



SMALL BANK

**Comptroller of the Currency
Administrator of National Banks**

PUBLIC DISCLOSURE

December 10, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Kentucky National Bank of Pikeville
Charter #22895**

**247 Hambley Boulevard
Pikeville, KY 41502**

**Office of the Comptroller of the Currency
West Virginia Field Office
Security Building, Suite 400
100 Capitol Street
Charleston, WV 25301**

NOTE: This document is an evaluation of this 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. 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 Community Reinvestment Act (CRA) performance of the Kentucky National Bank of Pikeville, Pikeville, Kentucky, prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of **December 10, 2001**. The agency rates the CRA performance of an institution under 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***".

Kentucky National Bank of Pikeville has met the standards for satisfactory performance and the bank's performance rating is supported by the following:

- A reasonable loan-to-deposit ratio;
- A majority of its loans are made within the assessment area;
- Lending to borrowers of different incomes is reasonable; and,
- A reasonable geographic distribution of loans throughout the assessment area.

DESCRIPTION OF INSTITUTION

Kentucky National Bank of Pikeville (KNB) is a local, independent community bank, which opened for business in January 1996. KNB's main office is located in Pikeville, Kentucky. The bank also operates one full-service branch located in Belcher, Kentucky. Both locations offer drive-through facilities and full-service Automatic Teller Machines (ATM).

As of September 30, 2001, KNB total assets were \$60.6 million with a net loan portfolio of approximately \$40 million or 66% of total assets. The bank's lending activity (by dollar amount) consists of residential real estate loans (53%); consumer installment loans (18%); commercial loans (16%); and, commercial real estate loans (13%). Total deposits were \$54.2 million.

The bank offers a variety of traditional deposit and loan products with small consumer related installment and residential real estate loans being its primary lending focus. There are no financial, legal constraints, or other conditions that would hinder the bank's ability to help meet the credit needs of its assessment area. KNB's CRA performance was last evaluated in August 1996 and was rated Satisfactory.

DESCRIPTION OF PIKE COUNTY, KENTUCKY

KNB's assessment area (AA) is comprised of Pike County, which is located in the central Appalachian Mountains of eastern Kentucky. The AA consists of nineteen block numbering areas (BNA)¹. Of these nineteen BNAs, three are categorized as being moderate-income tracts, fifteen are middle-income, and one is an upper-income tract. There are no low-income tracts within the AA. KNB's assessment area meets the requirements of the CRA and does not arbitrarily exclude any areas of Pike County.

In terms of area, Pike County is Kentucky's largest county, but according to the 1990 U.S. Census, the total population was 72,583 persons. According to the U.S. Department of Housing and Urban Development (HUD), Kentucky's updated 2001 median family income² was \$35,900. The income levels of the 26,209 households within the AA are 27% low-income; 17% moderate-income; 19% middle-income; and, 37% upper-income. Of these households, 32 % receive social security income, while another 12% receive other types of public assistance. Approximately 26% of the households within the AA are considered to be below the poverty level.

The AA's economy is stable and loan demand is moderate. Coal production and related support businesses comprise the largest part of the local economy. Banking within the AA is extremely competitive. Community Trust Bank, N.A. is headquartered and operates 10 branches in Pike County; Branch Banking & Trust (BB&T) operates 8 branches; and, FirstStar Bank, N.A. operates 7 branches. Additionally, there are three branches of small state-chartered banks, a Federal Savings Bank, and offices of national chain finance companies operating within the AA.

¹ A block numbering area (BNA) is defined by the U.S. Bureau of the Census as a statistical subdivision of counties in which census tracts have not been established.

² The term "median family income" describes the statewide (not including families residing in a metropolitan statistical area (MSA)) average income earned by people sharing a home that are related by birth, marriage, or adoption.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

KNB's loan-to-deposit ratio is reasonable in view of the community's credit needs, demand for credit, high level of competition among local financial institutions, and the length of time since the bank began operations. Over the 21 calendar quarters since the bank's last CRA examination in August 1996, KNB's loan-to-deposit ratio has averaged 67%. As of September 30, 2001, the bank's loan-to-deposit ratio was 74%.

Due to the high level of competition within the bank's AA, as well as KNB's relatively small asset size in comparison to its competitors and small market share within the local banking market, any loan-to-deposit comparison with other local banks would not be meaningful. According to the June 30, 2001 *Market Share Report* published by the Federal Deposit Insurance Corporation (FDIC), KNB ranked fourth within the local banking market, in terms of market share, with a 5% share. Community Trust Bank, N.A. leads the market with a 54% market share, followed by Branch Banking & Trust (BB&T) with a 24% share and FirstStar Bank, N.A. with a 17% share.

