



## **PUBLIC DISCLOSURE**

June 23, 2014

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The Salyersville National Bank  
Charter Number 8905

200 East Maple Street  
Salyersville, Kentucky 41465-0250

Office of the Comptroller of the Currency  
Roanoke Field Office  
4419 Pheasant Ridge Road  
Suite 300  
Roanoke, Virginia 24014

**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.

**INSTITUTION'S CRA RATING: This institution is rated Satisfactory**

The major factors supporting the institution's rating include:

- The bank's average quarterly net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs;
- A majority of loans originated are in the bank's AA;
- The distribution of loans reflects reasonable penetration among borrowers of different incomes; and,
- The geographic distribution of loans reflects reasonable dispersion throughout census tracts of different income levels.

**SCOPE OF EXAMINATION**

The Salyersville National Bank (SNB) was evaluated using Small Bank Community Reinvestment Act (CRA) procedures. This Performance Evaluation assesses the bank's performance under the Lending Test for the period of July 1, 2008 through December 31, 2013. We sampled loans originated between January 1, 2012 and December 31, 2013 as this was representative of the bank's lending strategy since the last CRA evaluation. We selected home mortgage loans as the primary loan product based on total loans originated during the evaluation period and discussions with bank management. Our analysis was based on the sample of home mortgage loans originated during the evaluation period. The sample was selected based on judgmental sampling guidelines. Small loans to businesses were not a primary loan product for this evaluation period; therefore, we did not complete a loan sample for analysis.

The Lending Test analysis is based on the bank's performance during the evaluation period using comparative demographic data from the 2010 U.S. Census.

**DESCRIPTION OF INSTITUTION**

SNB is a \$122 million intrastate community bank, established in 1902. It is wholly owned by Salyersville National Bancorp, Inc. of Salyersville, Kentucky, a one-bank holding company. The bank's main office is located in Salyersville, Kentucky, which is in Magoffin County. SNB operates one full-service facility and one branch location in Magoffin County. A loan production office (LPO) in Somerset, Kentucky, in Pulaski County, was opened in February 2008. SNB has not opened or closed any branches since the last CRA evaluation.

SNB offers a variety of deposit products to meet consumer and commercial banking needs. Telephone banking services are available to all customers. The automated Telephone Banking system is available to all customers 24 hours a day, and offers a full array of services including the ability to retrieve balances and transfer funds. Personal

computer banking services are also offered (currently at no charge) to all SNB customers. Salyersville National Bank's Internet Banking system allows customers to retrieve balances, transfer funds, print statements, e-mail the bank, access account histories, view check images, and utilize bill payment services. SNB added mobile banking and merchant remote deposit capture earlier in 2014. The bank's app is available to all mobile bank customers. The mobile banking product is only available to qualified customers.

The bank offers normal business hours during the week and also offers Saturday lobby and drive-in hours at its branch location in Salyersville. Customers are provided with 24-hour access to deposits through the bank's ATM network. ATMs are located at the bank's branch in Salyersville and a stand-alone ATM located in a building adjacent to the main bank office. Since the last CRA evaluation the bank relocated an ATM that was located in the county and moved it to the main office location on East Maple Street. The ATM was underutilized in a rural area of the county. It was the Board's decision to upgrade the ATM to make it ADA compliant and relocate it to the main office location. The bank's Internet website, [www.salyersvillebank.com](http://www.salyersvillebank.com), provides detailed information on products and services for both consumers and businesses.

As of March 31, 2014, SNB's gross loans totaled \$42.5 million and deposits totaled \$106.6 million. Net Tier One Capital was \$15.3 million as of the same date.

The institution's loan portfolio as of March 31, 2014 is presented in Table 1 below.

<b>Table 1 Loan Product Category</b>	<b>Gross Loans as of March 31, 2014*</b>	
	<b>Dollar (\$000's)</b>	<b>% of Total Loans</b>
<b>Residential Mortgage Loans</b>	<b>24,026</b>	<b>56.42</b>
<b>Commercial and Commercial Real Estate</b>	<b>8,884</b>	<b>20.86</b>
<b>Commercial and Industrial</b>	<b>4,640</b>	<b>10.90</b>
<b>Individuals</b>	<b>3,372</b>	<b>7.92</b>
<b>Construction &amp; Land Development</b>	<b>1,213</b>	<b>2.85</b>
<b>All Other</b>	<b>346</b>	<b>0.81</b>
<b>Secured by Farmland</b>	<b>104</b>	<b>0.24</b>
<b>Total</b>	<b>42,584</b>	<b>100.00</b>

\*Data obtained from "Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only – FFIEC 041" as of March 31, 2014.

