



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

PUBLIC DISCLOSURE

August 10, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Union National Bank & Trust
Charter No. 13906
220 North Main Street
Barbourville, Kentucky 40906-0220**

Office of the Comptroller of the Currency

**9200 Shelbyville Road, Suite 505
Louisville, Kentucky 40222**

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 **Union National Bank & Trust Company** prepared by **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of August 10, 1998. 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. This rating is based on the following:

- o The bank's average loan-to-deposit ratio reflects a good level of lending activity.
- o A substantial majority of the bank's loans are originated within the assessment area.
- o The geographic distribution of loans made in the assessment area is reasonable.
- o Management's record of lending to borrowers of different income levels, in particular low- and moderate-income families and small businesses, is reasonable.

DESCRIPTION OF INSTITUTION

Union National Bank & Trust Company (UNB&T) is a community bank with total assets of approximately \$144 million as of June 30, 1998. UNB&T is the oldest and largest financial institution in Barbourville, Kentucky, the county seat of Knox County. UNB&T has five offices and three automated teller machines (ATMs). Four of the offices are located in moderate-income block numbering areas (BNAs). The fifth office, which opened in 1994 in Corbin, Kentucky, is located in a middle-income BNA. UNB&T offers reasonable hours of service.

The bank is owned by Union National Bancorp, Inc. There are no constraints on the bank's ability to help meet the local credit needs. Management focuses its lending efforts on residential mortgage, small business and consumer lending. As of June 30, 1998, the bank's loan portfolio was comprised of the following types of loans:

38%	Residential Mortgage Loans
37%	Commercial and Commercial Real Estate Loans
25%	Loans to Individuals

DESCRIPTION OF ASSESSMENT AREA

As part of the CRA performance evaluation, UNB&T's lending patterns were compared to the geographic distribution and income distribution of families in the assessment area. The following demographic information on UNB&T's assessment area (AA) is presented to support that analysis. The AA for UNB&T primarily consists of all of Knox County which includes the cities of Barbourville, Kentucky and portions of Corbin, Kentucky. Corbin, Kentucky is also located in sections of Whitley and Laurel Counties. The assessment area also includes the cities of London, Kentucky located in Laurel County and Williamsburg, Kentucky located in Whitley County. The table below illustrates the composition of the AA.

*Income Level	% of Total BNAs	County	Block Numbering Area
Low-income	5%	Knox	9901
Moderate-income	37%	Knox	9902, 9903, 9905, 9906, 9907, 9908
		Whitley	9805
Middle-income	47%	Knox	9904
		Laurel	9705, 9706, 9707, 9708, 9709, 9710
		Whitley	9801, 9803
Upper-income	11%	Laurel	9704
		Whitley	9802

* per 1990 U. S. Census

To enable us to compare the extent of UNB&T's lending to borrower's of different income levels as compared to the demographics of the area, we used Knox County rather than the entire AA. For analysis purposes, we used Knox County because 93% of the number of loans originated during the second quarter were in Knox County. The income levels of Knox County families are shown in the table below.

*Knox County Family Income Demographics	
Income Level	% of Families
Low-income	39%
Moderate-income	18%
Middle-income	17%
Upper-income	26%

* per 1990 U. S. Census

Also, to evaluate the extent of UNB&T's lending to borrower's of different income levels, we classified borrower incomes into four income categories as specified by CRA. The table below shows the income ranges for each category of borrower.

Low-income	Under 50% of median family income	\$0 to \$14,900
Moderate-income	50% to 80% of median family income	\$14,901 to \$23,840
Middle-income	80% to 120% of median family income	\$23,841 to \$34,800
Upper-income	120% of median family income and over	\$34,801 and over

* Based on the 1998 estimated median family income for Kentucky non-MSA areas of \$29,800.

The major industries of the AA are small manufacturing, timber, and associated timber industries. Barbourville, Kentucky is also the home of Union College which has an enrollment of approximately 1,000 students. Unemployment in the area is comparable to state and national averages.

Competition in the AA is strong, especially around the Corbin, London, and Williamsburg, Kentucky areas.

UNB&T helps meet the credit needs of the AA by offering and originating mostly residential mortgage, small business, and small consumer loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

UNB&T's average quarterly loan-to-deposit ratio since our last CRA examination through June 30, 1998 was **86%**. This performance is comparable to similarly situated banks whose loan-to-deposit ratios range from 70% to 90%. Also, UNB&T originated approximately \$2.4 million in secondary market residential real estate loans during the first six months of 1998.

