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Comptroller of the Currency  
Administrator of National Banks

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## PUBLIC DISCLOSURE

August 12, 1996

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Kentucky National Bank  
Charter Number 22895

1334 Hambley Boulevard

Office of the Comptroller of the Currency

Ohio Valley Field Office  
440 South LaSalle Street, Suite 2700  
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 Kentucky National Bank prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of August 12, 1996. 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 “Satisfactory Record of Meeting Community Credit Needs”.

The primary factors supporting this rating include:

- A substantial majority of the loans made since the bank opened in January 1996 are within the assessment area.
- The distribution of lending within the assessment area is reasonable.
- The bank's record of lending to borrowers of different income levels, including low- and moderate-income individuals, is reasonable.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>KENTUCKY NATIONAL BANK</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 bank opened in January 1996.		

These performance levels are based upon loan information obtained from the bank for the period of January 2, 1996 through August 21, 1996.

## DESCRIPTION OF INSTITUTION

Kentucky National Bank (KNB) is a community bank located in Pikeville, Kentucky which opened for business in January 1996. The bank is rapidly growing and currently has total assets of approximately \$21 million. Because the bank is fairly new, loans make up only 36% of total assets, but this percentage is increasing. The bank offers traditional banking products, focusing primarily on consumer credit needs. About 51% of the bank's loan portfolio consists of one-to-four family residential and home equity loans with an additional 25% in consumer installment credits.

KNB is independently owned and currently has one office in downtown Pikeville. The bank operates one ATM and four drive-through service facilities at this location. KNB offers extended banking hours from 8:00 a.m. to 6:00 p.m. on weekdays and 8:00 a.m. to noon on Saturdays.

This is KNB's first CRA examination. Notwithstanding the bank's current negative earnings performance associated with the start-up of the bank, there are no other financial constraints impeding the bank's ability to help meet the needs of the assessment area.

## DESCRIPTION OF PIKE COUNTY

Management has defined the bank's assessment area as Pike County which is located in the central Appalachian Mountains. The bank's only office is located in Pikeville which is the county seat. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low or moderate income geographies. Pike County is considered a non-metropolitan statistical area (non-MSA) and no geographies have been excluded.

The population of Pike County was estimated to be 73,710 in 1995 according to the Kentucky State Data Center. The Kentucky non-MSA median family income for 1996 is \$26,400. The county is comprised of 19 block numbering areas (BNAs). Three BNAs are designated moderate-income, fifteen are middle-income, and one is upper-income. There are no low-income BNAs. The moderate-income BNAs consist of 4,005 or 15% of the households, the middle-income BNAs consist of 20,305 or 77% of the households, and the upper-income BNA consists of 1,899 or 7% of the households. The bank's office is located in a middle-income BNA.

The local economy is dependent upon the coal mining industry. Pike County is the largest coal-producing county in the United States. The employment base is otherwise diverse with a mix of retail, service, and government jobs. As of June 1996, the unemployment rate for Pike County was 9% which is above the national average.

Several large and well-established financial institutions in Pike County provide competition. These include Pikeville National Bank & Trust Company, Matewan Banks, Trans Financial Bank, and Family Federal Savings Bank.

The primary need in the assessment area is affordable housing. KNB helps meet the need with a variety of different credit products.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

KNB has only been open for business two full quarters. Their average loan-to-deposit ratio for these two quarters is 43% and trending upward. The loan-to-deposit ratios for the bank's major competitors range from 69% to 94%; however, these financial institutions are not similarly situated because of their size and years in operation. For example, the total asset sizes of these banks range from \$212 million to \$703 million and they have been in operation for many years, making a comparison difficult.

### Lending in the Assessment Area

Management originates a substantial majority of the bank's loans within the assessment area. We performed an analysis of a sample of 72 real estate and installment loans made within the last three months. The analysis indicated that 92% of the number and 94% of the dollar amount of these loans were within the assessment area.

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

We analyzed a sample of installment loans made between May and August 1996 to determine KNB's level of lending to borrowers of different incomes within the assessment area. Based on Census information, there are no low-income BNAs and only three moderate-income BNAs in Pike County. The analysis reflects that loan distribution approximates the income characteristics of the assessment area.

Income	# of Loans	Percent	\$ of Loans	Percent
Low	4	10%	\$20,783	4%
Moderate	5	12%	\$37,595	8%
Middle	13	31%	\$169,013	34%
Upper	20	47%	\$266,413	54%

The bank generated a ZIP code report of all the bank's commercial loans with outstanding balances. All of the 55 commercial loans that KNB originated in 1996 are under \$500,000. Loan size was used as a proxy for business size. The bank originated 52 small business loans within the assessment area totalling \$3,238,171. This represents 95% of the number and 98% of the dollar volume of commercial loans.

Business Size	# of Loans	Percent	\$ of Loans	Percent
\$0 - \$100,000	40	77%	\$1,211,900	37%
\$100,001 - \$250,000	11	21%	\$1,626,246	50%
\$250,001 - \$500,000	1	2%	\$400,025	13%

### Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable penetration throughout the assessment area. This is based on a sample of installment and real estate mortgage loans made between May and August 1996. We used the ZIP codes from the loan applications to approximate the corresponding BNAs. Our analysis reflects that KNB is making loans in most of the county's 19 BNAs. There are no designated low-income BNAs. The table below shows moderate-income geographies are not excluded.

Designation	# of Loans	Percent	\$ of Loans	Percent
Moderate	11	25.58%	\$222,657	10.89%
Middle	24	55.81%	\$1,822,215	62.19%
Upper	08	18.60%	\$550,410	26.92%

### Response to Complaints

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

### Fair Lending

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