During the evaluation period, SNB has not undergone any significant changes in its corporate structure. There are no legal or financial impediments to SNB's ability to meet the credit needs of its AA. The bank received a "Satisfactory" rating at the last CRA evaluation dated November 5, 2008.

## DESCRIPTION OF ASSESSMENT AREA

### Magoffin County Kentucky non-MSA AA

SNB has identified Magoffin County as its AA. Located in a non-MSA, Magoffin County consists of two moderate-income census tracts and two middle-income census tracts. The middle-income geographies were designated as distressed and underserved non-metropolitan middle-income geographies due to the poverty rates, population losses and remote rural location of the AA. There are no low-income or upper-income census tracts in the AA. This AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

Table 2 below presents demographic data for the AA using 2010 U.S. Census data.

<b>Table 2</b>					
<b>Demographic Information for Full Scope Area: SNB-Magoffin Co KY non-MSA</b>					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	4	0.00	50.00	50.00	0.00
Population by Geography	13,333	0.00	28.99	71.01	0.00
Owner-Occupied Housing by Geography	3,651	0.00	26.87	73.13	0.00
Business by Geography	803	0.00	5.11	94.89	0.00
Farms by Geography	20	0.00	5.00	95.00	0.00
Family Distribution by Income Level	3,245	33.16	12.48	19.41	34.95
Distribution of Low and Moderate Income Families throughout AA Geographies	1,481	0.00	33.22	66.78	0.00
Median Family Income		\$43,212	Median Housing Value		
HUD Adjusted Median Family Income for 2013		\$44,700			\$47,107
Households Below Poverty Level		34%			

Source: 2010 U.S. Census and 2013 HUD updated MFI

The bank's AA in Magoffin County is located in the state of Kentucky in the Eastern Coal Field Region. Salyersville, the county seat, is located along the Licking River. The city had a population of 1,883 according to the 2010 census. Salyersville is located 96 miles southeast of Lexington, Kentucky; 179 miles southeast of Cincinnati, Ohio and 223 miles northeast of Knoxville, Tennessee. The county's 309 square miles of land area are devoted primarily to farmland and forests. Competition within Magoffin County consists of another national bank and a savings association with branches operating within the bank's AA.

The economic conditions in Magoffin County are stagnant with little industry and very limited tourism opportunities, despite millions of federal dollars being invested into Magoffin County to boost and aid the local economy. The local economy is historically

linked to the coal industry and is affected by its cyclical nature. Retail trade is the largest employment sector, followed by health care and social assistance. According to the Bureau of Labor Statistics, the April 2014 unemployment rate for Magoffin County was the highest in Kentucky at 14.9 percent, which is well above the unemployment rate of 7.7 percent for the State of Kentucky and the national unemployment rate of 6.3 percent for the same month.

Educational, health and social service industries provide 41.43 percent of employment and retail trade provides 11.42 percent of employment in Magoffin County. The largest employers in the county are the Magoffin County Board of Education, Joy Mining Machinery, Salyersville Health Care and Rehabilitation Center, Magoffin County Mineral Labs, Inc., Occupational Conditioning Center, and Eastern Kentucky Subacute Center. However, the majority of the population (62 percent) commutes to jobs outside the County due to very limited employment opportunities.

### **COMMUNITY CONTACTS**

We completed a community contact with a representative of the Magoffin County Community Foundation, a grassroots community group in the county. The foundation's mission is to serve as a permanent charitable resource designed to support local causes and organizations. Through individual donations – large and small – a local advisory board is able to make grants to meet the needs and vision of the community. The contact commented that area banks have been supportive of the community, providing credit availability for local agencies. The contact stated that Magoffin County was in need of housing, employment, and enhanced health care programs. The high unemployment, high poverty, and rural location are significant barriers for economic growth in Magoffin County.

### **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

SNB's overall performance under the Lending Test is "Satisfactory". SNB's geographic distribution reflects reasonable dispersion throughout census tracts of different income levels. SNB's borrower distribution reflects reasonable penetration among borrowers of different incomes.

