



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

April 6, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**McCreary National Bank
Charter # 22785**

**P.O. Box 1250
Highway 27
Whitley City, Kentucky 42653-1250**

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 **McCreary National Bank** prepared by **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of April 6, 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".

- o A majority of the bank's loans are originated within the assessment area.
- o The average loan-to-deposit ratio since the last examination is reasonable.
- o Management's record of originating loans to borrowers of different income levels, including low- and moderate-income families, is adequate.

DESCRIPTION OF INSTITUTION

McCreary National Bank (MNB) was chartered in December 1994 and is independently owned. Total assets of MNB, as of March 31, 1998, were \$25.5 million. MNB is located in McCreary County, Kentucky. The main office is located in Whitley City, Kentucky which is in the McCreary County block numbering area (BNA) #9603. MNB opened a branch on June 2, 1997 in Pine Knot, Kentucky which is located in BNA #9604. Both locations are open Monday through Friday 7:30am to 6:00pm and Saturday 8:00am to 12:00 pm.

MNB offers traditional banking products with a focus on 1-4 family residential mortgage lending. This focus is reflected in the table below which shows the composition of the loan portfolio as of March 31, 1998.

Loan Type	Loan Balance \$(000s)	Percentage of Loan Portfolio
1- 4 Family Residential Loans	\$12,068	67%
Loans to Individuals	\$ 1,580	9%
Commercial and Other Loans	\$ 4,417	24%
Total Loan Portfolio	\$18,065	100%

MNB competes with the Bank of McCreary County, which is over three times the size of MNB, along with several finance companies and surrounding area financial institutions.

There are no financial or legal impediments affecting the bank's ability to help meet the credit needs of its assessment area except for its size and being relatively new. The previous public evaluation of MNB dated June 5, 1995 rated the bank's performance satisfactory.

DESCRIPTION OF MCCREARY COUNTY

MNB's assessment area is McCreary County, Kentucky. McCreary County is located in southeastern Kentucky with a population of approximately 16,000. Per the 1990 U. S. Census, McCreary County is divided into four BNAs. Two BNAs are designated low-income areas (BNAs #9601 and #9602), and two BNAs are moderate-income areas (BNAs #9603 and #9604). Approximately 80% of the families reside in the moderate-income areas. The Daniel Boone National Forest is located in most of the low-income BNAs. The following table demonstrates the demographics of McCreary County per 1990 U. S. Census data.

Family Income Levels	Percentage of Families
Low-Income	46%
Moderate-Income	23%
Middle-Income	14%
Upper-Income	17%

The 1990 median family income for McCreary County, per the 1990 U. S. Census, was \$12,223. The 1997 statewide median family income for Kentucky non-metropolitan areas, used in the income distribution analysis of this report, was \$28,800.

Approximately 85% of the land in McCreary County is owned by the federal and state governments which equates to a low tax base for the county. The unemployment rate for McCreary County is consistently higher than state and national averages. The major industries in the area include manufacturing and tourism. According to the 1990 U. S. Census, 44% of the households in McCreary County were below poverty level, and 26% receive public assistance. In addition, 37% of the households receive social security, and 15% are retired. While these factors may likely reduce the demand for mortgage loans, management has identified 1-4 family residential real estate loans as a credit need for the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

MNB's lending activity is reasonable. MNB's average loan-to-deposit ratio between July 1, 1995 and March 31, 1998 was 65%. The bank's loan-to-deposit ratio has steadily increased since their June 1995 examination from 20% to the March 31, 1998 loan-to-deposit ratio of 79%. Lending activity of similarly situated financial institutions is comparable.

Lending in the Assessment Area

MNB originates a majority of its loans to borrowers located within the assessment area as shown in the table below. We reviewed and verified management's analysis of loans originated during the fourth quarter of 1997. We used this timeframe because it represented the average quarterly activity for MNB in 1997 and is reflective of their overall performance.

Loan Type	Number	Percentage of Number	Original Dollar Amount \$(000s)	Percentage of Dollar Amount
1- 4 Family Residential Loans	55	32%	\$1,503	47%
Loans to Individuals	68	39%	\$ 209	6%
Commercial and Other Loans	25	14%	\$ 121	4%
Total Loans Originated in AA	148	85%	\$1,833	57%
Loans Originated outside AA	26	15%	\$1,405	43%
Total Loans Originated	174	100%	\$3,238	100%

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

MNB has adequately originated loans to borrowers of different incomes and businesses of different sizes. Since 83% (123) of the loans originated in the assessment area during the fourth quarter of 1997 were either 1-4 family residential mortgage or consumer loans, we analyzed the income distribution of those borrowers in the following table.

Income Level	Income Levels of Families in AA*	Mortgage Loans				Consumer Loans			
		#	% of #	\$(000s)	% of \$	#	% of #	\$(000s)	% of \$
Low	46%	5	9%	\$ 59	4%	22	32%	\$ 58	28%
Moderate	23%	8	15%	\$ 151	10%	21	31%	\$ 51	24%
Middle	14%	13	24%	\$ 300	20%	12	18%	\$ 32	15%
Upper	17%	29	52%	\$ 993	66%	13	19%	\$ 68	33%
Total	100%	55	100%	\$1,503	100%	68	100%	\$209	100%

* Per 1990 U. S. Census

While the percentage of mortgage loans to low-income families appears to be low as compared to the demographics of the county, we found the ratios were very similar to the Bank of McCreary

County which is the only other bank in McCreary County. Per that bank's public disclosure dated October 6, 1997, the other bank originated 13% of its real estate loans to low-income; 18% to moderate-income; 29% to middle-income; and 40% to upper-income families during the second and third quarters of 1997. Management attributes these lower percentages to the lack of demand for mortgage loans from low-income families along with the inability of low-income families to meet standard credit underwriting guidelines. MNB does offer a first-time homebuyers loan product which requires only a 5% downpayment.

The bank originated 25 commercial loans totaling \$121,000 during the fourth quarter 1997. All 25 were to small businesses in MNB's assessment area.

Geographic Distribution

An analysis of the geographic distribution of loans originated in the assessment area would not be meaningful since all of the BNAs are either low- or moderate-income, and 80% of the population resides in the moderate-income BNAs.

Response to Complaints

No consumer complaints have been received during this evaluation period.

Compliance with Antidiscriminatory Laws and Regulations

No violations of substantive provisions of the antidiscriminatory laws and regulations were identified during this examination.