

**Public Disclosure**

**Community Reinvestment Act Performance Evaluation**

January 4, 1999

**Matewan National Bank**  
**Charter Number: 10370**  
**250 East 2nd Avenue**  
**Williamson, West Virginia 25661**

Office of the Comptroller of the Currency  
Administrator of National Banks  
245 Peachtree Center Ave., NE  
Atlanta, GA 30303-1223

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.

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## 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 CRA performance of **Matewan National Bank, Williamson, West Virginia** prepared by the **Comptroller of the Currency**, the institution's supervisory agency, as of **January 4, 1999**. The agency evaluates performance in assessment areas, as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

**Institution's CRA Rating:** This institution is rated *Satisfactory*.

The following table indicates the performance level of **Matewan National Bank** with respect to the lending, investment, and service tests.

Performance Levels	Matewan National Bank, Williamson WV Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory		X	X
Low satisfactory	X		
Needs to improve			
Substantial noncompliance			

\* **Note: The lending test is weighted more heavily than the investment and service tests in the overall rating.**

## **Description of Institution and Description of Assessment Areas (AAs)**

Matewan National Bank (MNB) is the lead bank of Matewan Bancshares, Inc. and is headquartered in Williamson, West Virginia (WV). As of December 31, 1998, MNB had total assets of \$596 million and operated 16 branches and four free standing Automated Teller Machines (ATMs). MNB is an interstate bank operating in three states. While MNB is the major asset of the holding company, Matewan Bancshares, Inc. (total assets of \$675 million) also owns Matewan Bank FSB, a wholly-owned federal savings bank that is headquartered in Pikeville, Kentucky.

The bank, organized as a national bank in 1913, maintained its executive office in Matewan, WV from that time until the first quarter of 1994. Since then it has maintained executive offices in Williamson, WV. In September 1997 Matewan National Bank Kentucky merged with Matewan National Bank West Virginia resulting in the creation of a sole national bank affiliate of Matewan Bancshares, Inc.-- Matewan National Bank (MNB). Since then, MNB has expanded into Virginia through purchase or "denovo" branch openings.

MNB's branches are located in eight contiguous counties in the southwestern portion of West Virginia, the far eastern portion of Kentucky, as well as the western portion of Virginia. One of the Virginia branches is located in the Johnson City-Kingsport-Bristol, TN-VA multi state Metropolitan Statistical Area (MSA) # 3660.

### **ASSESSMENT AREAS**

#### **(1) West Virginia**

Boone County  
Logan County  
Mingo County

#### **(2) Kentucky**

Pike County

#### **Virginia**

#### **(3) Non Metropolitan Statistical Areas (Non MSA)**

Buchanan County  
Russell County  
Tazwell County

#### **(4) Metropolitan Statistical Area (#3660) (MSA)**

Washington County

<b>Branches and Deposits by Assessment Area</b>					
<b>Table 1</b>					
	<b>West Virginia</b>	<b>Kentucky</b>	<b>Virginia</b>		<b>Total</b>
			<b>Non-MSA Counties</b>	<b>Washington County MSA # 3660</b>	
# Branches	7	4 4 ATMS	4	1	16 4 ATMS
% of Total	44%	25%	25%	6%	100%
\$ Deposits 6/30/98 (In \$000)	318,959	148,298	18,793	6,040	492,090
% of Bank Deposits	65%	30%	4%	1%	100%
Deposit Market Share	32%	17%	2%	.98%	13.18%
Population (In 000)	103	73	106	46	328
1998 Updated Median Family Income	28,200	29,800	35,900	35,500	NA

The bank's rating was determined by weighting the individual state's ratings in proportion to their size within MNB operations. Percentage of deposits was the weighting factor. Some allowance was given for the lack of time that MNB's offices were open in the non MSA Virginia assessment area. We did not make allowance for the Virginia MSA branch because it was purchased from another subsidiary of MNB's holding company and has carried the "Matewan" name for three years. Within the lending test, the bank's performance in HMDA and small business lending areas were weighted equally because of the balance of the bank's business and business strategy.

MNB is one of the largest locally owned banks in these market areas and is a consumer oriented, full-service lender offering various loan and deposit products. MNB offers conventional mortgage loans, home improvement loans, and a full range of business loans. The following table portrays the principal loan mix of the bank. This represents a 77 percent loan to deposit ratio as of December 31, 1998.

Types of Domestic Loans Outstanding December 31, 1998 Table 2		
Type of Loans	Amount \$(000's)	Percentage
Residential Real Estate	146,802	40%
Commercial Real Estate	63,363	17%
Commercial	45,628	12%
Installment	106,898	28%
Other	12,542	3%
<b>Total</b>	<b>375,233</b>	<b>100</b>

Geographical features of the area are primarily mountainous terrain with limited buildable or farmable land. The economies of all the geographies are highly dependent upon the coal industry and unemployment remains high. Job creation and improved education are the recognized needs of the general area according to all community contacts.

***Previous performance***

MNB’s last CRA Performance Evaluation was dated September 3, 1996 using data through June 30, 1996. The delineated community consisted of four counties in West Virginia in their entirety and parts of two other West Virginia counties along with parts of two counties in Kentucky. The bank received a rating of **“Outstanding Record of Meeting Community Credit Needs.”**

***Evaluation Scope***

This evaluation covers MNB’s performance from January 1, 1997 to December 31, 1998. The data used for residential lending encompasses the full year of 1998 only. Prior to 1998, MNB was not subject to the data collection requirements of the Home Mortgage Disclosure Act (HMDA) and, therefore, residential lending data is not available. Small business data is for the full years 1998 and 1997. Bank management has not collected consumer loan data. The data used for investments encompasses the full years of 1998 and 1997. Services were evaluated based on branches in service during the 2-year period, including the opening and closing of branches.

MNB did not report any financing of multi-family dwellings or any farm loans during the reporting period. Only 4 percent of the housing stock is in multi-family dwellings and there are only 72 farms in the four assessment areas. Farming is not prevalent in the area because of the terrain.

Market comparisons in this review consist of either 1997 HMDA or 1997 Small Business reporters serving the same geographic areas as the bank. These reporters include specialty lenders in addition to traditional financial institutions. The effect of these specialty lenders was considered in evaluating market performance. These specialty lenders were included in the market data because the presence

of their data did not materially affect percentages. The 1997 information is the latest available reporting period. Market performance comparisons are based on the number of loans as a percentage of total loans.

We determined community credit and community development needs by contacting community groups for the largest cities and counties in the bank's AA's. Specific results of community contacts are detailed in each assessment area analysis. Job creation and improved education are the recognized needs of the general area according to all community contacts. There are limited opportunities for qualified investments within the bank's assessment area but ample opportunities for community development grants and donations and community development services. These opportunities include nonprofit housing organizations, credit counseling agencies, small business development centers and small business venture capital funds that serve areas including the bank's assessment area.

