
PUBLIC DISCLOSURE

October 31, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank in Marlinton
Charter # 13783**

**300 Eighth Street
Post Office Box 58
Marlinton, West Virginia 24954-0058**

**Office of the Comptroller of the Currency
Southeastern District
Virginia Field Office
3800 Electric Road, Suite 204
Roanoke, Virginia 24018**

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 in Marlinton** by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of **October 31, 1997**. 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 **Outstanding**

First National Bank in Marlinton (First National) continues to meet the spirit and intent of the CRA through its aggressive lending efforts to meet the credit, service, and economic development needs of the community. The institutions' loan-to-deposit ratio is well above similarly situated banks operating in its assessment area and the State of West Virginia as a whole. The bank extends a substantial majority of its loans within its Pocahontas County assessment area located in the eastern portion of West Virginia. Also, lending among borrowers of different incomes and commercial businesses of different sizes is very good. First National has taken a leadership role in infrastructure development lending which has resulted in much needed job creation and business retention in the community.

The following table indicates the performance level of **First National Bank in Marlinton** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	First National Bank in Marlinton 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	Not applicable since the assessment area consists of only middle income Block Numbering Areas (BNAs).		
Response to Complaints	There have been no CRA complaints since the last CRA examination in August 1994.		

DESCRIPTION OF INSTITUTION

First National Bank in Marlinton is a \$65 million full service community bank headquartered in Marlinton, West Virginia. The bank is one of five affiliate banks of Horizon Bancorp, Inc. located in Beckley, West Virginia. First National conducts business out of one office at its headquarters building in Marlinton which is readily accessible to the public. The bank also operates a 24-hour automated teller machine (ATM) in Marlinton and has another ATM facility at the Snowshoe ski resort twenty-two miles north of Marlinton. Primary competition is provided by a local state chartered institution (total assets \$61 million) affiliated with an \$8 billion North Carolina bank holding company. Aside from having one additional office location, this competitor bank is similarly situated with First National in that both banks are nearly the same size and are located in Marlinton. Both also share Pocahontas County as its assessment area. The majority of First National's earning assets are in loans, at 80%. The bank's \$52 million loan portfolio is centered primarily in residential and retail lending which represents 60% and 22% respectively.

First National's strategic emphasis is focused on a continuation of loan growth in residential and retail lending, and the small commercial business sectors. A substantial majority of the commercial loans extended by the bank are to small businesses and entrepreneurs located in Pocahontas County. There are no significant impediments that hinder First National's ability to meet the credit and financial service needs of the Pocahontas County community.

DESCRIPTION OF ASSESSMENT AREA

First National has designated Pocahontas County as its assessment area. The County encompasses one thousand square miles consisting of 161 thousand acres and is very sparsely populated at 9,008 residents according to the 1990 census. Community development officials indicate that there has been considerable out-migration of people from the County over the last two decades, but the population has now stabilized. The Pocahontas County assessment area includes three out of the five block numbering areas (BNAs) located in the County as detailed below. Fifty-eight percent of the County's land mass is owned by the State and Federal governments which represents the majority of BNAs 9604 and 9665. The bank's assessment area meets the requirements of the CRA as no areas have been arbitrarily excluded.

Block Numbering Area	[Municipalities] and Unincorporated Postal Zones
9601	Arbovale, Bartow, Boyer, Cass, Cloverlick, Dunmore, [Durbin] , Frank, Green Bank, Stony Bottom, Thornwood
9602	Campbelltown, Edray, Frost, Huntersville, Mace, [Marlinton] , Minnehaha Springs, Riverside, Slatyfork, Snowshoe
9603	Buckeye, [Hillsboro] , Denmark, Droop, Lobelia, Mill Point, Seebert
9604 & 9665	State and Federal forest land and national parks

Despite its natural beauty and home to the mid-Atlantic's largest ski resort (Snowshoe), Pocahontas County is very rugged. There have been three major floods in the County over the last ten years. Pocahontas County is designated as one of twenty-eight distressed counties by the West Virginia Development Office. This designation is based on the economic factors of unemployment, income level and poverty. The County's unemployment rate averaged 13% during 1996, but has improved to 7.3% through August 1997. This rate is still higher than State and national averages. Of the 3,686 households in the assessment area, 43% are low to moderate income, and 57% represent middle to upper income households. Nearly 21% of these households are below the poverty level. The 1997 Housing and Urban Development (HUD) updated median family income of all non-metropolitan statistical areas in the State of West Virginia is \$27,600. Pocahontas County ranks 19th in State per capita income at \$12,177. The area's 5,579 housing units is 51% owner occupied and consists primarily of 1-4 family units, with mobile home and trailer housing second at 22%. Vacant housing units represent a high 34%. The median housing value is slightly more than \$41 thousand.

The Town of Marlinton, the county seat for Pocahontas County, is the primary commercial and employment hub for the assessment area. Most households depend on two earner families. Household income is derived from a diverse mixture of industries including lumber mills, a major ski resort, lumber processing plants, small farms, truck and freight companies, small logging companies, a shoe plant, craft stores, small family businesses, natural gas suppliers, and state and federal governments.

