

PUBLIC DISCLOSURE

As of March 22, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Tri-County National Bank
Charter No. 20068**

**P.O. Box 1448
Corbin, Ky 40701**

Office of the Comptroller of the Currency

**9200 Shelbyville Road
Suite 505
Louisville, Ky 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 **Tri-County National Bank** prepared by **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of March 22, 1999. 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 has a “Satisfactory record of meeting the credit needs of the community.”

- o The average loan-to-deposit ratio is reasonable.
- o The bank is making a majority of their consumer and residential real estate loans within its assessment area.
- o Loan distribution among the different block numbering areas is reasonable.
- o Loan distribution among the different borrower income levels is satisfactory.

DESCRIPTION OF INSTITUTION

Tri-County National Bank is a community bank with total assets of approximately \$76 million as of December 31, 1998. The bank is wholly owned by Tri-County Bancorp, Inc. The bank has four full-service offices with drive-through services and one stand-alone drive-up facility located throughout Knox, Whitley, and Laurel County. The bank also has one ATM located in Corbin, Ky.

The bank offers traditional banking services and lending products. Management focuses lending efforts on real estate loans with a majority of loans being one-to-four family residential mortgages. Tri-County's loan portfolio consists of the following: 64.09% one-to-four family residential; 14.26% non-farm non-residential loans; 10.02% consumer loans; 4% commercial and industrial loans; 4.36% construction and development; 2.33% multifamily; 0.69% farmland; and 0.21% other. As of December 31, 1998, the loan portfolio represented approximately 73% of the bank's earning assets.

There are no constraints on the bank's ability to meet local credit needs. Considering the bank's financial condition and size, the local economy, and additional related factors, management has adequately serviced legitimate community credit needs. The prior Tri-County National Bank CRA rating, dated March 20, 1996, was a Satisfactory Record of Meeting Community Credit Needs.

DESCRIPTION OF CORBIN AND THE TRI-COUNTY AREA

Tri-County National Bank's assessment area is all of Knox County plus parts of Laurel and Whitley County. The assessment area does not arbitrarily exclude low- and/or moderate-income block numbering areas (BNA). The assessment area is not located within a Metropolitan Statistical Area (MSA). It is comprised of one low-income BNA, seven moderate-income BNAs, five middle-income BNAs, and one upper-income BNA (BNA numbers 9901-9908, 9710-9711, and 9801-9903 plus 9805). The 1998 median family income for Kentucky counties not located in an MSA is \$29,800. The median family income for Knox County is \$15,412, for Laurel County is \$20,977, and for Whitley County is \$18,021.

The City of Corbin was established at the junction of Laurel, Knox, and Whitley Counties and is referred to as the Tri-County area. Corbin has a large population and a broad economic base. This is reflected in the fact that the city of Corbin is located in block numbering areas 9801, 9802, 9710, and 9904 which are all middle and upper income BNAs.

Please refer to pages 6 and 7 for a description of the percentages of families by income level for each county within the assessment area.

The population of the assessment area is as follows: Knox County-29,676; Laurel County-43,438; and Whitley County-33,326. Corbin has a population of approximately 8,422. The most current unemployment rate for Knox County is 4.27% and the poverty rate is 37% while the unemployment rate for Kentucky is 3.8%. Corbin and the tri-county area remain a service and trade economy. Manufacturing is gaining momentum due to the close proximity of I-75, a major interstate. Major employers in the area include CSX, American Greetings Corporation, The Baptist Regional Hospital, CTA Acoustics, Inc., Pepsi-Cola, Wayne Supply Company, and the Board of Education. In addition, a variety of smaller manufacturers are located throughout the bank's assessment area plus a regional Wal-Mart distribution center is located in nearby London, Kentucky.

The bank has identified affordable housing as the major credit need in the community. Contacts with individuals representing local government and economic development organizations within the community indicate the need for affordable housing and mortgage lending as the primary credit need for the area. A significant portion of Knox County lives in rental property and mobile homes as a result of the high poverty levels and the increasing number of people receiving social security or public assistance. Residents cannot afford down payments required for bank loans and are renting and purchasing mobile homes as an alternative.

Competition in the assessment area is strong. The bank's competitors include nine banks and a variety of finance companies.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN TO DEPOSIT RATIO

The bank's loan-to-deposit ratio is reasonable. The bank's average quarterly loan-to-deposit ratio since their last examination was 78.72%. As of December 31, 1998, the loan-to-deposit ratio was 82.63%. This ratio has been steadily increasing over the last couple of years. Tri-County's loan-to-deposit ratio is significantly higher than its national peer group which is 71%. The bank is comparable to local competitors whose average loan-to-deposit ratios range from 67% to 90%.