Lending in Assessment Area

A majority of the bank's lending activity is within its defined assessment area. To assess the bank's lending patterns in relationship to its AA, we selected a random sample of loans from within the two largest segments of its loan portfolio: consumer installment loans and residential real estate loans. Our sample consisted of twenty consumer installment loans and twenty residential real estate loans, all originated since 1999.

The following table reflects our assessment of KNB's lending patterns within their AA:

KNB's Lending Patterns for Consumer Installment and Residential Real Estate Loans (by number and percent of amount loaned)				
	Consumer Installment Loans		Residential Real Estate Loans	
	#	% of \$	#	% of \$
Loans <i>within</i> the AA	15	74%	18	88%
Loans <i>outside</i> the AA	5	26%	2	12%
Total	20	100%	20	100%

As part of our evaluation of KNB's lending performance, we reviewed the results of two

community contacts performed by our office in 2000 and one new contact conducted during our evaluation. These were conducted in an effort to determine opportunities for financial institutions to help meet local credit needs and to understand community perceptions of the local financial institutions' performance in meeting those needs. No salient, unaddressed community credit needs were identified during these contacts. All three contacts expressed positive opinions regarding the responsiveness and performance of all financial institutions operating in the local market area in meeting the credit needs of consumers and small businesses within Pike County.

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

KNB's lending to borrowers of different income levels is reasonable and reflective of the income demographics within their AA, especially low- and moderate-income borrowers. We assessed this performance by again utilizing the sample of consumer installment loans and residential consumer loans discussed previously. We compared KNB's lending patterns, based on borrower income, to the income demographics of the AA.

The following table reflects our assessment of KNB's lending patterns, based on borrower income, within their AA:

KNB's Lending Patterns for Consumer Installment Loans and Residential Real Estate Loans to Borrowers of Different Income Levels Within the AA <i>(by percent of loans originated and percent of amount loaned)</i>					
Income Level	% of Families in the AA *	Consumer Installment Loans		Residential Real Estate Loans	
		#	% of \$	#	% of \$
<i>Low</i>	27%	30%	24%	10%	7%
<i>Moderate</i>	17%	20%	18%	30%	23%
<i>Middle</i>	19%	25%	31%	35%	43%
<i>Upper</i>	37%	25%	27%	25%	27%
Total	100%	100%	100%	100%	100%

* U.S. Bureau of the Census, 1990

The bank's level of lending to businesses of different sizes is reasonable and is consistent with the number of small businesses in the AA. For the purposes of CRA performance evaluation, a small business is defined as having annual revenues of \$1 million or less. Based on data collected and published in 2001 by the Small Business Administration, 86% of the businesses in Pike County reported annual revenues of \$1 million or less. To ascertain the extent of KNB's small business lending, we reviewed a random sample of 13 commercial loans originated since 1999. Of these loans, 85% were to small businesses, which compares favorably to the

population of small businesses in the AA.

Geographic Distribution of Loans

KNB’s lending performance reflects a reasonable distribution of loans throughout the AA and favorably compares to the income levels of the 19 block numbering area (BNAs) in Pike County. Once again, we assessed this performance by utilizing the sample of consumer installment loans and residential consumer loans previously. We compared the resulting lending pattern of the sample to the population, regardless of income level, residing within the 19 BNAs.

The following table reflects our assessment of KNB’s lending patterns, based on geographic distribution, within their AA:

KNB’s Geographic Distribution of Loans Within the AA <i>(by percent of loans originated and percent of amount loaned)</i>						
Income Level of BNA	# of BNAs	% of Population within BNAs *	Consumer Installment Loans		Residential Real Estate Loans	
			#	%	#	%
<i>Low</i>	The AA contains no Low-Income BNAs					
<i>Moderate</i>	3	16%	27%	20%	17%	14%
<i>Middle</i>	15	79%	73%	80%	78%	77%
<i>Upper</i>	1	7%	0%	0%	5%	9%
Total	19	100%	100%	100%	100%	100%

* U.S. Bureau of the Census, 1990

Responses to Complaints

KNB has not received any CRA-related consumer complaints since its last CRA performance evaluation in August 1996.

Fair Lending Review

An analysis of 1997-2001 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on an analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with this CRA performance evaluation. KNB last received a comprehensive fair lending examination in 1996.