### **Conclusions about Performance Tests**

As detailed in this evaluation, the ratings for the states were **Satisfactory** for the State of West Virginia and the State of Kentucky with a **Needs to Improve** for the State of Virginia. These ratings are weighted into the overall bank rating in proportion to their size within MNB operations. The lending test is weighted more heavily than the investment and service tests in the overall rating. Key factors supporting the bank's overall rating include the following:

- < MNB's lending activity is adequately responsive to the area credit needs based on the overall bank loan to deposit ratio of 77%.
- < MNB has originated a high percentage of loans within its assessment areas (AAs). In 1998, 87% of all HMDA loans were originated within the assessment areas. Small business loans were also substantially within the assessment areas in 1997 at 89%. There was a small decrease in the number of small business loans within the assessment areas in 1998 at 84%.
- < HMDA lending to all geographies is good, but borrower income loan distribution is below average. Lending to low-income families is poor and lending to moderate-income families is adequate.
- < Lending to small businesses is good, and origination of small loans to businesses is good but lending to businesses in moderate-income geographies is average.
- < The bank made an adequate level of community development loans within its AAs.
- < MNB has a good level of qualified investments within its AAs. It has not been in a leadership position and is not using innovative or complex investments.
- < MNB exhibits good responsiveness to credit and community development needs through its

investments.

- < Delivery systems were accessible to geographies and individuals of different income levels in its assessment areas.
- < To the extent that changes have been made, the opening and closing of branches have generally not affected the accessibility of delivery systems, particularly in low- and moderate-income areas.

No violations of the substantive provisions of the antidiscrimination laws and regulations were identified. MNB's policies, procedures, training programs and internal assessment efforts are satisfactory. Our comparative fair lending sample consisted of denied applications and loans for refinancing of residential property. Our sample compared denied single borrowers to approved married borrowers. All loans originated in 1998. The prohibited basis was marital status. We compared 13 denied single applicants to 67 married applicants. Management adequately explained all lending decisions.

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## STATE OF West Virginia RATING

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**CRA Rating for West Virginia:** Satisfactory

**The lending test is rated:** High Satisfactory

**The investment test is rated:** High Satisfactory

**The service test is rated:** High Satisfactory

**These ratings are weighted into the overall bank rating in proportion to their size within MNB's operations. Within the lending test, the bank's performance in HMDA and small business lending areas were weighted equally because of the balance of the bank's business and business strategy.**

### *Description of Institutions's Operation*

MNB operates seven offices in this AA that is in the southwestern portion of West Virginia (WV). The AA encompasses the WV non-MSA Counties of Mingo, Boone and Logan. These counties are bordered by Kentucky on the west and Virginia on the south. As of June 30, 1998, MNB's deposits of approximately \$319 million represented a 32% market share in these three counties of WV. The major competitors are large banks such as Bank One West Virginia NA, United National Bank, Community Trust Bank of West Virginia NA and local, state chartered institutions. There are no financial or legal obstacles impacting the bank's ability to meet community credit needs.

Distribution of the Number of Businesses, Farms, Housing Units and Households Within West Virginia By Income Level of the Geography Table 3								
Block Numbering Area	Low-Income		Mod-Income		Middle-Income		Upper-Income	
	0	0%	3	14%	18	82%	1	4%
Demographic Category	#	%	#	%	#	%	#	%
Businesses	0	0%	208	12%	1,430	83%	84	5%
Households	0	0%	5,094	14%	31,038	84%	846	2%
Owner Occupied Housing	0	0%	5,613	14%	34,097	84%	930	2%
Households within the BNAs Below Poverty	0	0%		35%		26%		21%
Distribution of the Families and Households Within the Assessment Area By Their Income Characteristics								
Families	8,177	28%	4,855	17%	4,837	17%	11,238	38%

There are twenty-two block numbering areas (BNAs) in the AA. Of these, none are low-income, 14% are moderate-income, 82% are middle-income and 4% are upper-income. This is based on the 1990 nonmetropolitan median family income of \$22,655.

In these three counties of WV, there are approximately 103 thousand persons with 29 thousand families. The population is stable to declining. Twenty-eight percent of the families are low-income and 17 percent are moderate-income. Twenty-seven percent of the households are below the poverty level.

The area is impacted by three principal physical barriers: narrow river valleys, flood plains, and steep slopes. Roads, railroads, housing, and commercial development compete for the same land in the river valleys where they are subject to the effects of flooding. Unemployment and poor levels of education are often quoted as major obstacles to improvement in the area.

The area's economy has traditionally been dependent on coal mining. Numerous activities are underway to shift emphasis to other industries--chiefly wood products and tourism. Unemployment levels in the three counties are high and have seldom dropped below double digits in the last two years. As of November 1998 the unemployment rates by county were: 11.2% in Mingo County, 9.5% in Boone County and 11.3% in Logan County. These rates compare quite unfavorably to the 1997 West Virginia Annual Average of 4.0% and the United States Average of 4.9%.

To help determine community credit needs and lending opportunities, we conducted one community contact in the area and we reviewed other contacts that were conducted by all banking regulatory agencies in the last two years. The five contacts, representing civic and governmental organizations did not identify any specific credit needs. These contacts indicated that job creation and improved education are the recognized needs of the general area. There are limited opportunities for qualified investments within the bank's assessment area but ample opportunities for community development grants, donations, and services. These opportunities include nonprofit housing organizations, credit counseling agencies, small business development centers and small business venture capital funds that serve areas including the bank's assessment area.

### ***Conclusions about Performance Tests***

#### **Lending Test**

##### **Lending Activity**

MNB's performance in meeting the credit needs within the WV AA is adequate.

MNB made a total of 264 HMDA loans in 1998. This is reasonable compared to the 992 originated by HMDA reporters in 1997. MNB was not a reporter until 1998 so a direct comparison cannot be made.

MNB made 534 small business loans in 1997 and 309 in 1998 -- a 42% decline in this AA. Other small business loan reporters made 819 loans in 1997. MNB's market share of reporting banks was 67% in 1997 in the three counties of WV. This level is considered good.

##### **Geographic Distribution**

There are no unexplained gaps in the assessment area. The bank has an excellent level of census tract penetration for HMDA reportable loans and small business loans within the assessment areas. One hundred percent of all census tracts within the assessment areas have HMDA loans or small business loans.

**Residential Mortgage Loans**

Table 4 compares the bank's level of HMDA loans to the proportional percentage of owner-occupied housing units by type of geography. There are no low-income geographies within the assessment areas and lending in moderate-income geographies is higher than the percentage of owner-occupied housing units. In 1998, 24% of the bank's HMDA loans were originated in moderate-income geographies. This penetration is considered excellent when compared to the 14% owner occupied units located within these geographies.

TOTAL HMDA LOAN ORIGINATIONS - Geodistribution West Virginia Assessment Area Table 4				
Block Numbering Areas(a)	Owner Occupied %	1998		Market Performance (b)
Type		# LOANS %TOTAL	\$ (000's) %TOTAL	
Moderate	14%	62	1,832	11%
		24%	18%	
Middle	84%	185	7,877	85%
		70%	76%	
Upper	2%	17	650	4%
		6%	6%	
Total	100%	264	10,359	100%
		100%	100%	

(a) There are no Low-Income BNAs in the Assessment Area

(b) The market consists of all HMDA reporters and is based on the number of loans as a percent of the total in 1997 (the latest available reporting period).

***Small Business Lending***

MNB's small business lending to moderate-income geographies is very good. The portion of small loans to businesses in moderate-income geographies is above the portion of businesses located in the moderate-income geographies. It is also above the market performance of other reportable lenders in the area. Table 5 compares the bank's level of small loans to small businesses with the level of this type of businesses operating within the various geography types. As the table indicates, in 1998, the bank's lending improved substantially, when compared to 1997, for both the volume and percentage of loans to moderate-income geographies.

