

PUBLIC DISCLOSURE

December 20, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Citizens National Bank of Paintsville
620 Broadway
P.O. Box 1488
Paintsville, Kentucky 41240-5488**

**Office of the Comptroller of the Currency
West Virginia Field Office
100 Capitol Street
Security Building - 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 Citizens National Bank of Paintsville prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of December 20, 1999. 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**.

Citizens National Bank of Paintsville 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; and, geographic distribution of loans. This evaluation is based on information from February 6, 1997 through November 30, 1999. The following table indicates the performance of Citizens National Bank of Paintsville with respect to each of the five performance criteria:

SMALL INSTITUTION ASSESSMENT CRITERIA	CITIZENS NATIONAL BANK OF PAINTSVILLE PERFORMANCE LEVELS		
	<i>Exceeds</i> Standards for Satisfactory Performance	<i>Meets</i> Standards for Satisfactory Performance	<i>Does Not Meet</i> 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 not received any CRA related complaints since the previous CRA examination.		

DESCRIPTION OF INSTITUTION

Citizens National Bank of Paintsville (CNB) is a \$264 million independent community bank with its main office located in Paintsville, Kentucky. CNB also operates ten full service branches: three in Johnson County; six in Floyd County; and, one in Magoffin County. Drive-through facilities are located at all locations, with the exception of the Main Street Branch in Paintsville. Automated Teller Machines (ATM) are located at all branches except for the Main Street Branch in Paintsville and the Garrett Branch in Floyd County. CNB also operates 12 stand-alone ATMs.

As of September 30, 1999, net loans totaled \$137.9 million dollars and represented approximately 53% of the bank's total assets. CNB's loan portfolio consists of 73% real estate loans, 15% consumer loans, and 12% commercial loans (including loans to municipalities). CNB offers a variety of loans including personal loans (\$500 minimum loan amount); residential real estate loans; student loans; home improvement loans; construction loans; and business loans, including Small Business Administration (SBA) loans. CNB also originates housing loans through the Kentucky Housing Corporation.

CNB's CRA performance was last evaluated in February 1997 and was rated Satisfactory. Since that time the bank has merged with the former Bank Josephine (a Kentucky chartered bank). The merger with The Bank Josephine, which was finalized in May of 1999, increased CNB's asset size from approximately \$162 million to \$267 million. This merger expanded the bank's operations from Johnson County into Floyd and Magoffin counties. There are no financial conditions, legal constraints, or other conditions that would hinder the CNB's ability to help meet the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA

The eastern Kentucky counties of Johnson, Floyd, and Magoffin comprise the bank's Assessment Area (AA). The AA includes twenty block numbering areas (BNAs)¹. Of the twenty BNAs, one is categorized as being a low-income, nine are moderate-income tracts, and ten are middle-income tracts. There are no upper-income tracts within the AA.

The income levels of the various families in the AA are as follows: low-income (32%), moderate-income (18%), middle-income (18%), and upper-income (32%). The 1998 updated statewide median family income² for Kentucky equaled \$32,200 (as reported by the U.S. Department of Housing and Urban Development). Based on 1990 U.S. census data, the population of Johnson, Floyd, and Magoffin counties was 79,911. Of the 28,500 households residing in the AA, 33% receive social security income, while another 15% receive some other type of public assistance. Approximately 31% of the households within the AA are considered to be below the poverty level.

¹ A block numbering area (BNA) is defined by the 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 average income earned by people sharing a home that are related by birth, marriage, or adoption.

The AA's economy is stable and loan demand is moderate. Banking within the AA is very competitive. In addition to CNB, the AA contains the main offices and/or branches of three nationally-chartered banks, three state-chartered banks, two federal savings banks, and three credit unions. Additionally, two finance companies and the financing arms of the "Big 3" automobile manufacturers (Ford, Chrysler, and General Motors) are active in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan to Deposit Ratio

CNB's loan to deposit ratio is reasonable. During the 11 quarters from March 31, 1997 through September 30, 1999, CNB's net loan to deposit ratio averaged 59%. The net loan to deposit ratio of similarly situated community banks, nation-wide, averaged 73% for the same period. Although, on a nation-wide basis, the peer ratio was higher, the average loan to deposit ratio for bank's operating within the CNB's AA ranged from 47% to 72%. As mentioned previously, competition is stiff in this relatively small market. CNB's local banking competition consists of the main offices and/or branches of several nationally and state chartered banks, federal savings banks, credit unions and finance companies.

Lending in Assessment Area

A substantial majority of the bank's lending activity is within the AA. In order to determine this, we used data contained in a *Community Reinvestment Geo-Analysis Report*, compiled as of October 31, 1999 by the Attus Group, Inc. for the bank's management and Board of Directors. The validity of this data was confirmed by reviewing a sample of consumer loans originated in September and October of 1999. The following table represents CNB's lending within their AA:

CNB's Lending Patterns for Consumer Installment, Consumer Real Estate, and Commercial Loans (by percent of amount loaned)			
	Consumer Installment Loans	Real Estate Loans	Commercial Loans
Loans <i>within</i> the AA	83%	80%	66%
Loans <i>outside</i> the AA	17%	20%	34%
Total	100%	100%	100%

Source: Community Reinvestment Geo-Analysis Report, 10/31/99, The Attus Group, Inc.

