



## **PUBLIC DISCLOSURE**

As of March 31, 1998

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

**First National Bank and Trust Company of Corbin  
Charter No. 7544**

**100 North Main Street  
Corbin, Ky 40702**

**Office of the Comptroller of the Currency**

**One Financial Place  
440 South LaSalle Street, Suite 2700  
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 **First National Bank and Trust Company of Corbin** prepared by **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 to 12 CFR Part 25.*

**INSTITUTION'S CRA RATING:** This institution has a “Satisfactory record of meeting the credit needs of the community.”

- ✧ The average loan-to-deposit ratio exceeds the standards for satisfactory performance.
- ✧ The bank is making a majority of their loans within its assessment area.
- ✧ Loan distribution among the different block numbering areas is reasonable.
- ✧ Loan distribution among the different borrower income levels is satisfactory.

## **DESCRIPTION OF INSTITUTION**

The First National Bank and Trust Company of Corbin (FNB&T) is a community bank with total assets of approximately \$240 million as of March 31, 1998. The bank is wholly owned by Southeast Bancorp, Inc. On July 1, 1997, the holding company acquired First Bank of East Tennessee, NA, located in LaFollette, Tennessee making it a two-bank holding company. The bank has three full-service offices with drive-thru services, one stand-alone drive-up facility, and thirteen cash dispensers located throughout Whitley, Knox, and Laurel County plus LaFollette and Clinton, Tennessee.

The bank offers traditional banking services and lending products. Management focuses lending efforts on commercial loans and residential mortgages with a majority of loans being commercial or small business. FNB&T's loan portfolio consists of the following: 46% commercial and industrial; 30% one-to-four family residential; 19% consumer loans; 2.47% non-farm non-residential; 1.2% credit card loans; and the remaining 1 1/2% consisting of farmland, multifamily, and municipal loans. As of March 31, 1998, the loan portfolio represented approximately 74% of the bank's total 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.

## **DESCRIPTION OF CORBIN AND THE TRI-COUNTY AREA**

FNB&T's assessment area is all of Whitley County plus parts of Laurel and Knox County. The assessment area is reasonable and does not arbitrarily exclude low- and/or moderate-income block numbering areas (BNA). The assessment area is not located within an MSA. It is comprised of one low-income BNA, five moderate-income BNAs, six middle-income BNAs, and one upper-income BNA (BNA numbers 9801-9808, 9710, 9711, and 9903-9905). The 1998 median family income for Kentucky counties not located in an MSA is \$29,800. The median family income: for Whitley County is \$18,904; for Laurel County is \$21,574; and for Knox County is \$15,424.

The City of Corbin was established at the junction of Laurel, Knox, and Whitley Counties and is referred to as the Tri-County area. The county seat of Whitley County is located south of Corbin in Williamsburg, Kentucky. While Williamsburg is the county seat, Corbin has the larger population and a broader economic base. This is reflected in the fact that the city of Corbin is located in block numbering areas 9801, 9802, 9710, 9711, and 9904 which are all middle and upper income BNAs.

The assessment area is mostly a rural community with average to above-average levels of unemployment and poverty. The population of the assessment area is as follows: Whitley County-33,326; Laurel County-43,438; and Knox County-29,676. Corbin has a population of approximately 8,422. The most current unemployment rate for Whitley County is 6.1% and the poverty rate is 32%.

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, Whyne 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. Performance evaluations of other local financial institutions also identify affordable housing as the primary credit need for the area. Many residents cannot afford down payments required for bank loans and are renting or purchasing mobile homes as an alternative. Consequently, banks are becoming involved with programs that are designed to aid low- and/or moderate-income borrower(s). First National Bank and Trust Company of Corbin (FNB&T) offers Kentucky Housing Corporation (KHC) loans, FHA loans, and VA loans. As a supplement to the KHC program, FNB&T has begun offering Epic loans. This program helps low- and/or moderate-income borrowers by covering 60% of the closing costs and down payment up to \$3000. Currently, the bank has made two Epic loans.

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 exceeds the standards for satisfactory performance. The bank's average loan-to-deposit ratio since their last examination was 89.69%. As of March 31, 1998, the loan-to-deposit ratio was 94.06%. This ratio has been steadily increasing over the last couple of years. FNB&T's ratio is significantly higher than its national peer group which is 73%. In addition, the bank's ratio is higher than local competitors whose average loan-to-deposit ratios range from 64% to 85%. The loan-to-deposit ratio for the assessment area is 68.93%.