#### **Loan-to-Deposit Ratio**

SNB's average quarterly net loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and AA credit needs. This meets the standard for satisfactory performance. We reviewed the quarterly net LTD ratios for the twenty-three quarters since the bank's last CRA evaluation.

SNB's average quarterly net LTD ratio for this time period is reasonable at 50.22 percent. The bank's quarterly net LTD ratios ranged from a quarterly low of 39.43 percent at March 31, 2014 to a quarterly high of 54.89 percent at June 30, 2011. The

peer average quarterly net loan-to-deposit ratio for this same time period is 64.98 percent.

**Lending in Assessment Area**

A majority of mortgage loans originated during the evaluation period were within the AA. SNB meets the standards for satisfactory performance for lending in the AA. An analysis of our initial random sample of 20 mortgage loans disclosed that 75 percent of the loans were originated within the AA.

**Lending to Borrowers of Different Incomes**

**Magoffin County Kentucky non-MSA AA**

The distribution of loans, given the demographics of the AA, reflects reasonable penetration among borrowers of different income levels. SNB’s record of lending to borrowers of different incomes meets the standard for satisfactory performance.

**Home Mortgage Loans**

Table 3 shows the percentage of loans that were made to borrowers of different income levels based on our sample of home mortgage loans originated during the evaluation period.

SNB’s borrower distribution of home mortgage loans is reasonable. In our analysis of lending to low-income borrowers, we took into consideration the lack of affordability for low-income individuals to purchase a home. The distribution of home mortgage loans to low-income borrowers is significantly lower than the percentage of low-income families for the AA. The distribution of home mortgage loans to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

<b>Table 3 - Borrower Distribution of Home Mortgage Loans in Magoffin County KY non-MSA AA</b>		
<b>Borrower Income Level</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>
Low	33.16	5.00
Moderate	12.48	20.00
Middle	19.41	15.00
Upper	34.95	60.00

*Source: Loan Sample; 2010 U.S. Census data.*

SNB’s ability to extend home mortgage loans to low-income borrowers is hampered by AA demographics. Specifically, of households in the bank’s AA, 18 percent of AA households are comprised of retired residents. In addition, 41 percent of area households derive income from social security and 34 percent are at or below the poverty level.

Low credit demand is also being impacted by the level of creditworthy applicants, the lack of demand and the lack of turnover of houses. The 2010 U.S. Census data reports that owner-occupied housing represents 62 percent of total housing, the median housing value equals \$47,107, and the median year built for AA housing is 1980. Limited home mortgage loan demand from low-income families can be attributed to many low-income families consisting of more senior, long-time residents who have already owned and occupied residences in the area for many years.

## Geographic Distribution of Loans

### Magoffin County Kentucky non-MSA AA

The bank’s geographic distribution of loans reflects reasonable dispersion throughout the AA. SNB’s performance meets the standard for satisfactory performance. No conspicuous gaps or areas of low penetration were identified.

We considered the demographic characteristics of moderate-income geographies in evaluating geographic distribution of mortgage loans in the AA. We considered the percentage of owner-occupied housing units in these geographies as well as the percentage of rental properties in the AA. These are limiting factors that adversely impact the bank’s ability to make mortgage loans to individuals residing in moderate-income geographies. We also considered the number of competitors making loans in this market.

SNB’s geographic dispersion of residential mortgage loans is reasonable. There are no low-income geographies in the AA. The distribution of loans to borrowers in moderate-income geographies was somewhat lower than the percentage of owner-occupied housing in moderate-income tracts. The bank’s performance is considered reasonable when taking into consideration the relatively low level of owner-occupied housing units in moderate-income tracts; the competition from other institutions; the location of the bank’s branches in relation to the two moderate-income geographies; and the bank’s lending in the two underserved and/or distressed middle-income geographies.

Table 4 reflects the distribution by geographic income level of residential mortgage loans.

<b>Table 4 - Geographic Distribution of Home Mortgage Loans in Magoffin County KY non-MSA AA</b>		
<b>Census Tract Income Level</b>	<b>% of AA Owner Occupied Housing</b>	<b>% of Number of Loans</b>
Low	0.00	0.00
Moderate	26.87	10.00
Middle	73.13	90.00
Upper	0.00	0.00

*Source: Loan Sample; 2010 U.S. Census data.*

### **Responses to Complaints**

SNB did not receive any complaints about its performance in helping to meet credit needs in the AA during this evaluation period. This has a neutral impact on the bank's CRA assessment.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.