



PUBLIC DISCLOSURE

January 27, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Peterstown
Charter Number 9721

220 Market Street
Peterstown, West Virginia 24963

Office of the Comptroller of the Currency

4419 Pheasant Ridge Road
Suite 300
Roanoke, Virginia 24014

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.

We assigned the Community Reinvestment Act (CRA) rating based on the following information:

- The bank's loan-to-deposit ratio is reasonable;
- A substantial majority of the bank's loans were originated within its assessment area; and,
- The distribution of loans, given the demographics of the assessment area, reflects reasonable penetration among borrowers of different income levels.

SCOPE OF EXAMINATION

This Performance Evaluation assesses the bank's performance under the Lending Test for the period January 1, 2009 through December 31, 2011. We selected residential mortgage loans as the primary product based on total loans originated during the evaluation period and discussions with bank management. Our analysis was based on a sample of twenty-three home mortgage loans originated during the evaluation period. The sample was selected based on judgmental sampling guidelines.

The Lending Test analysis is based on the bank's performance during the evaluation period using comparative demographic data from the 2000 U.S. Census.

DESCRIPTION OF INSTITUTION

The First National Bank of Peterstown (FNB) formed in 1910, and is a wholly owned subsidiary of Peterstown Bancorp, a one-bank holding company. FNB's sole office is located in Peterstown, West Virginia. FNB operates one Automated Teller Machine, which is located adjacent to their office. No branches have been opened or closed since the last examination.

FNB's primary lending product is residential mortgage loans. We chose the primary loan type based on outstanding balances, information gathered from previous regulatory activity, and discussions with management about loan originations. As of September 30, 2013, FNB's total assets were \$65.3 million, with a loan portfolio of approximately \$27 million, representing 42 percent of total assets. The composition of the bank's loan portfolio is outlined below.

Product Category	Gross Loans as of September 30, 2013*	
	Dollar (\$000's)	Percent
Residential Mortgage Loans	18,346	65.79%
Commercial & Industrial Including Commercial Real Estate	4,719	16.92%
Individuals	2,702	9.69%
Construction & Land Development	1,641	5.89%
All Other	476	1.71%
Total	27,884	100%

*Data obtained from "Consolidated Reports of Condition and Income for A Bank with Domestic Offices Only - FFIEC 041"

The bank offers a variety of traditional deposit and loan products to consumers. Commercial lending is primarily to small businesses. There are no financial, legal constraints, or other conditions that would hinder the bank's ability to help meet the credit needs of its assessment area.

According to the June 30, 2013 FDIC Summary of Deposits Market Share Report, FNB ranked second out of three financial institutions in the Monroe County non-MSA assessment area, with 41.86 percent of deposits. The Bank of Monroe¹ ranked first, with one office in the assessment area and 47.3 percent of the deposits. First Community Bank² ranked third, with one office in the assessment area and 10.84 percent of the deposits.

FNB received a satisfactory CRA rating at its last CRA Performance Evaluation dated March 24, 2008.

DESCRIPTION OF ASSESSMENT AREA(S)

FNB's assessment area (AA) is comprised of middle-income Census Tracts 9502 and 9503 located in Monroe County, West Virginia. Monroe County is located in the southeastern portion of the state, approximately 110 miles south of Charleston, and 33 miles west of Blacksburg, Virginia. Census Tract 9503 includes Peterstown, and the southernmost part of the county. Census Tract 9502 includes Union, the county seat, and the middle section of Monroe County. Middle-income Census Tract 9501 encompasses the northern part of Monroe County. Census Tract 9501 is not included in the assessment area due to its distance from Peterstown, approximately 45 minutes, and the natural boundary created by Peters Mountain. The three Census Tracts are identified as middle-income nonmetropolitan underserved census tracts due to the remote rural geography. There are no low, moderate or upper-income tracts within the assessment area. The assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude any low- or moderate-income areas.