As part of our evaluation of CNB's lending performance, we reviewed the results of three local community contacts performed by our office during 1999. These community contacts were conducted in an effort to determine opportunities for participation by financial institutions in helping to meet local credit needs and to understand community perceptions of the local financial institutions' performance in meeting those needs. No salient, unaddressed credit needs were identified during these contacts and all three contacts expressed opinions that the financial institutions operating in the local area were responsive to the individual credit needs of consumers and small businesses within the area.

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

CNB's lending to borrowers of different income levels within the AA is reasonable and reflective of the income demographics, especially the low- and moderate-income areas within the AA. We determined this by reviewing a sample of 30 new and used direct automobile loans originated from September through November 1999. The following table illustrates CNB's penetration of consumer loans to individuals within each income level residing throughout the AA:

New & Used Direct Auto Loans to Individuals of Different Income Levels Within the AA			
Income Level	Percent of Families in the AA	Percent of Loans Originated	Percent of Loans Originated, by Amount
<i>Low</i>	32%	53%	45%
<i>Moderate</i>	18%	20%	21%
<i>Middle</i>	18%	17%	24%
<i>Upper</i>	32%	10%	10%
Total	100%	100%	100%

In addition to traditional loan products, CNB offers housing loans targeted to low- and moderate income borrowers through the Kentucky Housing Corporation (KHC) and the Mountain Housing Opportunity Corporation. Thus far in 1999, CNB has originated seven loans through KHC totaling \$338,983. CNB's lending commitment Mountain Housing consists of a \$250,000 line of credit to build low-income housing in Johnson and Floyd counties.

The bank's level of lending to businesses of different sizes is reasonable, as well as consistent with the number of small businesses in the AA. Based on the *Community Reinvestment Geo-Analysis Report* compiled for the bank by the Attus Group, Inc, 75% of the commercial loans originated from January through October 1999 were in the amount of \$100,000 or less. To

ascertain the extent of CNB's lending to small businesses, we reviewed a sample of 10 commercial loans originated in the last twelve months. Of these loans, 80% were to businesses having annual gross revenues of \$1 million or less. Additionally, as of our examination date, CNB has five loans, totaling \$351,568 to small businesses under the Small Business Administration's loan guarantee program.

Geographic Distribution of Loans

CNB's lending patterns and performance do not exclude the low- and moderate-income areas within its AA. The data used to assess the bank's geographic lending performance was compiled by the Attus Group, Inc. from January through October 1999 and reported to bank management and the Board of Directors in the *Community Reinvestment Geo-Analysis Report*. The validity of the data was confirmed by reviewing a sample of consumer loans originated from September and October 1999. The following table depicts CNB's geographic distribution of loans to the low-, moderate-, and middle-income BNAs within its AA:

Geographic Distribution of Loans Within the AA				
Income Level of BNA	No. of BNAs	Percentage of Population within each BNA	Percent of Number of Loans	Percent of Dollars Loaned
<i>Low-Income</i>	1	2%	5%	9%
<i>Moderate-Income</i>	9	42%	33%	26%
<i>Middle-Income</i>	10	56%	62%	65%
<i>Upper-Income</i>	The AA contains no Upper-Income BNAs			
Totals	20	100%	100%	100%

Source: Community Reinvestment Geo-Analysis Report, 10/31/99, The Attus Group, Inc.

The bank's geographic distribution of loans is not totally reflective of the moderate-income segment of the AA. This is due to the recent expansion of the bank's AA as a result of the merger with The Bank Josephine. At the beginning of 1999, CNB's AA consisted of only Johnson County, which contains only two moderate-income and four middle-income BNAs. The merger of The Bank Josephine in May of 1999 resulted in a revision of CNB's AA to include Floyd County (which consists of four moderate-income and six middle-income BNAs) and Magoffin County (which consists of one low-income and three moderate-income BNAs).

Consequently, the increase in the number of moderate-income BNAs (from 2 to 9) during 1999 dilutes the bank's percentage of loans within that segment of its AA.

, **Response to Complaints**

CNB has not received any CRA-related complaints since the prior CRA evaluation.

, **Compliance with Antidiscrimination Laws and Regulations**

A fair lending examination was performed in conjunction with our CRA evaluation. This examination was performed to determine if any disparate treatment to any prohibited basis groups had been conducted. The fair lending examination focused on rates, terms, and fees of all 1st mortgage real estate loans originated from January 1999 through September 1999. No violations of the substantive provisions of antidiscrimination laws and regulations were identified.