



Comptroller of the Currency
Administrator of National Banks

SMALL
BANK

PUBLIC DISCLOSURE

May 4, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Citizens National Bank and Trust
Charter Number #22988
100 Citizens Lane
Hazard, Kentucky 41701**

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

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 the **Citizens National Bank and Trust** prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of March 31, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 Code of Federal Regulations (CFR) Part 25.

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

The **Citizens National Bank and Trust** has met or exceeded the standards for satisfactory performance for each of the following assessment criteria: loan to deposit ratio; lending within the assessment area; lending to borrowers of different incomes and to businesses of different sizes; geographic distribution of loans; and, response to consumer complaints. This evaluation is based on information analyzed from the bank's last CRA rating dated August 28, 1996 through March 31, 1998.

The following table indicates the level of CRA performance of the ***Citizens National Bank and Trust*** with respect to each assessment criterion for small institutions:

SMALL INSTITUTION ASSESSMENT CRITERIA	<i>Citizens National Bank and Trust</i> PERFORMANCE LEVELS		
	<u>Exceeds</u> Standards for Satisfactory Performance	<u>Meets</u> Standards for Satisfactory Performance	<u>Does Not Meet</u> Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	The Bank has received no CRA related complaints.		

DESCRIPTION OF INSTITUTION

The Citizens National Bank and Trust (CNBT) is a \$130 million community bank with its main office located in Hazard, Kentucky. CNBT also operates 5 additional branches throughout Perry County. There are drive-through facilities at the main office as well as at all of its branches. The bank has automated teller machines at four of its facilities.

As of March 31, 1998, net loans represented approximately 52% of total assets and 62% of total deposits. CNBT's loan portfolio consists of 40% residential real estate loans, 18% consumer loans, and 42% commercial loans. The bank offers a variety of loan products. It's most prevalent product is a fixed rate mortgage loan, but the bank recently began taking applications for a more flexible loan product. The bank also makes low-dollar consumer loans which are usually written for a stated term.

These unsecured personal loans have no minimum loan amount. The bank also accommodates customers who require more flexible credit terms by offering credit card applications through a credit card issuing bank.

CNBT is considered "well capitalized", as defined by Section 131 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991. There are no financial conditions, legal constraints, or other conditions that would hinder the bank's ability to help meet the credit needs of its assessment area. CNBT's CRA performance was last evaluated in September 1996 and was rated Satisfactory.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area (AA) is Perry County, Kentucky. The bank's AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

Perry County, located in the eastern Kentucky coal fields, has an estimated population of 30,000. The county consists of nine Block Numbering Areas (BNA): 9701 through 9709. As shown below there are no upper-income BNAs and a majority of the population reside in the middle-income areas.

Tracts	Block Numbers	% Population
Low-income	9701	3.3%
Moderate-income	9703,9705,9707,9709	40.3%
Middle-income	9702,9704,9706,9708	56.4%
Upper-income	N/A	0%

The 1990 statewide nonmetropolitan median family income¹ for Kentucky, as determined by the U.S. Department of Housing and Urban Development (HUD), was \$22,543. The 1997 estimated statewide non-metropolitan median family income is \$28,800. The income levels of the families living in Perry County are: 31% low-income; 17% moderate-income; 14% middle-income; and, 38% upper-income.

Eleven percent of the people in the AA are over the age of 65. Thirty-one percent of the households in the AA receive social security income while 13% receive some other type of public assistance. In addition, 30% of the households are considered to be below the poverty level.

The AA's economy is stagnant and loan demand is considered moderate to low. The February 1998 unemployment rate for Perry County was 6.2% while the Kentucky state average was 4.8%. Unemployment has declined in this area over the last twelve months.

¹The term median family income describes the median income earned by people sharing a home that are related by birth, marriage, or adoption.

The economy has been coal mining based, but has been diversifying to light industry and service related employment. This effort has been hampered however due to a lack of infrastructure and transportation in the area. Since both of these have improved greatly over the past years, unemployment has declined. Major employers include the ARH Hospital, the Board of Education, and jobs in the mining industry.

Banking within the AA is considered competitive. There are two other major banks in Perry County. Both of these institutions have local ties in ownership and are considered community leaders. A savings and loan association and five finance companies help provide additional banking needs. Competition has increased as a state bank recently opened a Loan Production Office in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

◆ Loan to Deposit Ratio

CNBT's loan to deposit ratio is reasonable. During the last five quarters prior to this examination, CNBT's loan to deposit ratio has averaged 67.4%. Although CNBT's level of lending, based on its ratio of loans to deposits, is slightly below that of peer banks of similar size, the reasonableness of the bank's lending is substantiated by its high number of low-dollar consumer loans and moderate to low loan demand. As an example of low-dollar consumer lending, the bank originated 195 unsecured loans between October 1, 1997 and March 31, 1998. These loans ranged from \$500 to \$2,488. A sample of 16 of these loans revealed they were for a variety of consumer purposes and terms. In addition, 94% were made to residents of Perry County.

◆ Lending in the Assessment Area

A substantial majority of the bank's lending activity is within the AA. In order to determine this, we analyzed the real estate loans in CNBT's loan portfolio. This review consisted of all real estate loans originated between January 1, 1997 and March 31, 1998. The findings of this review are representative of the bank's overall lending performance in addressing the housing related needs within their AA. The table below illustrates the bank's lending in the AA:

REAL ESTATE MORTGAGE LOANS

	Number of Loans Originated	Percent of Number of Loans Originated	Dollar Amount of Loans Originated (000)	Percent of Dollar Amount of Loans Originated
Inside AA	23	95.8%	\$763M	88.4%
Outside AA	1	4.2%	\$100M	11.6%
TOTALS	24	100%	\$863M	100%

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

CNBT lends to borrowers of different income levels. We determined this by reviewing the same sample of real estate loans. The following tables illustrate CNBT's lending to individuals of different income levels, based on this sample of loans:

REAL ESTATE MORTGAGE LOANS WITHIN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL

Income Level	Families in the AA	Number of Loans	Percent by # of Loans	Amount of Loans(000)	Percent by \$ Amount
Low	31.5%	3	14.3%	\$70M	9.5%
Moderate	16.9%	3	14.3%	\$51M	6.9%
Middle	13.9%	5	23.8%	\$171M	23.0%
Upper	37.8%	10	47.6%	\$452M	60.6%
Total	100%	23	100%	\$744M	100%

The bank's level of lending to businesses of different sizes is reasonable and is consistent with the number of small businesses located in the AA. Ninety-eight percent of the commercial loans originated since the last CRA examination were made to businesses located within the AA. By using the size of the loans extended to businesses as an indicator of business size, we found that 97% of the commercial loans originated between January 1, 1997 and March 31, 1998 were for amounts less than \$1,000,000. In addition, 68% of these loans made were for amounts less than \$50,000.

◆ **Geographic Distribution of Loans**

CNBT's geographic distribution of loans reflects a reasonable dispersion throughout the income geography in their AA. This determination is based on our sample of real estate loans. We found that the loan originations tend to be concentrated in close proximity of the branches, where the population centers are also located. The bank's lending pattern does not exhibit any conspicuous, unexplainable gaps. There are no upper income geographies in the AA.

◆ **Response to Complaints**

CNBT has received no CRA related complaints since its prior CRA evaluation in September 1996.

◆ **Compliance with Antidiscrimination Laws and Regulations**

A fair lending examination was performed in conjunction with our CRA evaluation. This fair lending examination consisted of a loan terms analysis of real estate loans made for the purpose of purchasing or refinancing a residence, and secured by the residence. No violations of the substantive provisions of antidiscrimination laws and regulations were identified.