TOTAL SMALL BUSINESS LOAN ORIGINATIONS to SMALL BUSINESSES (b)										
Geodistribution										
West Virginia Assessment Area										
Table 5										
BLOCK NUMBERING AREAS (a)	Market %	% of Small Businesses (b)	1997				1998			
			# of Loans	% of Total	\$ of Loans	% of Total	# of Loans	% of Total	\$ of Loans	% of Total
Moderate	12%	11%	58	11%	2,241	18%	77	25%	1,327	13%
Middle	87%	83%	471	88%	10,205	81%	228	74%	8,298	84%
Upper	1%	6%	5	1%	141	1%	4	1%	271	3%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>534</b>	<b>100%</b>	<b>12,587</b>	<b>100%</b>	<b>309</b>	<b>100%</b>	<b>9,896</b>	<b>100%</b>

(a) There are no Low-Income BNAs in the Assessment Area

(b) Small business establishments with revenues of \$1 million or less.

## Distribution by Borrower Characteristics

### Residential Mortgage Loans

Table 6 compares MNB's HMDA lending to borrowers of different income levels to the proportion of families in each income level. MNB's distribution of loans to low-income borrowers is below average particularly since 1997 market data indicate that other lenders are able to reach the low-income borrowers. MNB has adequate distribution of loans to moderate-income borrowers, but market data also indicates that other financial institutions in the area are lending at higher levels to moderate-income families.

TOTAL HMDA LOAN ORIGINATIONS - Borrowers' Profile West Virginia Assessment Area Table 6						
FAMILY INCOME		1998				
Distribution of Families	%	# of Loans	% Total	\$ (000s)	% Total	Market Performance (a)
Low	28%	13	5%	231	2%	10%
Moderate	17%	29	11%	472	5%	19%
Middle	17%	54	21%	1,694	16%	22%
Upper	38%	167	63%	7,941	77%	46%
Not Available	0%	1	0%	21	0%	3%
<b>Total</b>	<b>100%</b>	<b>264</b>	<b>100%</b>	<b>10,359</b>	<b>100%</b>	<b>100%</b>

(a) The market consists of all HMDA reporters and is based on the number of loans as a percent of the total in 1997 (the latest available reporting period).

**Small Business Lending**

The bank's level of lending to small businesses (less than \$1 million in gross revenues) is good. As indicated in Table 7, the bank has a substantial majority of its business loans to small businesses. The bank's 1998 trend is to lend to businesses in the higher revenue category, but the level of lending to small businesses remains good.

TOTAL SMALL BUSINESS LOAN ORIGINATIONS to ALL BUSINESSES West Virginia Assessment Area Table 7										
Revenue Category	Market %	% of Businesses	1997				1998			
			# of Loans	% of Total	\$ of Loans	% of Total	# of Loans	% of Total	\$ of Loans	% of Total
Less than or Equal to \$1 Million	79%	67%	534	98%	12,587	84%	309	51%	9,896	55%
Greater than \$1 Million		9%	12	2%	2,401	16%	271	45%	6,805	38%
Revenues Not Reported		24%	0	0%	0	0%	24	4%	1,228	7%
<b>Total</b>		100%	546	100%	14,988	100%	604	100%	17,929	100%

In 1997 and 1998, 95% of the bank's reported business loans were for amounts of \$100,000 or less. Table 8 indicates that the bank has an excellent record of serving the credit needs of businesses with small loans.

TOTAL SMALL BUSINESS LOAN ORIGINATIONS to ALL BUSINESSES BY LOAN SIZE West Virginia Assessment Area Table 8								
Loan Amount	1997				1998			
	# of Loans	% of Total	\$ of Loans	% of Total	# of Loans	% of Total	\$ of Loans	% of Total
Less than \$100	519	95%	8,286	55%	572	95%	8,904	50%
\$100-\$250	18	3%	2,978	20%	23	4%	3,674	20%
\$250-\$1,000	9	2%	3,724	25%	9	1%	5,351	30%
<b>Total</b>	546	100%	14,988	100%	604	100%	17,929	100%

**Community Development Lending**

The bank made an adequate level of community development loans given the limited opportunities in the assessment areas. During the evaluation period, the bank made two community development loans totaling \$693 thousand. The loans promote economic development for small businesses or provide needed rural medical services to low- and moderate-income families.

- < \$193 thousand of the total was for The Mingo County Redevelopment Authority. (See page 15 for a description of The Authority.) The current project is the development of the industrial site for a new small business. This activity promotes economic development for small businesses by providing permanent job creation for predominately hourly workers whose general wage level fit low- and moderate-income categories.
  
- < \$500 thousand was the participation in a loan to a non profit organization in Charleston that specifically offers health care to low-income patients including residents of Boone County. This is a social service targeted to low-income individuals.

### **Flexible or Innovative Products**

The bank's only identified flexible loan product is U.S. Small Business Administration (SBA) lending. The bank's performance in SBA is very good. In 1996 the SBA compiled "*Micro-Business-Friendly Banks in the United States*" lists MNB as the largest lender of micro-loans in WV in both number and dollar. SBA defines micro-loans as those of \$100 thousand or less. Preliminary data for 1998 show MNB as number five in the state of WV. The number and dollar of these loans are included in small business lending above.

## Investment Test

During the evaluation period, MNB had a very good level of qualified investments in the WV AA. However, none of the investments were made during this evaluation period. The investments were made over a period of years from 1986 through 1991. Total investments in this AA totaled \$3.3 million or more than 60% of the AAs allocated share of Tier 1 capital as of December 31, 1998. The investments are primarily equity investments in venture capital funds and similar organizations that make loans and invest in small, developing companies. These companies were established to benefit the local area or a larger regional area. This type of investment is particularly responsive to the state government's overall plan for West Virginia. The state is striving to replace lost coal mining jobs with small businesses and small industry. These venture capital funds make loans to small businesses that do not qualify for traditional banking products. The bank has not made use of innovative or complex investments and has not been in a leadership position.

## Service Test

### Accessibility of Services

MNB has provided a high level of service. The delivery systems are reasonably accessible to individuals of all income levels, and to all income geographies within MNB's WV AA. Since there are no low-income geographies within this AA, the adequacy of the location of branches is determined by customer needs within remaining geographies. The branches are accessible to individuals of all income levels. Overall branch hours are reasonable and the offices offer generally the same hours of operations. Three offices (one office in a major town in each county) are open four hours on Saturday mornings to accommodate customers. While these offices are in middle- and upper-income BNAs, they are accessible by means of major highways and are located close to retail shopping areas.

<b>Services Delivery by Census Tract West Virginia Table 9</b>				
<b>Block Numbering Areas:</b>	<b>Branches</b>		<b>% of Geographies</b>	<b>% of Households</b>
	<b>#</b>	<b>%</b>		
<b>Low-Income</b>	0	0%	0	0
<b>Moderate-Income</b>	2	29%	14%	15%
<b>Middle-Income</b>	4	57%	84%	77%
<b>Upper-Income</b>	1	14%	2%	8%
<b>Total</b>	7	100%	100%	100%

The table above shows that the distribution of branches compares very favorably to the characteristics of the WV AA. In addition to the branch locations, the bank has established automated teller machines (ATMs) at six of these branches. One of the middle-income branches does not have an ATM. The ATMs provide convenient access for extended hours to individuals of all income levels.

One office was closed during the evaluation period. It was located in a middle-income BNA. It generally had no effect on the accessibility of services because there was another office in the same town.

### **Community Development Services**

MNB and its employees provide an adequate level of community development services in the WV AA.

