
PUBLIC DISCLOSURE

May 31, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Pikeville National Bank
Charter No. 7030**

**208 North Mayo Trail
Pikeville, Kentucky 41502**

**Comptroller of the Currency
One Financial Place Suite 2700
440 South LaSalle
Chicago, Illinois 60605**

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 **Pikeville National Bank** prepared by the **Comptroller of the Currency**, the institution's supervisory agency, as of May 31, 1996. 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 is rated: Satisfactory Record of Meeting Community Credit Needs.

COMMUNITY AND BANK PROFILE

COMMUNITY PROFILE:

Pikeville National Bank is located in Pikeville, Kentucky. It uses the political boundaries of: Pike, Floyd, Knott, and Fayette counties as its assessment area. The counties of Pike, Floyd, and Knott are not part of a Metropolitan Statistical Area (MSA), but Fayette County is located in a MSA.

Pike County - This county is primarily rural with a total population according to the 1990 census of 72,583 people. There are 19 census tracts with 3 being moderate income, 15 being middle income, and 1 upper-income. A racial breakdown shows that approximately 99 percent of the population is white and one percent is minority. The median family income for Pike County is \$20,809. At this time, unemployment is approximately 4%. This is below both the state average (4.8%) and national average (5.8%) for unemployment.

Floyd County - This county is also primarily rural with a total population of 43,586 people. There are ten census tracts with four being moderate-income and six being middle-income areas. A racial breakdown shows one percent of the population is minority. The median family income for Floyd County is \$18,658 with 29% of the households living below the poverty level. At this time, unemployment is approximately 4%. This is below both the state average and national average for unemployment.

Knott County - This county is also primarily rural with a total population of 17,906 people. There are five census tracts, all with moderate-income levels. A racial breakdown shows that approximately one percent of the population is minority. The median family income for Knott County is \$16,026 with 38% of the households living below the poverty level. At this time, unemployment is approximately 5%. This is comparable to the state average and below the national average for unemployment.

All three of these counties: Pike, Floyd, and Knott, are located primarily in a coal mining region with numerous small businesses which provide related services to the coal industry. The community's prosperity is closely tied to the coal industry. There is limited opportunities for diversifying in this area. In addition, Pike County also has a strong, small-retail base and is a center for medical services.

Fayette County - This county is located in the Lexington Metropolitan Statistical Area (MSA). Lexington is the second largest city in Kentucky with Fayette County being

Kentucky's second most populous county.

There are 54 census tracts in Fayette County, of which four are low-income and twelve are moderate-income tracts. Population within Fayette County is approximately 225,366 with 16% of the population being a minority. The median family income is \$35,517. Lexington's poverty rate is 14%. This compares to Kentucky's overall rate of 19.0% and the national average of 13.1%.

The Lexington economy is good. The city benefits from a diverse economic base with several different types of industries. Unemployment of 3% is consistently below state and national averages. The city is a regional service and retail center. The University of Kentucky and Transylvania University have helped stabilize the city's economy. The local economy has benefitted from the Toyota plant in neighboring Georgetown, Kentucky and its related industries. In addition to federal, state, and local government, the major employers are the University of Kentucky, Toyota, Lexmark International, Central Baptist Hospital, St. Joseph Hospital, and IBM Corporation.

Various agencies performed community contacts within Pike and Fayette counties over the years of 1994 and 1995. Credit needs identified for these areas are affordable housing and small business loans. Due to the amount of community contacts performed by the OCC and other agencies, no community contacts were made for this examination.

Competition from other financial institutions in the assessment area is strong.

BANK PROFILE:

Pikeville National Bank (PNB) is the largest bank in Pikeville National Corporation. The main office of PNB is located in Pikeville, Kentucky, with fifteen full-service facilities located in the community. Nine of these facilities are in Pike County with one each in Knott and Floyd. PNB has four branches in Fayette County and twelve Automated Teller Machines (ATMs) located throughout the four counties. The facilities are readily accessible by all members of the community.

The bank is a full service lender with an emphasis on consumer loans, mortgages, and commercial/industrial lending. Total assets as of December 31, 1995 were \$716 million. The bank's loan-to-deposit ratio is approximately 86 percent and is above similar size banks.

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

o Management and board efforts to ascertain the credit needs of the community are satisfactory.

Management and the Board are regularly involved in a number of community organizations. These help keep management informed of community needs. Bank officers are actively involved with the Pike County Chamber of Commerce, the Commonwealth Small Business Development Corporation and the Homebuilders Association and solicit input from them. As a result of this involvement, PNB has agreed to do loans under the Lexington Housing Authority's HOUSE program. PNB also joined with other Lexington banks in applying for an affordable housing grant for the Lexington Habitat for Humanity project.

Pikeville NB offered a deferred payment plan aimed at low- and/or moderate-income individuals. This offer came under the Emergency Loan Program instituted in the first part of 1994. This program was the direct result of community input and was designed to aid community members who suffered financial difficulties during the winter storm of 1994.