## LENDING IN THE ASSESSMENT AREA

The bank is making a majority of their 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 substantial majority of the institution's lending was conducted within its assessment area. While we reviewed information covering all new loans extended since the previous examination, our review focused on the bank's consumer and residential mortgages. Overall, the institution made 76% of all new loans and 61% of their dollar volume within the assessment area (Chart No. 1). Our examination also found that 75% of the number of consumer loans and 84% of the residential mortgages made by the institution were within its assessment area. By dollar volume, 70% of consumer loans and 78% of real estate loans were made within its assessment area. (Chart No. 2.)

**Chart No. 1**

| <b>LOAN DISTRIBUTION WITHIN THE ASSESSMENT AREA</b><br>(New Loans Extended: 12/96-11/97) |                     |                |               |                |
|--|---------------------|----------------|---------------|----------------|
|  | <b>No. Of loans</b> | <b>Percent</b> | <b>Amount</b> | <b>Percent</b> |
| Inside AA  | 4386                | 76%            | \$59,827,064  | 61%            |
| Outside AA   | 1404                | 24%            | \$38,336,745  | 39%            |
| Total loans  | 5790                | 100%           | \$98,163,809  | 100%           |

**Chart No. 2**

| <b>LOAN DISTRIBUTION WITHIN THE ASSESSMENT AREA</b><br>(New Loans Extended by Loan Type) |                       |          |                       |          |                         |          |                       |          |
|--|-----------------------|----------|-----------------------|----------|-------------------------|----------|-----------------------|----------|
|  | <b>CONSUMER LOANS</b> |          |                       |          | <b>RESIDENTIAL MTGS</b> |          |                       |          |
|  | <b>No.</b>            | <b>%</b> | <b>\$<br/>(000's)</b> | <b>%</b> | <b>No.</b>              | <b>%</b> | <b>\$<br/>(000's)</b> | <b>%</b> |
| Inside AA  | 3405                  | 75%      | 19,902                | 70%      | 491                     | 84%      | 15,075                | 78%      |
| Outside AA   | 1133                  | 25%      | 8,571                 | 30%      | 96                      | 16%      | 4,284                 | 22%      |
| Total loans  | 4538                  | 100%     | 28,473                | 100%     | 587                     | 100%     | 19,359                | 100%     |

First National Bank and Trust Company of Corbin has a system in place to geocode and analyze all loans for CRA purposes. Reports are generated on an annual, year-end 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 geographic distribution of loans among the individual block numbering areas. 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 satisfactory penetration among the different income levels, including low- and moderate-income levels. We selected a random sample of 75 consumer loans and 56 residential mortgages from Whitley, Laurel, and Knox Counties. All of the loans were made in 1997 and 1998 and were from within the assigned assessment area. Our findings indicate that the bank made:

- ✧ 52% of its consumer loans and 35% of its residential mortgages to low- and/or moderate-income level individuals in Whitley County (Chart No. 3);
- ✧ 76% of its consumer loans and 50% of its residential mortgages in Laurel County (Chart No. 4); and
- ✧ 84% of its consumer loans and 22% of its residential mortgages in Knox County (Chart No. 5).

These numbers are reasonable considering the bank’s location, market, and competition along with the area’s demographics.

**Chart No. 3  
Whitley County**

| <b>Income Level</b> | <b>Percentage of Families Within Each Income Category*</b> | <b>Percentage of Total Consumer Loans</b> | <b>Percentage of Total Real Estate Loans</b> |
|---------------------|--|---|--|
| <b>Low</b>          | 32.80%   | 20%                                       | 10%  |
| <b>Moderate</b>     | 17.23%   | 32%                                       | 25%  |
| <b>Middle</b>       | 17.18%   | 24%                                       | 20%  |
| <b>Upper</b>        | 32.81%   | 24%                                       | 45%  |
| <b>Total</b>        | 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.