The Mingo County Redevelopment Authority was created to diversify the economy and create economic development within Mingo County WV. The state designates *Redevelopment or Urban Renewal Authority* for the “. . . elimination of slum conditions or conditions of blight, the acquisition and preparation of land in or necessary to the development of slum or blighted areas and its sale or lease for development or redevelopment in accordance with general plans or redevelopment plans . . . .”

- < MNB provides a meeting area and lunch for the monthly board meetings and any special meetings.
- < MNB serves as the Registrar for the Mingo County Flood Control Project. This Project is one of the activities directed by the Redevelopment Authority. The Registrar keeps track of the funds and disburses them in accordance with the lien certificate.
- < President Moore serves on the advisory board to assist in evaluating financial matters.

The Matewan Development Authority owns and operates an apartment building in Matewan WV. Units are set aside for low-income individuals. Two employees provide financial expertise to the Authority.

A MNB officer serves as a director of the WV Children’s Home Society. The Children’s Home Society has operated for nearly one-hundred years to make life better for West Virginia Children. It was organized to “find homes for homeless and dependent children.” It continues to find homes for children and also helps keep families together by providing social casework, emergency shelter, family counseling and health care. The Society protects children from abuse and neglect, recruits and trains volunteers, and works with other agencies to meet the needs of West Virginia children. As a director, he oversees the budgeting process and assists in financial decisions of the Society.

## STATE OF Kentucky RATING

**CRA Rating for Kentucky:**

**Satisfactory**

**The lending test is rated:**

**Low Satisfactory**

**The investment test is rated:**

**Low Satisfactory**

**The service test is rated:**

**High Satisfactory**

These ratings are weighted into the overall bank rating in proportion to their size within MNB operations. Within the lending test, the bank's performance in HMDA and small business lending areas were weighted equally because of the balance of the bank's business and business strategy.

### *Description of Institutions's Operation*

MNB operates four offices and four free standing ATMs in the AA of Pike County Kentucky (KY). This is the easternmost county in KY. As of June 30, 1998, MNB's deposits of approximately \$148 million represented a 17% market share in Pike County. The major competitors are large banks such as Community Trust Bank NA and TransFinancial Bank NA along with local, state chartered institutions. Unlike the other areas in which MNB operates, there are no major out-of-state companies with any significant presence in this AA. There are no financial or legal obstacles impacting the bank's ability to meet community credit needs.

Distribution of the Number of Businesses, Farms, Housing Units and Households Within Kentucky By Income Level of the Geography Table 10								
Block Numbering Areas	Low-Income		Mod-Income		Middle-Income		Upper-Income	
	0	0%	3	16%	15	79%?	1	5%
Demographic Category	#	%	#	%	#	%	#	%
Businesses	0	0%	276	19%	973	65%	244	16%
Households	0	0%	4,005	15%	20,305	77%	1,899	8%
Owner Occupied Housing	0	0%	4,372	16%	22,376	77%	2,012	7%
Households within the Area Below Poverty	0	0%		32%		25%		15%

**Distribution of the Families and Households Within the Assessment Area  
By Their Income Characteristics**

Families	21,072	27%	5,655	17%	3,615	19%	3,963	37%
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There are nineteen BNAs in the assessment area. Of these, none are low-income, 16% are moderate-income, 79% are middle-income and 5% are upper-income. This is based on the 1990 nonmetropolitan median family income of \$22,543.

In Pike County KY there are approximately 73 thousand persons with 21 thousand families. Twenty-seven percent of the families are low-income and 17 percent are moderate-income. Twenty-six percent of the households are below the poverty level.

The area's economy is highly dependent on coal mining. The unemployment level was 5.8% as of December 1998. This is significantly lower than the other counties in MNB's market area and compares reasonably well to the November 1998 statewide unemployment rate of 4.3% and the 1997 United States Average of 4.9%.

To help determine community credit needs and lending opportunities, we conducted one community contact during this examination and we reviewed others that had been performed in the last two years. The contacts consisted of nonprofit organizations and governmental-sponsored groups. All contacts said that jobs were needed before additional credit would be needed. These contacts indicated that job creation and improved education are the needs of the general area. After this, the contacts identified the greatest needs in the area as consumer loans. One contact stated that government assisted loans programs were also needed. There are limited opportunities for qualified investments within the bank's assessment area but ample opportunities for community development grants and donations and community development services. These opportunities include nonprofit organizations, credit counseling agencies and small business development centers that serve areas including the bank's assessment area.

### ***Conclusions about Performance Tests***

#### **Lending Test**

##### **Lending Activity**

MNB's performance in meeting the needs within the Kentucky assessment area is good. MNB made a total of 240 HMDA loans in 1998. The HMDA reporters show 1,354 originations in 1997. MNB was not a HMDA reporter in 1997 so a direct comparison cannot be made.

MNB made 138 small business loans in 1997 and 180 small business loans in 1998. This is a 30% increase in one year. Other banks reporting small business data in 1997 made 829 loans in 1997. MNB's market share of reporting banks was 18% in 1997 in this one county in KY.

## Geographic Distribution

There are no unexplained gaps in the assessment area. All census tracts within the assessment areas have HMDA loans or small business loans.

### Residential Mortgage Loans

Table 11 compares the bank's level of HMDA loans to the proportional percentage of owner-occupied housing units by type of geography. There are no low-income geographies within the AA. The lending level in moderate-income geographies is comparable to the percentage of owner-occupied housing units within the AA. In 1998, 15% of the bank's HMDA loans were originated in moderate-income geographies. This penetration is considered good when compared to the 16% owner occupied units located within these geographies and it is significantly higher than the overall market performance.

TOTAL HMDA LOAN ORIGINATIONS - Geodistribution Kentucky Assessment Area Table 11				
Block Numbering Areas (a)	Owner Occupied %	1998		Market Performance (b)
Type		# LOANS %TOTAL	\$ (000's) %TOTAL	
Moderate	16%	36	1,028	10%
		15%	9%	
Middle	77%	195	9,450	70%
		81%	86%	
Upper	7%	9	509	20%
		4%	5%	
Total	100%	240	10,987	100%
		100%	100%	

(a) There are no Low-Income BNAs in the Assessment Area

(b) The market consists of all HMDA reporters and is based on the number of loans as a percent of the total in 1997 (the latest available reporting period).

### Small Business Lending

MNB's portion of small loans to businesses in moderate-income geographies is comparable to the percentage of businesses located in the assessment areas and is also well above the market performance of other reporting lenders in the area. Table 12 compares the bank's level of small loans to small businesses with the level of this type of businesses operating within the various geography types. As the table indicates, in 1998, the bank's small business lending improved substantially, when

compared to 1997, for both the volume and percentage of loans to moderate-income geographies. The small business lending in moderate-income geographies is adequate.

TOTAL SMALL BUSINESS LOAN ORIGINATIONS to SMALL BUSINESSES (a)										
Geodistribution										
Kentucky Assessment Area										
Table 12										
Block Numbering Areas(a)	Market %	% of Small Businesses (b)	1997				1998			
			# of Loans	% of Total	\$ of Loans	% of Total	# of Loans	% of Total	\$ of Loans	% of Total
Moderate	7%	18%	15	11%	507	10%	32	18%	1,700	24%
Middle	75%	65%	107	78%	4,023	80%	115	64%	3,726	52%
Upper	18%	17%	16	11%	511	10%	33	18%	1,669	24%
<b>Total</b>	100%	100%	138	100%	5,041	100%	180	100%	7,095	100%

(a) There are no Low-Income BNAs in the Assessment Area

(b) Small business establishments with revenues of \$1 million or less.

