



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 30, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Manchester
Charter No. 7605**

**120 Town Square
Manchester, Kentucky 40962**

**Office of the Comptroller of the Currency
One Financial Place Suite 2700
440 South LaSalle
Chicago, Illinois 60605**

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 **The First National Bank of Manchester** prepared by **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of January 30, 1997. 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: **Outstanding**.

- Management has an exceptional record of lending to borrowers within the assessment area. More than **93%** of the number of loans originated in 1996 were within the assessment area.
- The bank's lending performance reflects an excellent distribution of loans to borrowers of different income levels within the assessment area. Nearly **one-half** of the loans originated during the past year were to low- or moderate-income families.
- The geographic distribution of loan originations exhibits excellent dispersion of loans throughout the assessment area. The bank has extended loans in **all Block Numbering Areas (BNA's)** of the assessment area.
- Management has a strong record of supporting community development. The bank currently has more than **\$900,000** in community development loans and commitments outstanding.
- The bank's assessment area is reasonable and does not exclude any low- or moderate-income areas.

The following table indicates the performance level of The First National Bank of Manchester with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>The First National Bank of Manchester</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes	X		
Geographic Distribution of Loans	X		
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

The First National Bank of Manchester (FNB) is a \$110 million community bank located in Clay County, Kentucky. The bank is wholly owned by the First National Financial Corporation of Manchester, Kentucky, a one bank holding company with total assets of \$111 million. FNB's main office is located in downtown Manchester. Management also operates three full-service branches and two loan production offices. The main office and all three branches are located in moderate-income areas of Clay County. Each branch location and the main office have drive-up facilities and are open six days a week. The bank maintains Automated Teller Machines (ATM's) at two of the branch locations. FNB also operates two loan production offices, one in Laurel County and the other in Jackson County.

Management's lending efforts are largely centered in consumer lending, as these loans comprise 30% of the entire loan portfolio. One-to-four family residential real estate loans equal 22%, with commercial and commercial real estate loans totaling 20% and 21%, respectively. As a percentage of the bank's total assets, loans represent 52%. There are no constraints on the bank's ability to meet local credit needs.

First National Bank of Manchester offers a wide variety of consumer and commercial loan products. Management also participates in many government-sponsored loan programs such as the Farmers Home Administration (FmHA), Small Business Administration (SBA), Federal Home Loan Bank (FHLB), and Kentucky Mortgage Corporation (KMC).

The First National Bank of Manchester's prior Community Reinvestment Act (CRA) rating dated February 10, 1995 was also "outstanding".

DESCRIPTION OF CLAY AND LAUREL COUNTIES

Management has designated Clay and Laurel counties as the bank's assessment area. This assessment area meets the requirements of the regulation and does not arbitrarily exclude low or moderate income geographies.

Clay County is located in the southern portion of Kentucky's Eastern Coal Fields Region. The county lies almost entirely within the Daniel Boone National Forest. The population of Clay County is approximately 22,000 persons. The county is located in a non-metropolitan statistical area and consists of six Block Numbering Areas (BNA's): 9501 through 9506. One BNA is low-income and five are moderate-income. There are no middle- or upper-income BNA's in Clay County. Low-income families comprise a large portion, 40%, or 2,403 of the 6,081 families in the county. The 1990 U.S. Census median family income for a non-MSA in Kentucky is \$26,400. However, the median family income for the Clay County is \$14,395. Approximately 38% of the county residents live below the poverty level. Recent unemployment figures reflect the county unemployment rate of 7.3% is above both state and national averages. Local businesses are tied mainly to the coal industry, with the County Board of Education also employing a significant portion of the population. Competition from

financial intermediaries in the county is presented by a regional bank branch and four finance companies.

Laurel County, a non-metropolitan statistical area, is adjacent to Clay County and has a population of approximately 45,000 persons. The county consists of eleven BNA's: 9701 through 9711. Of the eleven BNA's, ten are considered middle-income and one is upper-income. There are no low- or moderate-income BNA's in Laurel County. The 1990 U.S. Census median family income for the county is \$21,051, or 80% of the state median income. Upper-income families comprise a significant portion of the 12,603 families in the county. Approximately 37%, or 4,713 families, are considered upper-income, with low-and moderate-income families constituting 26% and 17%, respectively. Three national banks and one state-chartered bank, all located in London, provide strong competition in the area.