We contacted organizations in the assessment area familiar with economic and community development needs of the County. These organizations highlighted the need for more infrastructure, such as roads, sewer systems, electrical capacity, business creation and retention.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

- ▶ **First National's lending levels reflect excellent responsiveness to assessment area credit needs. The average loan-to-deposit ratio, at 89%, far exceeds similarly situated independent banks operating in Pocahontas County. And, the ratio is much higher than the 68% average of other similar banks in the State of West Virginia.**

First National's loan-to-deposit ratio has increased from 81% at the last CRA examination in August 1994 to 101% through June 1997. Over the last twelve quarters, the bank's quarterly loan-to-deposit ratio has steadily increased because of First National's aggressive lending philosophy.

Lending in the Assessment Area

- ▶ **First National extends a substantial majority of its loans within its Pocahontas County assessment area.**

Both the number and dollar volume of loans made within the assessment area remains high. According to internal management reports for all loan types by number and dollar volume, credit extensions made within Pocahontas County total 93% and 98% respectively through September 1997.

Lending to borrowers of different incomes and to businesses of different sizes.

- ▶ **Given the product lines offered, First National's distribution of borrowers reflects excellent penetration among retail customers of different income levels and commercial customers of different sizes. The bank is a leading participant in programs that promote small business, small farm and infrastructure development lending.**

Management prepares detailed reports that track the aggregate number and volume of lending by zip code and income range for all borrowers. Income is tracked from below \$10 thousand to \$70 thousand in increments of \$10 thousand. As the table below indicates, First National has excellent loan penetration to low and moderate income residents. Retail lending activity, over the last two years and year-to-date through September 1997, shows that the percentage of the total number of households in the low and moderate income ranges is significantly higher than the percentage of households in the County.

Income Distribution by Household

Low Income	Moderate Income	Total	Middle & Upper
25%	18%	43%	57%
First National's Penetration from 1995 - September 1997			
21%	40%	61%	39%

First National also extends loans in small dollar amounts from \$100 to \$2 thousand. These small loans are routinely made by the bank and are considered to be very important sources of credit for the economically disadvantaged and low income households in Pocahontas County. The table on page 6 summarizes First National's retail lending activities from 1995 through third quarter 1997. This table best illustrates the bank's aggressive lending stance that has been instrumental in meeting pressing credit needs of the community.

Retail Lending Activities by Income Levels												
	1995				1996				Through 9-30-97*			
Income Levels*	#	% of Total #	\$000's	% of Total \$	#	% of Total #	\$000's	% of Total \$	#	% of Total #	\$000's	% of Total \$
Low \$13,800 or less	480	26	895	7	451	21	1,050	6	351	21	782	5
Moderate \$13,801-\$22,080	738	39	3,470	26	838	39	4,539	25	690	40	3,603	24
Middle \$22,081-\$33,120	383	20	3,090	23	487	23	4,669	26	379	22	4,152	28
Upper More than \$31,920	293	15	5,748	44	379	18	7,889	43	298	17	6,534	43
Total	1,894	100	13,203	100	2,155	100	18,147	100	1,718	100	15,071	100

* 1997 updated median income of all non-metropolitan statistical areas = \$27,600.

Senior management has developed close working relationships with local nonprofit authorities whose primary mission is to maintain employment opportunities, create and retain businesses in the area, and promote more infrastructure development. The bank has provided interim financing on a number of major projects. For example, in February 1996, First National became involved in a joint effort between the West Virginia Economic Development Authority, the Pocahontas County Development Authority, another local bank, politicians and members of the community to reopen a shoe plant in Marlinton. The plant had recently been closed. The closing of this facility had cost nearly 200 jobs and caused unemployment to surge to double digits. Through cooperative efforts with the organizations and individuals previously mentioned, First National was able to provide a portion of the interim financing for this project, resulting in the creation of nearly 90 jobs that benefit individuals within the low and moderate income ranges in the community.

Since 1995 when the bank was recognized by the Small Business Administration as one the leading banks in the State of West Virginia for small business lending, First National has granted 894 commercial, non-profit and municipal loans totaling nearly \$21 million. A substantial majority of these loans were to businesses and small farmers with annual revenues less than \$500 thousand. The following is a sample of the diverse nature of the bank's commercial, municipal, and farm extensions since 1995.

West Virginia Shoe Co., Inc.	\$232,500 - To provide critical business retention and employment.
Renewable Energies, Inc.	\$482,000 - Pellet manufacturer that created jobs using a new resource.
Small Farmers	\$575,000 - Loans to support farm operations.
Stop & Go Sawmill	\$876,500 - New employment provided by pallet plant.
Four C's Enterprise	\$540,000 - Natural gas company.
Loans to Support Infrastructure Development	
Towns of Marlinton & Hillsboro	\$340,000 - Water and sewer projects.
Pocahontas Medical Clinic	\$40,000 - New clinic in upper Pocahontas County.
Upper Greenbrier Public	\$18,500 - To provide water for Durbin.

Geographic Distribution of Loans

Since all the BNAs in Pocahontas County are middle income, an analysis of the geographic distribution of loans was not conducted.

Response to Complaints

Since there have been no CRA complaints filed since the last examination, this performance factor does not apply.

Compliance with Antidiscrimination Laws

- ▶ **First National is in substantial compliance with antidiscrimination laws and regulations, including fair lending and fair housing laws. The bank has implemented fair lending compliance testing and employee training to ensure fair and equal treatment to all applicants for credit.**

OCC's fair lending review did not reveal any violations of the substantive provisions of antidiscrimination laws and regulations.