### Distribution by Borrower Characteristics

#### Residential Mortgage Loans

Table 13 compares MNB's HMDA lending to borrowers of different income levels to the proportion of families in each income level. MNB's distribution of loans to low-income borrowers is poor, particularly since 1997 market data indicate that other lenders are able to lend to the low-income borrowers. MNB has adequate distribution of loans to moderate-income borrowers, but market data also indicates that other lenders in the area are lending at a higher level to the moderate-income families.

TOTAL HMDA LOAN ORIGINATIONS - Borrowers' Profile Kentucky Assessment Area Table 13						
FAMILY INCOME		1998				
Distribution of Families	%	# of Loans	% Total	\$ (000s)	% Total	Market Performance (a)
Low	27%	9	4%	205	2%	17%
Moderate	17%	38	16%	839	8%	21%
Middle	19%	47	20%	1,606	15%	25%
Upper	37%	146	60%	8,337	75%	32%
Not Available	0%	0	0%	0	0%	5%
<b>Total</b>	<b>100%</b>	<b>240</b>	<b>100%</b>	<b>10,987</b>	<b>100%</b>	<b>100%</b>

(a) The market consists of all HMDA reporters and is based on the number of loans as a percent of the total in 1997 (the latest available reporting period).

### Small Business Lending

The bank's level of lending to small businesses is excellent. As indicated in Table 14, the bank has a substantial majority of its business loans to small businesses.

TOTAL SMALL BUSINESS LOAN ORIGINATIONS to ALL BUSINESSES Kentucky Assessment Area Table 14										
Revenue Category	Market %	% of Businesses	1997				1998			
			# of Loans	% of Total	\$ of Loans	% of Total	# of Loans	% of Total	\$ of Loans	% of Total
Less than or Equal to \$1 Million	84%	70%	138	93%	5,041	85%	180	91%	7,095	86%
Greater than \$1 Million		9%	11	7%	907	15%	11	6%	875	10%
Revenues Not Reported		21%	0	0%	0	0%	6	3%	304	4%
<b>Total</b>		<b>100%</b>	<b>149</b>	<b>100%</b>	<b>5,948</b>	<b>100%</b>	<b>197</b>	<b>100%</b>	<b>8,274</b>	<b>100%</b>

In 1997, ninety-four percent of the bank's reported business loans were for amounts of \$100,000 or

less and in 1998 ninety-one percent of the bank's loans were small. Table 15 details the small business lending by loan size and indicates that the bank has a good record of serving the credit needs of businesses in this AA by providing small loans.

TOTAL SMALL BUSINESS LOAN ORIGINATIONS to ALL BUSINESSES BY LOAN SIZE Kentucky Assessment Area Table 15								
Loan Amount	1997				1998			
	# of Loans	% of Total	\$ of Loans	% of Total	# of Loans	% of Total	\$ of Loans	% of Total
Less than \$100	140	94%	3,405	57%	179	91%	4,052	49%
\$100-\$250	6	4%	915	15%	12	6%	1,881	23%
\$250-\$1,000	3	2%	1,628	28%	6	3%	2,341	28%
<b>Total</b>	149	100%	5,948	100%	197	100%	8,274	100%

### Community Development Lending

The bank has made a very good level of community development loans given the limited opportunities in the assessment areas. During the evaluation period, the bank made one community development loan totaling \$1,300 thousand. The loan provided rural medical services to low- and moderate-income families.

### Investment Test

MNB has an adequate level of qualified grants in this AA. This level is considered adequate based on the limited opportunities in this area and the responsiveness of the grant to an identified need. During the evaluation period, MNB made a \$50 thousand grant to fund scholarships to low-income students at the local college. This volume of investments represents 2 percent of this AA's share of Tier 1 capital. The bank does not make use of innovative or complex investments and has not been in a leadership position.

## Service Test

### Accessibility of Services

MNB has provided a high level of services to low- and moderate-income individuals. The delivery systems are reasonably accessible to individuals of all income levels and to all geographies within MNB's Kentucky AA. Since there are no low-income tracts within this AA, the adequacy of the location of branches is determined by customer needs within those geographies. The branches are accessible to individuals of all income levels. Overall branch hours are reasonable and the offices offer generally the same hours of operations. One office is open an additional four hours on Saturday mornings to accommodate customers. This downtown Pikeville branch is located in a moderate-income BNA.

<b>SERVICES DELIVERY BY GEOGRAPHY</b>						
<b>Kentucky Assessment Area</b>						
<b>Table 16</b>						
<b>Block Numbering Area Characteristic:</b>	<b>Branches</b>		<b>Stand Alone ATMs</b>		<b>% of Geographies</b>	<b>% of Household</b>
	<b>#</b>	<b>% of Branches</b>	<b>#</b>	<b>% of ATMs</b>		
<b>Low-Income</b>	0	0%	0	0%	0	0
<b>Moderate-Income</b>	2	50%	3	75%	16%	15%
<b>Middle-Income</b>	2	50%	1	25%	79%	77%
<b>Upper-Income</b>	0	0%	0	0%	5%	8%
<b>Total</b>	4	100%	4	100%	100%	100%

Branches within this assessment area are located in BNAs that comprise 92% of the households. They are readily accessible to individuals of all income levels. In addition, the bank maintains four stand-alone ATMs in areas that allow access 24 hours a day. Three of these ATMs are located in moderate-income BNAs. Branch and ATM locations in moderate-income BNAs exceed the percentage of moderate-income geographies and percentage of the households in the moderate-income geographies.

MNB's record of opening and closing offices has not affected the accessibility of its delivery systems. In 1996 and 1997, MNB closed four branch facilities in the Kentucky AA. These branches were located near other branches. No low- or moderate-income census tracts were eliminated through the closures.

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## STATE OF Virginia RATING

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<b>CRA Rating for Virginia:</b>	<b><u>Needs to Improve</u></b>
<b>The lending test is rated:</b>	<b><u>Needs to Improve</u></b>
<b>The investment test is rated:</b>	<b><u>Needs to Improve</u></b>
<b>The service test is rated:</b>	<b><u>Low Satisfactory</u></b>

**These ratings are weighted into the overall bank rating in proportion to their size within MNB operations. Within the lending test, the bank's performance in HMDA and small business lending areas were weighted equally because of the balance of the bank's business and business strategy.**

### ***Description of Institutions's Operation***

MNB operated five offices in four counties of the far western portion of Virginia (VA). Four of the offices are in the non MSA counties of Tazwell, Buchanan and Russell. One office is located in Abingdon that is in Washington County and part of the multi state MSA#3660 of Johnson City-Kingsport-Bristol, TN-VA. MNB is relatively new in this area with three of the offices opening since September of 1997. The Abingdon office was purchased from the Matewan Federal Savings Bank in December 1997 and was opened September 1996. For additional detail, see the descriptions for non MSA and MSA assessment areas that follow.

### ***Conclusions about Performance Tests***

The bank's overall performance in Virginia is poor.