LENDING IN THE ASSESSMENT AREA

The bank makes a majority of their consumer and residential real estate loans within its assessment area. We reviewed the institution's internal analysis of credit extensions made during the examination period, which was verified for accuracy, and found that a majority of the institution's lending was conducted within its assessment area. While we reviewed information covering all new loans extended in 1998, our review focused on the bank's consumer and residential mortgages. The examination also found that 78% of the consumer loans and 72% of the residential mortgages made by the institution were within its assessment area. By dollar volume, 74% of consumer loans and 70% of real estate loans were made within its assessment area. (Chart No. 1)

Chart No. 1

LOAN DISTRIBUTION WITHIN THE ASSESSMENT AREA (New Loans Extended by Loan Type)								
	CONSUMER LOANS				RESIDENTIAL MORTGAGES			
	No.	%	\$ (000's)	%	No.	%	\$ (000's)	%
Inside AA	346	78%	2,509	74%	286	72%	10,215	70%
Outside AA	98	22%	879	26%	109	28%	4,478	30%
Total loans	444	100%	3,388	100%	395	100%	14,693	100%

Tri-County National Bank has a system in place to geocode and analyze all loans for CRA purposes. Reports are generated on a quarterly basis and sent to the Board for review. These reports discuss loan-to-deposit ratios, the percentage of loans made within the assessment area, and the income distribution of loans. We reviewed the process and found the reports to be reliable.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The distribution of lending within the assessment area reflects reasonable penetration among the different income levels, including low- and moderate-income levels. Our findings indicate that the bank made 49% of their consumer loans and 25% of their residential mortgages to low- and/or moderate-income level individuals in Knox County (Chart No. 2), 36% of consumer loans and 30% of their residential mortgages in Laurel County (Chart No. 3), and 42% of their consumer loans and 13% of their residential mortgages in Whitley County (Chart No. 4). Considering the bank's location, their market, and the strong competition in the assessment area, these numbers are reasonable compared to the actual levels of low- and/or moderate-income families within those counties.

Chart No. 2

Income Level	Percentage of Families Within Each Income Category* (Knox County)	Percentage of Total Consumer Loans	Percentage of Total Real Estate Loans
Low	38.55%	19%	5%
Moderate	18.04%	30%	20%
Middle	17.07%	27%	26%
Upper	26.34%	24%	49%
Total	100%	100%	100%

* According to the 1990 U.S. Census Data, the numbers above reflect the percentage of families that are low-, moderate-, middle-, and upper-income level families within Knox County.

Chart No. 3

Income Level	Percentage of Families Within Each Income Category* (Laurel County)	Percentage of Total Consumer Loans	Percentage of Total Real Estate Loans
Low	25.83%	6%	5%
Moderate	16.73%	30%	25%
Middle	20.04%	43%	20%
Upper	37.40%	23%	50%
Total	100%	100%	100%

* According to the 1990 U.S. Census Data, the numbers above reflect the percentage of families that are low-, moderate-, middle-, and upper-income level families within Laurel County.

Chart No. 4

Income Level	Percentage of Families Within Each Income Category* (Whitley County)	Percentage of Total Consumer Loans	Percentage of Total Real Estate Loans
Low	32.80%	11%	6%
Moderate	17.23%	31%	7%
Middle	17.18%	25%	24%
Upper	32.80%	33%	63%
Total	100%	100%	100%

* According to the 1990 U.S. Census Data, the numbers above reflect the percentage of families that are low-, moderate-, middle-, and upper-income level families within Whitley County.

The opportunity for making real estate loans to low and moderate-income individuals in the county is limited because higher land prices and poverty levels force a significant portion of residents into rental property and government subsidized housing. Although the unemployment level for county is not significantly higher than the state unemployment rate, the poverty level is high and an increasing number of people are receiving social security or public assistance.

83% of the commercial loans originated in 1998 by Tri-County National Bank were to small businesses.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of loans within the assessment area is reasonable. The chart on the next page (Chart No. 5) details Tri-County National Bank's geographic distribution of loans throughout the fourteen block numbering areas. The main concentration of loans is in the BNA's where either the bank has an office or the city of Corbin is located.

Chart No. 6

LOAN DISTRIBUTION AMONG THE BLOCK NUMBERING AREAS (New Loans Extended: 1998)				
Block Numbering Areas	No. Of loans	Percent	Amount	Percent
9901-Low	2	0%	39,393	0%
9902-Mod	14	2%	267,775	1%
9903-Mod	23	3%	335,664	2%
9904-Mid	66	7%	2,041,281	9%
9905-Mod	135	15%	2,075,429	9%
9906-Mod	299	33%	4,275,481	20%
9907-Mod	2	0%	13,589	0%
9908-Mod	3	0%	33,101	0%
Total for Knox County	544	60.44%	9,081,713	41%
9710-Mid	74	8%	2,263,789	10%
9711-Mid	36	4%	1,232,293	6%
Total for Laurel County	110	12.22%	3,496,082	16%
9801-Mid	48	5%	3,483,457	16%
9802-Upper	29	3%	858,926	4%
9803-Mid	146	16%	4,524,597	21%
9805-Mod	23	3%	516,433	2%
Total for Whitley County	246	27.33%	9,383,413	43%
Totals	900	100%	21,961,208	100%

Note: The bank has offices located in block numbering areas: 9904, 9802, 9905, and 9906 with an ATM in 9803. The city of Corbin is located in block numbering areas: 9710, 9801, 9802, and 9904.

RESPONSE TO COMPLAINTS

No consumer complaints have been received since the last examination relating to the Community Reinvestment Act.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS

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