The combined assessment area of Clay and Laurel Counties consists of 17 BNA's: one low-income, five moderate-income, ten middle-income, and one upper-income.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan to Deposit

The bank's average loan to deposit ratio since the prior CRA examination is 61%. This ratio is considered reasonable given the local economic conditions, and covers the periods from March 1995 to September 1996. Because the only other bank in Clay County is a regional bank branch, a similarly situated bank in neighboring Laurel County was used as a comparison. The Laurel County bank's loan to deposit ratio of 65% is only slightly above FNB's ratio.

Lending in the Assessment Area

A substantial majority of the bank's loans are located within the assessment area. Management began encoding the location of all new loans using BNA information in January of 1996. They have also obtained income data on many of the loans originated since that time. Our review of this information reflects more than 93% of the number of all loans originated during 1996 are located in Clay and Laurel Counties. Based on a sample of 67 residential real estate mortgages originated during 1996, 87% of the dollar amount of these loans were also located within the assessment area.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Income information management collected reflects a demonstrated willingness to lend to borrowers of all different incomes. Based on census data, low- and moderate-income families comprise 48% of the total number of families in the assessment area. The bank's loan distribution is very reflective of the income characteristics of Clay and Laurel Counties.

This is evidenced by the large percentage of loans (47% by number) FNB M has originated to low- and moderate-income borrowers during 1996. Table 1 demonstrates how management's lending efforts to borrowers of different incomes parallel the income characteristics of the assessment area:

Table 1

Income Category	Number Originated	Percent Originated	% Families in AA
Low	252	27%	30%
Moderate	192	20%	18%
Middle	156	16%	19%
Upper	346	37%	33%

In order to further assist low- and moderate-income borrowers, the bank regularly makes small dollar consumer loans. During the past year, management originated more than 300 loans less than \$1,500. This represents nearly one-third of the total number of loans the bank made during 1996.

While management does not regularly collect information on business revenue, they do monitor small loans to businesses and farmers. Nearly all of these types of loans originated in 1996 were less than \$500,000. Generally, loan size is a good representation of business size. Using this assumption in Table 2 below, the bank's willingness to originate loans to small businesses and farmers is evident:

Table 2

Loan Amount	# of Loans	Percentage	\$ of Loans	Percentage
\$0 - \$100,000	142	94%	\$1,941,881	46%
\$100,001 - \$250,000	6	4%	\$1,081,963	26%
\$250,001 - \$500,000	3	2%	\$1,218,034	28%

The U.S. Small Business Administration recently recognized FNB M as one of the leading banks in the state regarding lending to small businesses.

Geographic Distribution of Loans

The geographic distribution of all loans originated during 1996 reflects the bank actively lends throughout the assessment area. Based on internal reports, management has originated loans in all 17 of the BNA's which comprise the assessment area. As shown by Table 3 below, 84% of the number of all loans originated in 1996 were to low- or moderate-income BNA's. (The reports did not include original or outstanding loan amounts.)

Table 3

BSA Designation	Number of Loans	Percentage
Low	32	3%
Moderate	763	81%
Middle	147	16%
Upper	4	< 1%

Response to Complaints

Neither the bank nor this office has received any complaints regarding FNB's lending practices.

Fair Lending

We did not identify any violations of the substantive provisions of the anti-discrimination laws and regulations.

Additional Information to Support Rating

The First National Bank of Manchester is a strong supporter of community development. To help attract a plywood factory to the area, the bank originated a \$35,000 loan at a reduced rate to the Clay/Leslie County Industrial Development Board. The development board used the money to purchase an industrial site for the factory. This facility will create approximately 250 new jobs in the Clay and Leslie County areas. Management also extended loans totaling \$441,000 to the Clay County Industrial Development Authority for the purpose of purchasing additional industrial sites. These loans were also granted at a reduced rate. A textile firm has already located to one of the sites, bringing more than 150 jobs to the county. As a result of

the businesses locating to low- and moderate-income geographies, the previously mentioned projects qualify as community development loans by helping to promote economic revitalization in the area.

Because some residents of Manchester are still using well water, FNB M provided more than \$50,000 in low interest rate loans to help low-income families purchase meters and hook into the city water line. FNB M has also been active in helping low-income borrowers with housing and educational needs. The bank recently established a \$50,000 line of credit to Kentucky Mountain Housing for the home repair of low-income families. Management also has outstanding loans totaling \$322,000 to the Kentucky Community Economic Opportunity Council. The proceeds of these loans were used to construct preschools under the “Head Start” program, which targets the children of low-income families.