- < The geographic distribution of loans in the moderate-income geographies reflects an adequate penetration in the non MSA counties but a poor penetration in the MSA.
- < The distribution of HMDA loans to low- and moderate-income borrowers is poor.
- < The distribution of loans to small business customers is good, but the overall volume of business lending in both non MSA and MSA areas is very low.
- < MNB made a relatively high level of community development loans in the non MSA area but no community development loans in the MSA area.
- < There were no qualified community development investments in Virginia during the evaluation period.
- < Service delivery systems are reasonably accessible and services do not vary in a way that inconveniences portions of the assessment areas. The opening of branches has improved the bank's possibilities to serve the communities. MNB reported no qualified community development services in these assessment areas during the evaluation period.



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Virginia Non MSA Assessment Areas

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***Description of Institutions's Operation***

MNB operates four offices in three counties of western Virginia--Tazwell, Buchanan and Russell. MNB has added this assessment area since the last CRA examination. The bank opened its first branch in VA in July of 1996. Three of the four offices are located in grocery stores and were opened since September of 1997. As of June 30, 1998, MNB's deposits of approximately \$19 million represented less than 2% market share in these three counties. This market is the most competitive for the bank. The range of competitors runs the spectrum of large financial institutions to small locally owned community banks. There are no financial or legal obstacles impacting the bank's ability to meet community credit needs.

Distribution of the Number of Businesses, Farms, Housing Units and Households Within Non MSA Virginia Assessment Area By Income Level of the Geography Table 17								
Block Numbering Areas	Low-Income		Mod-Income		Middle-Income		Upper-Income	
	0	0%	14	58%	10	42%	0	0%
Demographic Category	#	%	#	%	#	%	#	%
Businesses	0	0%	915	50%	916	50%	0	0%
Households	0	0%	22,625	58%	16,656	42%	0	0%
Owner Occupied Housing	0	0%	24,476	59%	18,205	41%	0	0%
Households with the area Below Poverty	0	0%		25%		18%		
Distribution of the Families and Households Within the Assessment Area By Their Income Characteristics								
Families	9,234	29%	6,394	20%	6,417	21%	9,291	30%

There are twenty-four BNAs in the assessment area. Of these, none are low-income, 58% are moderate-income, 42% are middle-income and none are upper-income. This is based on the 1990 nonmetropolitan median family income of \$28,301.

There are approximately 73 thousand persons with 21 thousand families. Twenty-nine percent of the families are low-income and 20 percent are moderate-income. Twenty-two percent of the households are below the poverty level.

The area's economy has traditionally been highly dependent on coal with some agriculture. Expansion of small manufacturers in the Bristol, Kingsport, Johnson City areas have shifted jobs. Our local contacts indicate much of the labor force drives 50 miles to work each day. Unemployment levels for these individual counties were not available.

To help determine community credit needs and lending opportunities, we conducted one community contact in the area during this examination and we reviewed others performed by banking regulators in the last two years. The contact, made up of local civic leaders, identified the greatest needs in the area to be employment. All contacts expressed the opinion that banks were doing a good job at meeting the credit needs. One contact thought there were too many banks. These contacts indicated that job creation and improved education are the needs of the general area. There are limited opportunities for qualified investments within the bank's assessment area but ample opportunities for community development grants and donations and community development services. These opportunities include nonprofit housing organizations, credit counseling agencies, and small business development centers that serve areas including the bank's assessment area.

### ***Conclusions about Performance Tests***

#### **Lending Test**

##### **Lending Activity**

Peer analysis has not been included in this report for this AA. The bank's level of lending was affected in part by their limited time in the market. Three offices have been purchased or opened since September 1997. MNB's overall level of lending with 119 HMDA loans in 1998 and small business loans of only 10 in 1997 and only 21 in 1998 make comparisons less than meaningful.

##### **Geographic Distribution**

There are no unexplained gaps in the non MSA AA. The bank has an adequate level of geographic penetration for HMDA reportable loans and small business loans within the area. There are no low- or upper-income geographies within the AA. Seventy-nine percent of all geographies within the non MSA AA had HMDA loans or small business loans.

**Residential Mortgage Loans**

Table 18 compares the bank's level of HMDA loans to the proportional percentage of owner-occupied housing units by type of geography. There are no low- or upper-income geographies within the AA. The lending to moderate-income geographies is comparable to the percentage of owner-occupied housing units within the AA. In 1998, 54% of the bank's HMDA loans were originated in moderate-income geographies. This penetration is considered good when compared to the 59% owner occupied units located within these geographies and mirrors market performance.

<b>TOTAL HMDA LOAN ORIGINATIONS - Geodistribution</b>				
<b>Non MSA Virginia Assessment Area</b>				
<b>Table 18</b>				
<b>Block Numbering Areas (a)</b>	<b>Owner Occupied %</b>	<b>1998</b>		<b>Market Performance (b)</b>
		<b># LOANS %TOTAL</b>	<b>\$ (000's) %TOTAL</b>	
<b>Moderate</b>	59%	64	3,833	54%
		54%	51%	
<b>Middle</b>	41%	55	3,722	46%
		46%	49%	
<b>Total</b>	100%	119	7,555	100%
		100%	100%	

(a) There are no Low-Income BNAs nor Upper-Income BNAs in the Assessment Area

(b) The market consists of all HMDA reporters and is based on the number of loans as a percent of the total in 1997 (the latest available reporting period).

**Small Business Lending**

MNB's portion of small loans to businesses in moderate-income geographies compares favorably to the number of businesses located in the assessment areas. The small business lending level is below the market performance of other reporting lenders in the area. Table 19 compares the bank's level of small loans to small businesses with the level of this type of businesses operating within the various geography types. As the table indicates, in 1998, the bank's lending improved substantially, when compared to 1997. Although the trend has improved, the volume of business loans is limited. Overall, the bank's small business lending is adequate.

TOTAL SMALL BUSINESS LOAN ORIGINATIONS to SMALL BUSINESSES (b)										
Geodistribution										
Non MSA Virginia Assessment Area										
Table 19										
Block Numbering Areas (a)	Market %	% of Small Businesses (b)	1997				1998			
			# of Loans	% of Total	\$ of Loans	% of Total	# of Loans	% of Total	\$ of Loans	% of Total
Moderate	62%	50%	2	20%	106	5%	12	57%	642	49%
Middle	38%	50%	8	80%	1,827	95%	9	43%	679	51%
<b>Total</b>	100%	100%	10	100%	1,933	100%	21	100%	1,321	100%

(a) There are no Low-Income BNAs nor Upper-Income BNAs in the Assessment Area

(b) Small business establishments with revenues of \$1 million or less.

## Distribution by Borrower Characteristics

### Residential Mortgage Loans

Table 20 compares MNB's HMDA lending to borrowers of different income levels to the proportion of families in each income level. MNB's distribution of loans to low-income borrowers is poor particularly since 1997 market data indicate that other lenders are lending to the low-income borrowers. MNB has adequate distribution of loans to moderate-income borrowers, but market data also indicates that other lenders in the area have higher lending rates to moderate-income families.

TOTAL HMDA LOAN ORIGINATIONS - Borrowers' Profile						
Non MSA Virginia Assessment Area						
Table 20						
FAMILY INCOME		1998				
Distribution of Families	%	# of Loans	% Total	\$ (000s)	% Total	Market Performance. (a)
Low	30%	3	2%	106	1%	14%
Moderate	20%	18	15%	763	10%	23%
Middle	20%	27	23%	1,342	18%	26%
Upper	30%	71	60%	5,344	71%	30%
Not Available	0%	0	0%	0	0%	7%
<b>Total</b>	<b>100%</b>	<b>119</b>	<b>100%</b>	<b>7,555</b>	<b>100%</b>	<b>100%</b>

(a) The market consists of all HMDA reporters in the bank's and is based on the number of loans as a percent of the total in 1997 (the latest available reporting period).