**Chart No. 4  
Laurel County**

| <b>Income Level</b> | <b>Percentage of Families Within Each Income Category*</b> | <b>Percentage of Total Consumer Loans</b> | <b>Percentage of Total Real Estate Loans</b> |
|---------------------|--|---|--|
| <b>Low</b>          | 25.83%   | 60%                                       | 7%   |
| <b>Moderate</b>     | 16.73%   | 16%                                       | 43%  |
| <b>Middle</b>       | 20.04%   | 30%                                       | 29%  |
| <b>Upper</b>        | 37.40%   | 4%  | 21%  |
| <b>Total</b>        | 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. 5  
Knox County***

| <b>Income Level</b> | <b>Percentage of Families Within Each Income Category*</b> | <b>Percentage of Total Consumer Loans</b> | <b>Percentage of Total Real Estate Loans</b> |
|---------------------|--|---|--|
| <b>Low</b>          | 38.55%   | 60%                                       | 13%  |
| <b>Moderate</b>     | 18.04%   | 24%                                       | 9%   |
| <b>Middle</b>       | 17.05%   | 8%  | 35%  |
| <b>Upper</b>        | 26.37%   | 8%  | 43%  |
| <b>Total</b>        | 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.

The bank's assessment area of Whitley County along with parts of Laurel and Knox Counties is experiencing high unemployment and poverty levels while an increasing amount of people are living on social security and public assistance. These residents cannot afford the down payments required to obtain a bank loan on a residential mortgage which limits the bank's opportunities to originate loans to this sector of the community.

The majority of the bank's commercial loans and agricultural loans are to small businesses, defined by the Equal Credit Opportunity Act as businesses with annual sales of less than \$1 million. Management supports local farmers by offering crop production loans, livestock loans, and crop diversification loans. Since the last examination, management has made several low dollar loans to both businesses and farms, some as low as \$200.

#### GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of loans within the assessment area is reasonable. The chart on the next page (Chart No. 6) details First National Bank and Trust Company of Corbin's geographic distribution of loans throughout the thirteen block numbering areas.



**Chart No. 6**

| <b>LOAN DISTRIBUTION AMONG THE BLOCK NUMBERING AREAS<br/>(New Loans Extended: 12/96-11/97)</b> |              |               |                     |              |
|--|--------------|---------------|---------------------|--------------|
| Block Numbering Areas  | No. Of loans | Percent       | Amount              | Percent      |
| 9801-Mid   | 290          | 6.61          | \$4,225,459         | 7.12         |
| 9802-Upp   | 608          | 13.86         | \$9,208,511         | 15.52        |
| 9803-Mid   | 614          | 14.00         | \$8,397,835         | 14.16        |
| 9804-Mod   | 222          | 5.06          | \$2,910,547         | 4.91         |
| 9805-Mod   | 299          | 6.82          | \$2,554,690         | 4.31         |
| 9806-Mid   | 168          | 3.83          | \$2,565,675         | 4.33         |
| 9807-Mod   | 277          | 6.32          | \$3,033,242         | 5.11         |
| 9808-Low   | 46           | 1.05          | \$300,027           | 0.51         |
| <b>Total for Whitley County</b>  | <b>2524</b>  | <b>57.55%</b> | <b>\$33,195,986</b> | <b>55.97</b> |
| 9710-Mid   | 182          | 4.15          | \$1,450,437         | 2.45         |
| 9711-Mid   | 197          | 4.49          | \$1,932,587         | 3.26         |
| <b>Total for Laurel County</b>   | <b>379</b>   | <b>8.64%</b>  | <b>\$3,383,024</b>  | <b>5.70</b>  |
| 9903-Mod   | 345          | 7.87          | \$2,533,810         | 4.27         |
| 9904-Mid   | 986          | 22.48         | \$15,906,670        | 26.82        |
| 9905-Mod   | 152          | 3.47          | \$4,295,031         | 7.24         |
| <b>Total for Knox County</b>   | <b>1483</b>  | <b>33.81%</b> | <b>\$22,735,511</b> | <b>38.33</b> |
| Totals   | 4386         | 100%          | \$59,314,521        | 100%         |

*Note: The bank has offices located in block numbering areas: 9801, 9802, 9904, and 9806. The town of Corbin is located in block numbering areas: 9710, 9801, 9802, and 9904.*

Overall, the lowest volume of penetration is in block numbering area 9808. This is also the only low-income BNA. After discussions with management about the level of loans made in this area, we believe that the loan penetration is reasonable based upon the following reasons:

- o The lower portion of Whitley County, which includes this low-income BNA, is serviced by a variety of other banks located in the town of Williamsburg and the banks in nearby Bell County.
- o This bank only received 75 loan applications from BNA 9808 while this area has 627 families located within it. Out of the 75 loan applications, 46 loans were approved which is a 61% approval rate for this area. Out of these approvals, 93.47% were for real estate and consumer loans.

#### RESPONSE TO COMPLAINTS

No consumer complaints have been received since the last examination.

#### COMPLIANCE WITH ANTI-DISCRIMINATION LAWS

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