PNB developed one new revolving line of credit product in 1995: the Convenient Credit Line. This program was established after loan officers realized that low- and/or moderate-income individuals were obtaining small loans and paying them back only to request a new small loan at a later date. By establishing a small line of credit, PNB could accommodate these borrowers' small loan needs quickly and easily. This program also helps them build a credit history with the bank. A similar Convenient Checking account was also implemented in 1995.

Lending services are reviewed on an informal basis during management committee meetings. Management and the Board review demographic data in regards to their lending activities on an annual basis.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

o The board and management are involved in supervising and promoting

the bank's CRA activities.

One member of the board is appointed to work with the bank's CRA Officer in coordinating the bank's CRA program. The CRA Officer updates the Management Committee weekly and then the Management Committee submits a monthly CRA report to the Board. Two directors serve on this Committee. In addition to the monthly CRA report, the CRA Officer provides the Board with a quarterly update and an annual CRA Self-Assessment.

The Board also reviews and approves CRA policies and procedures annually along with the CRA Statement. The directors and management both actively support CRA training for everyone. This training is formalized and tests personnel on their knowledge and procedures regarding CRA issues.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

o Credit services are effectively marketed in the assessment area.

Pikeville NB offers a variety of loans. Some of the loans offered are:

- o residential mortgages;
- o home improvement and home equity;
- o FHA, VA, SBA, and Kentucky Housing Corporation;
- o commercial;
- o consumer;
- o agricultural; and,
- o student loans.

The marketing program provides good coverage of all four counties. PNB uses several different types of advertising ranging from billboards and newspaper to radio and TV. Pikeville National Bank uses advertising as a way to promote their name in general and target specific credit products at the same time. PNB has used some specific advertisements for auto loans, home improvement loans, and mortgage loans to low- and/or moderate-income home buyers. One specific marketing promotion aimed at low-income families was a deferred payment offer made to customers during the 1994 winter storm under the Emergency Loan Program. The advertisement was well received and a number of customers benefitted from the extension.

All marketing and advertising programs are discussed with executive management and reviewed by the Compliance Officer and the legal department before implementation.

Bank personnel continue to provide assistance to individuals applying for credit. The bank also has an active Officer Call Program and a Speakers Bureau where officers speak to various organizations and schools.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

o The bank’s extensions of credit satisfactorily address the community’s credit needs.

Credit is extended throughout its community and has affirmatively addressed the identified credit needs in the community. The primary credit need, affordable housing, has been satisfactorily addressed through PNB’s extensive small dollar lending, their work with Community Development Corporations, and their residential mortgages. PNB has over \$228 million in residential mortgage loans with approximately 25% of the bank’s total loan portfolio being 1-4 family residential. PNB actively makes small business loans throughout the assessment area.

PNB makes a majority of their loans within their assessment area. As of December 31, 1995, 80% of the number of loans made were within the assessment area. Internal reports also indicate that a substantial majority of the dollar amount of loans were made within the assessment area.

COUNTY	# OF LNS	%
Pike	5857	52%
Floyd	1229	11%
Knott	435	4%
Fayette (see note)	1515	13%
Total W/N Assessment Area	9036	80%
Total O/S Assessment Area	2254	20%
TOTAL	11,290	100%

The bank actively makes small mortgage loans. The area in which PNB is located generates many mobile home loans. Low- and/or moderate-income individuals find this to be the easiest route to obtaining an affordable home. In 1995, Pikeville National Bank made 322 mobile home loans. They have a total of 1,138 mobile home loans on their books with an outstanding total of \$17,586,202 as of December 31, 1995.

Overall, small dollar loan activity demonstrates the bank's willingness to serve the community's credit needs. Pikeville National Bank has no minimum loan amount. In 1995, approximately 556 installment loans below \$1,000 were made to individuals. In addition, 187 small, revolving lines-of-credit were opened. Credit limits on these accounts were as low as \$300. Approximately 137 of these revolving lines-of-credit were specifically developed for low-income individuals.

Assessment Factor J - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

o Participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms is satisfactory.

Pikeville National Bank is eligible to participate in government related loan programs to target both housing and small business needs within the community. They participate in government sponsored programs such as Small Business Associations (SBA), Farmers Home Administration Guarantee Program, Kentucky Housing Authority program, the Veterans Administration loan program, and the Pike County/Floyd County Bond program for residential mortgages. In 1995, PNB originated approximately \$1,804,000 in government loans. Overall, there are 176 loans outstanding in these programs with loan balances totaling \$13 million. The bank also originated 88 government guaranteed student loans in 1995.

TYPE OF PROGRAM	# IN 1995	DOLLAR AMOUNT FOR 1995	# AS OF 12/31/95	DOLLAR AMOUNT OUT-STANDING
SBA loan program	10	\$1,709,000	69	\$10,755,052
Kentucky Housing Authority	0	\$0	27	\$774,267
Pike Co/Floyd Co Bond program	0	0	80	\$1,461,606

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

- o **The assessment area is reasonable and does not exclude any low- and moderate-income neighborhoods.**

Pikeville National Bank has designated Pike, Floyd, Knott, and Fayette counties as its assessment area. This delineation is based on areas where the majority of the bank's loans and deposits are located. A review of this delineation indicates that no low- and/or moderate-income areas are excluded.