***Small Business Lending***

The bank's level of lending to small businesses is good. As indicated in Table 21, the bank has a substantial majority of its business loans to small businesses. The bank's 1998 trend is to lend to businesses in the higher revenue category, but the level of lending to small businesses remains good.

<b>TOTAL SMALL BUSINESS LOAN ORIGINATIONS to ALL BUSINESSES</b>										
<b>Non MSA Virginia Assessment Area</b>										
<b>Table 21</b>										
<b>Revenue Category</b>	<b>Market %</b>	<b>% of Businesses</b>	<b>1997</b>				<b>1998</b>			
			<b># of Loans</b>	<b>% of Total</b>	<b>\$ of Loans</b>	<b>% of Total</b>	<b># of Loans</b>	<b>% of Total</b>	<b>\$ of Loans</b>	<b>% of Total</b>
<b>Less than or Equal to \$1 Million</b>	75%	67%	10	100%	1,933	100%	21	70%	1,321	61%
<b>Greater than \$1 Million</b>		11%	0	0%	0	0%	9	30%	855	39%
<b>Revenues Not Reported</b>		22%	0	0%	0	0%	0	0%	0	0%
<b>Total</b>		100%	10	100%	1,933	100%	30	100%	2,176	100%

In 1997, 60% of the bank's reported business loans were for amounts of \$100,000 or less. The percentage (73%) was higher in 1998. Table 22 details the small business lending by loan size and indicates that the bank has a good record of serving the credit needs of businesses with small loans.

TOTAL SMALL BUSINESS LOAN ORIGINATIONS to ALL BUSINESSES								
BY LOAN SIZE								
Non MSA Virginia Assessment Area								
Table 22								
Loan Amount	1997				1998			
	# of Loans	% of Total	\$ of Loans	% of Total	# of Loans	% of Total	\$ of Loans	% of Total
Less than \$100	6	60%	416	22%	22	73%	470	22%
\$100-\$250	2	20%	352	18%	6	20%	1,067	49%
\$250-\$1,000	2	20%	1,165	60%	2	7%	639	29%
<b>Total</b>	10	100%	1,933	100%	30	100%	2,176	100%

### Community Development Lending

The bank made a good level of community development loans given the limited opportunities in the non MSA Virginia assessment areas. During the evaluation period, the bank made one community development loan totaling \$2.5 million. The loan provided health care to low- and moderate-income families.

### Investment Test

MNB reported no qualified community development investments or grants in the non MSA VA AA. This can in part be attributed to MNB's relatively new entry into the area. Also, there are limited opportunities for qualified investment securities within the bank's assessment area. There are ample opportunities, however, for community development grants and donations. These opportunities include nonprofit housing organizations, credit counseling agencies, and small business development centers that serve the bank's assessment area.

### Service Test

#### Accessibility of Services

MNB's delivery systems are reasonably accessible to individuals of all income levels, and to all geographies within MNB's non MSA VA AA. Since there are no low-income geographies within this AA, the adequacy of the location of branches is determined by customer needs within those geographies. The branches are accessible to individuals of all income levels. While the branches are located in middle-income BNAs, they are adjacent to and readily accessible from moderate-income

geographies. Overall branch hours are reasonable and the offices offer generally the same hours of operations. The branches located in grocery stores offer extended hours.

<b>Services Delivery by Geography Virginia Assessment Area Table 23</b>				
<b>Block Numbering Area Characteristic:</b>	<b>Branches</b>		<b>% of Geographies</b>	<b>% of Households</b>
	<b>#</b>	<b>%</b>		
<b>Low-Income</b>	<b>0</b>	<b>0%</b>	<b>0</b>	<b>0</b>
<b>Moderate-Income</b>	0	0%	58%	58%
<b>Middle-Income</b>	4	100%	42%	42%
<b>Upper-Income</b>	0	0%	0%	0
<b>Total</b>	4	100%	100%	100%

Three branches within this AA offer additional Sunday hours. These branches are located inside Food City Stores, and offer extended hours, as well as Sunday hours. All services and products are available to individuals of all income levels. The office located at Richlands VA offers no account transaction services due to the low customer demand for these services. Credit applications are taken at this location and forwarded to the main office for processing.

### **Community Development Services**

The bank has identified no community development services in this AA.

## Virginia MSA Assessment Area

### *Description of Institution's Operation*

MNB operates one full service branch in Washington County, VA that was purchased December 26, 1997 from Matewan Federal Savings Bank. The office had originally opened September 1996. Washington County is located in the western portion of the State of Virginia and is part of the multi state MSA of Johnson City, Kingsport, Bristol TN/VA. As of June 30, 1998, MNB's deposits of approximately \$6 million represent less than 1% market share. The major competitors are large banks such as Wachovia Bank NA, NationsBank, NA, First Virginia Bank, First Union along with local, state chartered institutions. There are no financial or legal obstacles impacting the bank's ability to meet community credit needs.

Distribution of the Number of Businesses, Farms, Housing Units and Households Within -- Washington County VA (MSA#3660) By Income Level of the Census Tracts (Note 1) Table 24								
Census Tracts	Low-Income		Mod-Income		Middle-Income		Upper-Income	
	0	0%	2	18%	7	64%	1	9%
Demographic Category	#	%	#	%	#	%	#	%
Businesses	0	0%	106	9%	979	80%	146	11%
Households	0	0%	3,694	21%	12,456	71%	1,444	8%
Owner Occupied Housing	0	0%	4,106	21%	13,499	70%	1,578	9%
Households within the CT Below Poverty		0%		25%		15%		9%
<b>Note 1. One census tract representing 9% of the total number of tracts has no income data and no inhabitants.</b> <b>Distribution of the Families Within the Assessment Area</b> <b>By Their Income Characteristics</b>								
Families	2,999	22%	2,624	19%	2,972	22%	5,059	37%

The bank has designated the entirety of Washington County as an AA. There are eleven census tracts. Of these tracts, none are low-income, 18% are moderate-income, 64% are middle-income, 9% are upper-income, and 9% are not classified. These are based on the MSA's 1990 census median family income of \$27,236.

There are approximately 46 thousand persons with 14 thousand families in the AA. Twenty-three percent of the families are low-income and 17 percent are moderate-income. Sixteen percent of the households are below the poverty level.

The MSA's economy is diverse and growth has been solid. Major employers include Quebecor, AFG Glass Products, Exide, Bristol Steel, and SmithKline Beecham and the state's largest private employer, Eastman Chemical. Unemployment levels in the Tri-Cities MSA were 6.1% in 1997 down from 7.2% in 1996. These rates compare unfavorably to the 1997 Virginia Annual Average of 4.0% and the United States Average of 4.9%.

To help determine community credit needs and lending opportunities, we conducted one community contact in Abingdon VA, during this examination. We also read other contacts performed by banking regulators in the last two years. The contacts knew of no unmet credit needs. They indicate that most people leave the area for shopping, banking and work.

### ***Conclusions about Performance Tests***

#### **Lending Test**

#### **Lending Activity**

MNB's level of performance within the MSA is poor. A full peer analysis has not been included in this report for this AA. MNB's overall level of lending of only 23 home mortgage loans in the AA in 1998 and only eight small business loans in the two-year period make comparisons less than meaningful.

