



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 28, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Citizens National Bank and Trust
Charter No. 22988

100 Citizens Lane
Hazard, Kentucky 41701

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 Citizens National Bank and Trust prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of August 28, 1996. This examination covers the period since the last examination on September 19, 1994 when the bank's CRA performance was rated satisfactory. 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 based on the following conclusions:

- The bank's assessment area is reasonable and does not exclude any low- and moderate-income areas.
- The average loan to deposit ratio since the last CRA examination of 76% is reasonable.
- A majority of the bank's loans are originated within the assessment area.
- Management's record of lending to borrowers of different income levels and businesses of different sizes is reasonable. Lending patterns reflect the demographics of the assessment area.
- The geographic distribution of loans throughout the assessment area is reasonable.

The following table indicates the performance level of Citizens National Bank and Trust with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Citizens National Bank and Trust</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet 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		X	

DESCRIPTION OF INSTITUTION

Citizens National Bank and Trust (CNB) is a \$126 million independent community bank located in Perry County, Kentucky. CNB's main office is in the city of Hazard with five additional branches throughout Perry County. Four of these branches are located in moderate-income areas. Loans are only made at the Main Street and Black Gold Operations Center locations. The Fusonia and Chavies locations do not offer lockbox services. All locations have drive-up facilities and are open six days a week to serve customers. Four branches also have Automated Teller Machines for added convenience. Loans represent 62% of the bank's assets. The loan portfolio consists of 51% real estate loans, 30% commercial loans, and 19% consumer loans. There are no constraints on the bank's ability to meet local credit needs.

DESCRIPTION OF PERRY COUNTY, KENTUCKY

The bank's assessment area of Perry County is reasonable, legal and does not arbitrarily exclude low- and moderate-income areas. Perry County is located in the eastern Kentucky coal fields and has an estimated population of 30,000. The county is comprised of nine Block Numbering Areas (BNA): 9701 through 9709. The BNA income levels are categorized by the 1990 U.S. Census as:

Low-income:	11% (9701)
Moderate-income:	44% (9703, 9705, 9707, 9709)
Middle-income:	44% (9702, 9704, 9706, 9708)
Upper-income:	0%

According to the 1990 U.S. Census, the median family income for Perry County is \$22,543, and Perry County consisted of families in the following income levels:

Low-income:	31%
Moderate-income:	17%
Middle-income:	14%
Upper-income:	38%

The unemployment rate for Perry County is 7.6%. The local economy has been dominated by coal for the past one hundred years. The area is gradually diversifying its industrial base; however, these efforts are hampered by the topography of the area. Large parcels of flat land are limited and costly. Local industries include coal and related businesses, timber, apparel manufacturing, and a regional medical facility.

Banking competition is presented by one local commercial bank, one savings and loan association, and several finance companies.

During the examination, we discussed the market area with representatives from a regional economic development group and a housing group. There is a need for new industries to provide diversification and more job opportunities. The housing needs for low-income residents are generally being met through federally subsidized public housing. We determined the major credit needs for the area to be business and consumer loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan to Deposit Ratio

The bank's average loan to deposit ratio since the last CRA examination of 76% is comparable to similarly situated financial institutions in the area.

Lending in Assessment Area

Management originates a majority of their loans within the assessment area. We reviewed all residential and business loans originated during June and July of 1996 and sampled consumer loans for this same time period. Approximately 91% of the number and 36% of the dollar amount of these loans were within the assessment area. The dollar amount is skewed because of one large, out-of-area loan.

Management also performs an annual zip code analysis of the loan portfolio. The June 1996 analysis showed 69% of the loan portfolio within Perry County.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Management actively lends to borrowers of different income levels and small businesses. We reviewed all residential mortgage loans originated in 1996. This analysis is detailed in the table below and compares borrower income to the percent of families in Perry County (AA) in that income category.

Income Category	Number Originated	Percent Originated	% Families in AA
Low	1	7%	31%
Moderate	4	27%	17%
Middle	2	13%	14%
Upper	8	53%	38%

Lending to low-income individuals is below the percent of low-income families in the area; however, this pattern is reasonable given a vast majority of low-income residents' housing needs are addressed through public housing. In addition, purchasing land to construct low-income housing is costly. The primary credit need of low-income individuals is small consumer loans. Management regularly makes small consumer loans as evidenced by their origination of 56 loans in June and July with original amounts under \$1,000.

Approximately 71% of the dollar amount of commercial loans are to small businesses. The local terrain is not conducive to agricultural production. Accordingly, the bank does not have any small farm loans.

Geographic Distribution of Loans

The geographic distribution of loans is reasonable. Our sample included loans in a majority of the BNAs. The geographic distribution of loans we sampled, by loan category, is outlined in the following table.

BNA Income Category	Consumer Loans		Business Loans		Residential Loans	
	Number	Percent	Number	Percent	Number	Percent
Low- 9701	0	0%	0	0%	0	0%
Moderate-9703,5,7,9	9	60%	7	88%	8	50%
Middle- 9702,4,6,8	6	40%	1	12%	8	50%
Upper - none	N/A	N/A	N/A	N/A	N/A	N/A

Although our sample did not show any loans in the one low-income BNA, management originates loans in every Perry County BNA. Management's zip code analysis shows approximately 4% of all loans in Perry County are in this BNA which contains 3% of the county's population.

Response to Complaints

This office has not received any complaints regarding the bank's lending practices. Since the last CRA examination, the bank received one inquiry regarding the reason for a loan denial. Management took appropriate and timely action in contacting the applicant to resolve the issue.

We found no violations of the substantive provisions of anti-discrimination laws or regulations. There is no evidence of practices that would discourage applications from any individual for any type of credit.