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

- o **The geographic distribution of credit is reasonable.**

Management uses internal reports to identify the geographic distribution of credit applications, approvals, and denials. These reports indicate PNB receives applications from all segments of the assessment area. There is no indication of unjustified or disproportionate distribution patterns of lending activity affecting low- and/or moderate-income areas.

In 1995, Pikeville National Bank began tracking loan applications for installment, mortgage, and revolving loans within Pike, Floyd and Knott counties. Management uses internal reports to classify each application by income level, type of loan, and whether it was approved or denied. The report is divided into the different Block Numbering Areas (BNAs) for each county within the assessment area. With this monitoring system, PNB can determine what income levels they are lending to and which BNA(s) they may wish to target their lending activities.

During 1995, PNB made approximately 11 percent of such loans within its assessment area to people with incomes of \$10,000 or less and approximately 26 percent to income levels between \$10,000 and \$20,000. This total indicates 37% of the loans were made to individuals in the low to moderate income levels. The following table provides details:

INCOME LEVEL	NO. OF LOANS MADE	% LNS MADE
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0-10,000	778	11%
10,001 - 20,000	1866	26%
20,001 - up	4626	64%
Total loans w/n assessment area	7278	100%

Since the majority of the assessment area is moderate income and 37% of all installment, mortgage, and revolving loans were made to low- and/or moderate-income individuals, the distribution of credit is reasonable based on income level.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

- o **Pikeville National Bank's performance regarding providing services to its delineated community is satisfactory.**

Pikeville National Bank operates 15 branches in addition to the main office. All but one are full service, and all are easily accessible. Business hours are sufficient to meet customer needs.

During 1995, PNB opened five new branches and closed one. The closure was attributed to the shutdown of the grocery store in which the bank was located. The bank has a branch closing policy and based upon their analysis this closure did not have a significant adverse impact on customers.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

- o **There is no evidence of practices that would discourage potential applicants.**

Based upon loans approved and denied, management solicits applications from all segments of its delineated community. Management routinely provides training to lending officers and other bank personnel on fair lending. Adequate policies and procedures are in place to support non-discriminating activities in all aspects of the credit process.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit

practices.

- o **Compliance with the Equal Credit Opportunity Act, Fair Housing Act, and other consumer credit regulations is satisfactory.**

No evidence or instances of discrimination or other illegal credit practices were identified. See Assessment Factor D for details.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

- o **The bank is aware of and participates in community development and redevelopment projects and programs.**

Senior management remains active in community development activities. PNB has funded two Community Development Corporation (CDC) projects since our last examination. These projects were established for the purpose of providing affordable housing for low- and/or moderate-income individuals and families. Hindman Hill Apartments is a 36-unit apartment building located in Hindman, Ky, and is managed by Winterwood, Inc. The units will remain at affordable rents for low- to moderate-income persons for a minimum of 15 years. The total project cost was \$1.5 million with PNB providing 26 percent of its interim financing. The second project, Booneville Homes, is a 32-unit apartment building located in Booneville, Ky. This project is also managed by Winterwood, Inc. The total project cost was \$1.5 million with PNB providing 31 percent of their interim financing.

Pikeville NB continues to fund loans under the \$7,000,000 revolving Pikeville Urban Renewal Bond fund for improvement of business properties within the city of Pikeville. There are currently \$2,707,852 in outstanding loans for this program. A \$36,000 loan was made in 1995 to the Pikeville Pike County Industrial Development Corporation. The purpose was to fund operating expenses on a project designed to bring new businesses into the community. The project lost part of the funding from the city of Pikeville so PNB stepped in with additional financing.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

- o **PNB demonstrates the ability to meet community credit needs.**

Local economic conditions, the institution's financial condition and size, and legal impediments do not bear adversely on PNB's ability to meet the objectives of the Community Reinvestment Act.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

o PNB is involved in other activities which contribute to community development and meeting community credit needs.

The bank supports many local organizations by providing leadership for community programs, by supplying monetary donations, and by allowing employees time to participate in community activities. Pikeville National Bank is also involved with three different projects for the Habitat for Humanity. All of this activity demonstrates the bank's efforts to be an active leader in the various counties it serves.

PNB offers several different checking accounts which have no fees and require no minimum balance to individuals. PNB also has a basic savings account that allows unlimited deposits and up to 10 withdrawals per quarter without a service fee.

Student run banks are supported in all Pike County high schools and two Floyd County high schools. They participate in the Kentucky Bankers Association PEP programs and have an active speakers bureau that gives presentations to schools and community organizations. Monetary donations are made to many community organizations.

ADDITIONAL INFORMATION

The institution has four branches located in Lexington, Ky, a Metropolitan Statistical Area.