Lending in the Assessment Area

For analysis purposes, we examined UNB&T's loan origination activity for the second quarter of 1998. This quarter is reflective of UNB&T's overall lending performance since the last CRA examination. UNB&T originates a substantial majority of its loans inside its AA. The table below shows the percentages of loans originated in the AA during the second quarter of 1998.

Loans Originated in the Assessment Area (AA)		
	Number of loans	Loan Amount (000s)
Total Loan Originations	779	\$9,827
Consumer and Residential Loans	651	\$6,359
Small Farm and Business Loans	128	\$3,468
Total Loans in the AA	738	\$9,264
Percent of Loans in the AA	95%	94%

Geographic Distribution of Loans

UNB&T's dispersion of lending inside the AA is reasonable. For this analysis, we evaluated the distribution of the consumer and residential real estate loans originated in the AA during the second quarter of 1998 as reflected in the table below.

Loan Distribution by Block Numbering Areas							
AA Description				Loan Origination Distribution			
				% of Number		% of Dollar	
County	BNAs	* Income Level of BNAs	% of Total BNAs	by BNA	by BNA Income Level	by BNA	by BNA Income Level
Knox	990100	Low-income	5%	6%	6%	3%	3%
Knox	990200	Moderate-income	37%	17%	85%	12%	75%
Knox	990300			7%		8%	
Knox	990500			19%		16%	
Knox	990600			45%		51%	
Knox	990700			<1%		<1%	
Knox	990800			3%		2%	
Whitley	980500			1%		2%	
Knox	990400			Middle-income		47%	
Whitley	980100	<1%	<1%				
Whitley	980300	2%	2%				
Laurel	970500	<1%	<1%				
Laurel	970600	<1%	<1%				
Laurel	970700	<1%	<1%				
Laurel	970800	<1%	<1%				
Laurel	970900	1%	2%				
Laurel	971000	2%	4%				
Whitley	980200	Upper-income	11%	1%	1%	5%	6%
Laurel	970400			<1%		<1%	

* per 1990 U. S. Census

Approximately 91% of the number of loans originated in the second quarter of 1998 were in low- and moderate-income (LMI) areas as compared to 42% of the BNAs within the AA being designated as LMI areas. This high percentage of loans originated in LMI areas is due to 88% of the LMI areas being located in Knox County which includes Barbourville, Kentucky which is where UNB&T's main office is located. Since 88% of the BNAs in Knox County are designated as LMI areas, the high percentage of loans originated in LMI areas is considered reasonable.

The low levels of loan originations in the BNAs shown in the previous table are reasonably attributed to the following and do not exclude LMI areas:

- o Strong competition in the Whitley and Laurel County BNAs which comprise Corbin, Kentucky.
- o Long distance from the UNB&T offices which are all located near Barbourville, Kentucky except for the Corbin, Kentucky branch.
- o Sparse population of the Knox County moderate-income BNA #990700.
- o Majority of Knox County resides in BNAs #990200, 990500, and 990600 which is where the city of Barbourville, Kentucky is located.

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

UNB&T has a favorable record of lending to borrowers of different incomes and to businesses and farms of different sizes. We analyzed the bank's performance by comparing loan originations to the family income levels in Knox County since 93% of the loans were originated in Knox County.

UNB&T is actively lending to LMI families. Of the consumer and residential loans originated in the second quarter of 1998, 54% of the number and 20% of the dollar volume were to LMI families. This compares favorably with the Knox County percentage of LMI families as shown in the following table.

Income Level Category	* Income Levels of Knox County Families	Consumer and Residential Loans Originated in AA	
		% of Number	% of Dollar
Low-income	39%	29%	9%
Moderate-income	18%	25%	11%
Middle-income	17%	17%	15%
Upper-income	26%	29%	65%
Total	100%	100%	100%

* per 1990 U.S. Census

Virtually all of the commercial loans originated by UNB&T were to small farms or businesses with annual sales of less than \$1 million. Approximately 15% of the number and 35% of the dollar amount of loans originated during the second quarter of 1998 were for commercial business purposes. The average commercial loan size was approximately \$28,000.

Responses to Consumer Complaints

No consumer complaints regarding CRA have been received.

Compliance with Antidiscrimination Laws and Regulations

We did not identify any violations of the substantive provisions of antidiscrimination laws and regulations.