¹ Bank of Monroe is a \$125 million bank with two offices located in or adjacent to Monroe county in Union WV and Lewisburg WV

² First Community is a \$2.6 billion bank, with 67 offices located in West Virginia, Virginia, Tennessee and North & South Carolina

The county has one major natural division that affects the banking and marketing of lending products, resulting in two distinct sections of the county. Peters Mountain divides the county between Census Tracts 9502 and 9501. It effectively divides the county into the southern two thirds and northern third. A large majority of the population (85%) resides in the southern section of the county, which includes Union, Peterstown, Lindside, Red Sulpher Springs and Ballard. The northern section of the county is significantly more rural, includes Peters Mountain and Moncove Lake State Park and contains only 15 percent of the county’s population. Financial institutions in the northern third portion of the county and the neighboring Greenbrier County also serve the less populated northern section of the county.

According to the U.S. Department of Housing and Urban Development (HUD), the updated 2011 median family income was \$44,800. The percentage of households below poverty level is 16.83 percent. Of these households, 39 percent receive social security income, while another three percent receive other types of public assistance. Housing types are typical for rural West Virginia, with 67 percent of the housing units being owner-occupied. The demographic characteristics of FNB’s assessment area are shown below.

2000 U. S. Census Demographic Information for Monroe County WV non-MSA AA* (Census Tracts 9503 & 9502)						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Geographies (Census Tracts/BNAs)	3	0%	0%	100%	0%	0%
Population by Geography	5,465	0%	0%	100%	0%	0%
Owner-Occupied Housing by Geography	3,525	0%	0%	100%	0%	0%
Business by Geography	541	0%	0%	100%	0%	0%
Farms by Geography	44	0%	0%	100%	0%	0%
Family Distribution by Income Level	3,008	18.38%	20.18%	19.68%	41.76%	0%
Distribution of Low and Moderate Income Families throughout AA Geographies	1,160	0%	0%	100%	0%	0%
Median Family Income		\$32,500	Median Housing Value		\$63,347	
2011 HUD Adjusted Median Family Income		\$44,800	Unemployment Rate **		4.00%	
Households Below Poverty Level		16.83%				

*Data Source: 2000 U.S. Census **Bureau of Labor Statistics – November 2013

The assessment area has experienced modest growth. The local economy continues to be comprised mainly of small service-oriented businesses. Monroe County unemployment rates compare favorably to the state and national levels. As of November 30, 2013, the unemployment rate for Monroe County was 4.0 percent, with the State of West Virginia at 6.2 percent, and the national unemployment rate at 7 percent. The unemployment rate is seasonal and tends to fluctuate throughout the year. The unemployment rate for Monroe County in 2013 ranged from a high of 7.5 percent in January to a low of 4.0 percent in November, with an average of 5.32 percent.

The area's top industries, by distribution of employees, are service, non-classifiable establishments and retail trade. Mining and manufacturing play a far less important role to the local economy. The leading employers in the county are the Monroe County School Board, B.F. Goodrich Union, and the U.S. Department of Defense. Competition in the assessment area is moderate and consists of only three branches of FDIC-insured institutions of varying sizes. Only one bank, The Bank of Monroe, is similarly-situated in size and local ownership. The other facility is a branch of a larger institution headquartered in Bluefield, Virginia.

COMMUNITY CONTACT

We conducted a community contact with HospiceCare of the Greenbrier Valley. The community contact stated that local financial institutions are meeting the credit needs of the community and local businesses. The contact stated that FNB does an excellent job in serving the community through monetary donations to community events, and by allowing certain civic organizations to use bank premises for fundraising activities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance under the lending test is rated "Satisfactory". The evaluation period covered lending activity for home mortgage loan originations (purchase money, refinance, and home improvement loans) from January 1, 2009 through December 31, 2011.

LOAN-TO-DEPOSIT RATIO

FNB's loan-to-deposit (LTD) ratio is reasonable considering the community's credit needs, demand for credit, and the moderate level of competition in the assessment area. An analysis of FNB's loan-to-deposit ratios from the third quarter of 2008 through the third quarter of 2013 reveals that the bank meets the standards for satisfactory performance. The bank's average quarterly LTD ratio for these 22 quarters was 62.4 percent. The bank's quarterly LTD ratios ranged from a quarterly low of 46.7 percent at September 30, 2013 to a quarterly high of 75.3 percent at September 30, 2008. The bank's peer group average quarterly loan-to-deposit ratio for this same time period is 64.77 percent.