#### **Geographic Distribution**

There are gaps in serving the assessment area. Only 36% of all census tracts within the assessment areas have HMDA loans or small business loans. The limited lending in the Washington County VA is due, in part, to limited market presence. The bank has only one branch in the assessment area and it is located in a grocery store.

**Residential Mortgage Loans**

Table 25 compares the bank's level of HMDA loans to the proportional percentage of owner-occupied housing units by type of geography. There are no low-income geographies within the assessment areas. The bank did not lend to any moderate-income geographies. The bank did not make any reported home improvement loans, only purchases and refinances. The overall penetration is considered poor when compared to the 21% owner occupied units located within moderate-income geographies and the market performance.

TOTAL HMDA LOAN ORIGINATIONS - Geodistribution Washington County VA -- MSA #3660 Assessment Area Table 25				
CENSUS TRACTS (a)	Owner Occupied %	1998		Market Performance (b)
Type		# LOANS %TOTAL	\$ (000's) %TOTAL	
Moderate	21%	0	0	19%
		0%	0%	
Middle	69%	23	1,782	73%
		100%	100%	
Upper	10%	0	0	8%
		0%	0%	
Total	100%	23	1,782	100%
		100%	100%	

(a) There are no Low-Income Census Tracts in the Assessment Area

(b) The market consists of all HMDA reporters in the bank's assessment area. Market performance is based on the number of loans as a percent of the total in 1997 (the latest available reporting period).

**Small Business Lending**

MNB has no small loans to businesses in moderate-income geographies. The percentage of small businesses in moderate-income geographies is small at 9%, but market performance indicates lending opportunities exist in the area. Table 26 compares the bank's level of small loans to small businesses with the level of this type of businesses operating within the various geography types. As the table indicates, in 1998, the bank's lending level improved, when compared to 1997, but not significantly.

TOTAL SMALL BUSINESS LOAN ORIGINATIONS to SMALL BUSINESSES (b)										
Geodistribution										
Washington County VA -- MSA #3660 Assessment Area										
Table 26										
CENSUS TRACTS (a)	Peer %	% of Small Businesses (b)	1997				1998			
			# of Loans	% of Total	\$ of Loans	% of Total	# of Loans	% of Total	\$ of Loans	% of Total
Moderate	19%	9%	0	0%	0	0%	0	0%	0	0%
Middle	69%	79%	3	100%	9	100%	5	100%	115	100%
Upper	12%	12%	0	0%	0	0%	0	0%	0	0%
Total	100%	100%	3	100%	9	0%	5	100%	115	100%

(a) There are no Low-Income Census Tracts in the Assessment Area

(b) Small businesses are establishments with revenues of \$1 million or less.

## Distribution by Borrower Characteristics

### Residential Mortgage Loans

Table 27 compares MNB's HMDA lending to borrowers of different income levels to the proportion of families in each income level. MNB has no loans to low-income borrowers and only one loan to moderate-income borrowers. MNB's performance in this area is poor.

TOTAL HMDA LOAN ORIGINATIONS - Borrowers' Profile Washington County VA -- MSA #3660 Assessment Area Table 27						
FAMILY INCOME		1998				
Distribution of Families	%	# of Loans	% Total	\$ (000s)	% Total	Market Performance (a)
Low	22%	0	0%	0	0%	8%
Moderate	19%	1	4%	16	1%	19%
Middle	22%	9	39%	512	29%	26%
Upper	37%	13	57%	1,254	70%	42%
Not Available	0%	0	0%	0	0%	5%
<b>Total</b>	<b>100%</b>	<b>23</b>	<b>100%</b>	<b>1,782</b>	<b>100%</b>	<b>100%</b>

(a) The market consists of all HMDA reporters in the assessment area and is based on the number of loans as a percent of the total in 1997 (the latest available reporting period).

**Small Business Lending**

The bank's level of lending to small businesses versus large businesses is good, but the volume of loans is low. As indicated in Table 28, the bank has all of its business loans to small businesses but a limited number of business loans overall.

The bank's level of small loans to businesses is also good. In 1997 and 1998, all the reported business loans in this AA were for amounts of \$100,000 or less, indicating that the bank is providing small loans.

TOTAL SMALL BUSINESS LOAN ORIGINATIONS to ALL BUSINESSES Washington County VA -- MSA #3660 Assessment Area Table 28										
Revenue Category	Market %	% of Businesses	1997				1998			
			# of Loans	% of Total	\$ of Loans	% of Total	# of Loans	% of Total	\$ of Loans	% of Total
Less than or Equal to \$1 Million	69%	72%	3	100%	9	100%	5	100%	115	100%
Greater than \$1 Million		8%	0	0%	0	0%	0	0%	0	0%
Revenues Not Reported		20%	0	0%	0	0%	0	0%	0%	0%
<b>Total</b>		100%	3	100%	9	100%	5	100%	115	100%

**Community Development Lending**

The bank made no community development loans in this AA during the evaluation period.

**Investment Test**

MNB had no qualified community development investments in Washington County. This can in part be attributed to MNB's relatively new entry into the area and its very limited market presence in deposits. Also, there are limited opportunities for qualified investment securities within the bank's assessment area. There are ample opportunities, however, for community development grants and donations. These opportunities include nonprofit housing organizations, credit counseling agencies, and small business development centers that serve the bank's assessment area.

## **Service Test**

### **Accessibility of Services**

MNB's delivery systems are reasonably accessible to individuals of all income levels, and to all income tracts within the AA. Since there are no low-income tracts within this AA, the adequacy of the location of branches is determined by customer needs within the geographies. The branches are accessible to individuals of all income levels. Overall branch hours are reasonable.

MNB operates one branch in a middle-income census tract. Within this MSA, 71% of the households reside in middle-income census tracts. This office location is accessible to individuals of all income levels, including low- and moderate-income.

### **Community Development Services**

The bank has identified no community development services in this AA.

## APPENDIX A - DEFINITION OF TERMS

*The following are definitions of terms used throughout this public evaluation. The definitions are not the strict legal definitions contained in 12 C.F.R. 25.12, but rather a synopsis of their meaning.*

Assessment Area (AA) - This area is defined by bank management. It is the geographic boundary where the bank's Community Reinvestment Act (CRA) activities are evaluated.

Automated Teller Machine (ATM) - A machine offering limited banking services including dispensing cash, accepting deposits or loan payments and transferring funds between accounts.

Community Development - The primary purpose of the loan, investment or service is for (1) affordable housing for low- or moderate-income individuals; (2) community services targeted to low- or moderate-income individuals; (3) activities that promote economic development by financing small businesses and farms; and (4) activities that revitalize or stabilize low- or moderate-income areas.

Geography - A census tract (CT) or block numbering area (BNA).

HMDA loan - A residential real estate loan (home purchase, home improvement, refinance or multi-family).

Low-, Moderate-, Middle-, and Upper-Income Areas - A low-income area is one in which the median family income is less than 50% of the area median income, moderate-income is 50% to 79% of the area family median income, middle-income is 80% to 119% of the area median family income and upper-income is 120% or more of the area median income.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties including large population centers and nearby communities that have a high degree of interaction.

Qualified Investment - A lawful investment, deposit, membership share or grant that has community development as its primary purpose.

Small Business Loan - A commercial loan (as defined by Call Report Instructions) with an original loan amount of \$1 million or less.

Small Farm Loan - A farm loan (as defined by Call Report Instructions) with an original loan amount of \$500,000 or less.