
Jackson, KY 41339

Office of the Comptroller of the Currency

VIRGINIA (ROANOKE)
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 ratio is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs;
- A majority of loans originated are in the bank's AA; and
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.

SCOPE OF EXAMINATION

CRA activities at The First National Bank of Jackson (FNB) were completed using Small Bank full-scope review procedures for its AA. Our review covered the bank's performance from January 1, 2006 through September 30, 2008. Residential mortgage loans were determined to be the bank's primary loan product. In order to assess the bank's lending activity performance, we sampled 20 home loans originated by FNB from January 1, 2006 through September 30, 2008.

DESCRIPTION OF INSTITUTION

Established in 1909, FNB is a \$119 million intrastate community bank. It is wholly owned by The First National Holding Company of Jackson, a single-bank holding company. This holding company has no other operating subsidiaries. The bank's main office is located in Jackson, Kentucky. FNB operates one full-service branch in addition to its main office location. This branch is also located in Jackson, Kentucky.

FNB 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.

The bank offers normal business hours during the week and also offers Saturday lobby hours at its branch office. At the branch office, FNB also provides customers with access to deposits through an ATM. The bank has not opened or closed any branches during the evaluation period.

As of September 30, 2008, FNB reported \$57 million in net loans and \$96 million in total deposits. Net loans represented 47% of average assets. The bank's loan portfolio consists of residential real estate loans (37%), commercial and commercial real estate (46%), consumer loans (15%), agricultural loans (1%), and other loans (1%). Net Tier 1 Capital was \$14 million as of that same date.

According to the June 30, 2008 FDIC/OTS Summary of Deposits Market Share Report, FNB was ranked first out of two institutions in Breathitt County, Kentucky with 52% of deposits. The other competitor in the market was Citizens Bank and Trust Company of Jackson with 48% of deposits.

There are no legal or financial factors impeding the bank's ability to help meet the credit needs in its AA. At the prior CRA examination dated December 16, 2004, FNB was rated "Satisfactory."

DESCRIPTION OF ASSESSMENT AREA

FNB has identified Breathitt County as its AA, located in a non-MSA. This AA meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income geographies.

Breathitt County consists of seven census tracts (CTs). Five CTs are moderate-income geographies (71%) and two CTs are middle-income geographies (29%). The county is considered distressed and underserved by the federal banking agencies. There are no low- or upper-income CTs in the AA. The following information describes the CTs:

Demographic Information for Full Scope Area: Breathitt County AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	7	0.00	71.43	28.57	0.00	0.00
Population by Geography	16,100	0.00	55.91	44.09	0.00	0.00
Owner-Occupied Housing by Geography	4,721	0.00	57.15	42.85	0.00	0.00
Business by Geography	1,091	0.00	51.97	48.03	0.00	0.00
Farms by Geography	16	0.00	62.50	37.50	0.00	0.00
Family Distribution by Income Level	4,552	35.52	18.41	18.01	28.05	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	2,455	0.00	60.77	39.23	0.00	0.00
Median Family Income		32,884	Median Housing Value		35,550	
HUD Adjusted Median Family Income for 2008		39,100	Unemployment Rate (2000		3.41%	
Households Below Poverty Level		34%	US Census)			

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

Breathitt County is a rural area located in the foothills of the Appalachian Mountains in the Eastern Coal Field area of Kentucky, covering 495 square miles. The county seat is Jackson.

According to the Bureau of Labor Statistics, the November 2008 unemployment rate for Breathitt County was 7.1%. This rate is lower than the state unemployment rate of 7.5%. Thirty-four percent of households in the county are below the poverty level. The

top five employers in the county were Kentucky River Medical Center, Breathitt Board of Education, the state government, Jackson Board of Education, and International Coal Group.

A community contact was made with a quasi-governmental regional planning agency in the area. This agency focuses on economic development and job creation in the eastern Kentucky region. They identified several needs for the area including small business development, affordable healthcare, affordable housing (particularly for low-income families and seniors) and infrastructure improvements (especially municipal sewer systems). They noted that community development opportunities are somewhat limited. Generally, it was also noted that area banks have been supportive of the communities, including providing technical support for the agency's revolving loan fund.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB's performance is "Satisfactory". The evaluation period covered lending activity for residential mortgage loans from January 1, 2006 through September 30, 2008, inclusive. Our analysis of the bank's performance for the respective evaluation factors is described below.

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. This meets the standard for satisfactory performance. We reviewed the quarterly average loan-to-deposit ratios for the fifteen quarters since the bank's last CRA examination (from March 30, 2005 through September 30, 2008, inclusive). During this period, FNB's loan-to-deposit ratio averaged 47%, which is below the peer bank average of 81% during the same period. However, the loan-to-deposit ratio trend has been increasing and was 59% in the most recent quarter in the sample. Additionally, within the bank's AA, 34% of the households are below the poverty level.

Lending in Assessment Area

A majority of FNB's primary loan products were originated within the bank's AA, meeting the standard for satisfactory performance. During the evaluation period, 72% of the total residential mortgage loans initially sampled were within the bank's AA.

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

FNB's record of lending to borrowers of different incomes meets the standards for satisfactory performance. In the sample, borrower distribution reflects poor penetration for residential mortgage loans to low-income families in the AA. The bank's percentage of loans to low-income borrowers is significantly less than the percentage of low-income families in the AA.

The weighted average of median housing in 2008 was \$35,550. The updated weighted

average of the HUD median family income for the AA was \$39,100, resulting in an income of less than \$19,550 for a family classified as low-income. Based on these statistics, it would be difficult for a low-income individual to purchase housing in the AA, especially considering the number of households below the poverty level. Additionally, the county is considered distressed and underserved, as noted above.

However, borrower distribution reflects excellent penetration for sampled residential mortgage loans to moderate-income families in the AA. The percentage of bank loans originated to moderate-income families in the AA significantly exceeded the percentage of moderate-income families in the AA. Please refer to Table 1 below.

Table 1 - Borrower Distribution of Residential Real Estate Loans in Breathitt County 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
Home Loans	35.52	5.00	18.41	25.00	18.02	25.00	28.05	45.00

Source: 2000 U.S. Census and FNB Loan Sample

Geographic Distribution of Loans

FNB's record of lending to borrowers in different geographies meets the standards for satisfactory performance. In the loan sample, the geographic distribution of loans reflects reasonable dispersion in the AA. Of the seven CTs located in the AA, there are no low-income tracts and five moderate-income tracts. Within the moderate-income tracts, 57% of houses are owner-occupied. The bank's percentage of originated loans in the sample was lower, at 33%.

However, as the county is designated as distressed and underserved for the evaluation period, the bank received consideration for lending in the middle-income geographies. Within these middle-income tracts, 43% of houses are owner-occupied. The bank exceeded this ratio with 67%. Please refer to Table 2 below.

Table 2 - Geographic Distribution of Residential Real Estate Loans in Breathitt County 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
Home Loans	0.00	0.00	57.15	33.33	42.85	66.67	0.00	0.00

Source: 2000 U.S. Census and FNB Loan Sample

Responses to Complaints

FNB did not receive any complaints about its performance in helping to meet credit needs in the AA 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.