The reason for the downward trend in the loan-to-deposit ratio is growth in deposits while the volume of loans has declined. Over the past four years, deposits increased 20 percent while loan volume decreased 11 percent. Demand deposit growth has driven the increase in deposits.

FNB ranked third out of the three institutions in the AA as illustrated in the table below. However, FNB's ratio is only slightly behind its main competitor in its assessment area. The Bank of Monroe operates in the same assessment area, offers similar products, and is considered a small bank under CRA guidelines. This bank has a loan-to-deposit

ratio of 59.98 percent as of September 30, 2013, and an average quarterly loan-to-deposit ratio of 65.9 percent for the evaluation period.

Institution Name	Average Loan to Deposit Ratio, Twenty-Two Quarters beginning June 30, 2008
FNB Peterstown	62.42%
The Bank of Monroe	65.86%
First Century Bank ³	72.45%

LENDING IN ASSESSMENT AREA

A substantial majority of the home mortgage loans originated during the evaluation period were inside the assessment area. FNB meets the standards for excellent performance for lending in the assessment area. In order to determine this, we analyzed a sample of FNB's loans originated during the evaluation period. The loan sample consisted of 20 residential real estate mortgage loans (REM) originated January 1, 2009 through December 31, 2011. This sample is representative of the bank's lending philosophy and overall lending performance. There were no conspicuous gaps in the bank's lending patterns.

The following table shows the distribution of home mortgage loans inside and outside of the bank's assessment area.

Home Loan Mortgages originated during Evaluation Period				
Loan Type	Inside Assessment Area		Outside Assessment Area	
	# of loans	\$(000)	# of loans	\$(000)
Home Purchase	3	475	1	60
Home Refinance	14	1,004	2	149
Total Loans	17	1,479	3	209
Total	85%	87.64%	15%	12.36%

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The distribution of loans, given the demographics of the assessment area, reflects reasonable penetration among borrowers of different income levels. The analysis of lending to borrowers of different income levels was completed using a sample of twenty loans originated January 1, 2009 through December 31, 2011

³ First Century Bank is a \$415 million 10 branch bank, with locations in SW Virginia and southern West Virginia, with two locations in nearby Princeton, WV. First Century offers similar loan and deposit products, but also offers Fiduciary (Trust) services.

Our sample included zero loans to low-income borrowers and three loans to moderate-income borrowers. The distribution of real estate mortgage loans to low- and moderate-income borrowers is below the percent of low- and moderate-income families in the assessment area.

Based on the 2000 Census Data, the level of home mortgage loans originated to low-income borrowers in the assessment area is less than the percentage of low-income families for the assessment area. The level of home mortgages to moderate-income borrowers; however, is close to the percentage of moderate-income families for the assessment area. When considering the affordability of housing in the assessment area; however, this performance is adequate. The median cost of housing in the assessment area is \$63,347 based on 2000 U.S. Census data. The HUD updated median family income for 2011 is \$44,800. This means that a low-income person earns less than \$22,399 in the assessment area. Based on these statistics, it would be difficult for a low-income individual to qualify financially to purchase housing in the assessment area.

The following table illustrates the distribution of lending to borrowers of different income levels compared to the percentage of families in each income level based on the 2000 Census data.

Borrower Distribution of Sampled Real Estate Mortgage Loans in Monroe County for the evaluation period					
Income Level**	# of loans	% of loans	\$ (000) of loans	% of \$ of loans	% Income Level of Families in AA
Low	0	0%	0	0	18%
Moderate	3	15%	188	10%	20%
Middle	5	25%	383	20%	20%
Upper	12	60%	1,349	70%	42%
Total	20	100%	1,920	100%	100%

**Data Source: 2000 U.S. Census

GEOGRAPHIC DISTRIBUTION OF LOANS

There are no low- or moderate-income geographies in the bank’s assessment area. Therefore, an analysis of the geographic distribution of loans would not be meaningful.

Responses to Complaints

There were no complaints regarding the bank’s CRA performance during the evaluation period. This has a neutral impact on the overall CRA rating.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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