



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**August 20, 2007**

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

**The First National Bank of Manchester  
Charter Number 7605**

**120 Town Square  
Manchester, KY 40962**

**Comptroller of the Currency  
Southern Ohio & Kentucky  
9200 Shelbyville Road, Suite 505  
Louisville, KY 40222**

**NOTE: This document is an evaluation of this 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. 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.**

## **INSTITUTION'S CRA RATING**

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **First National Bank of Manchester, Kentucky** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **August 20, 2007**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

### **This institution is rated Satisfactory.**

#### Major Conclusions:

- A substantial majority of loans and other lending-related activities are in the bank's assessment area.
- The average loan-to-deposit ratio is reasonable, given the bank's size, financial condition, and assessment area credit needs.
- The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans is considered excellent, given the community's credit needs and demographics in relation to the bank's location and capacity to lend. There were no conspicuous gaps in lending.

## **SCOPE OF EXAMINATION**

We performed a full-scope review of the bank's assessment area. The evaluation period for the lending test was from January 1, 2005 through June 30, 2007. Our analysis for this examination is based on a sample of loans taken from this evaluation period.

## **DESCRIPTION OF INSTITUTION**

First National Bank of Manchester (FNB) is a full-service intrastate institution 100 percent owned by First National Financial Corporation and located in Manchester, Kentucky. As of June 30, 2007, the bank had \$135 million in total assets, \$114 million in deposits, \$82 million in loans, and \$19 million in Tier One capital. FNB has a main office and four full-service branches. The bank has two full-service Automated Teller Machines (ATM) and one cash-dispenser only ATM. The bank is accessible to all segments of the community. FNB also offers automated telephone banking.

The bank's primary lending focus is home mortgage loans and business loans. As of June 30,

2007, net loans represented approximately 60 percent of the bank's average assets. The loan portfolio mix is as follows: business-related loans 56 percent, 1-4 family residential mortgages 35 percent, consumer loans 7 percent, farm or farm-related loans approximately one percent, and other loans less than one percent.

The bank offers traditional banking services and lending products including many government-sponsored loan programs such as Farmers Home Administration (FmHA), Small Business Administration (SBA), Federal Home Loan Bank (FHLB) and Kentucky Mortgage Corporation (KMC). FNB continues to be community oriented and offers a wide variety of loan products including residential real estate, commercial real estate, agricultural, and consumer.

There are no legal or financial circumstances that impact the bank's ability to meet community credit needs. The last CRA evaluation was performed on May 19, 2003. The bank received a rating of Satisfactory.

## **DESCRIPTION OF CLAY AND LAUREL COUNTIES**

FNB's assessment area consists of Clay and Laurel counties. The assessment area appears appropriate in relation to the location of the bank's offices and does not arbitrarily exclude any low- or moderate-income areas.

Clay County is located in the southern portion of Kentucky's Eastern Coal Fields Region. The county lies almost entirely within the Daniel Boone National Forest. The population of Clay County is approximately 24,600 persons. The county is located in a non-metropolitan statistical area (non-MSA) and consists of Census Tracts (CTs), with one low-income and five moderate-income geographies. There are no middle- or upper-income CTs in Clay County. Low-income families comprise a large portion, 43 percent, or 2,762 of the 6,446 families in the county. The 2000 U.S. Census median family income for a non-MSA in Kentucky is \$39,300. However, the median family income for Clay County is \$19,996. Approximately 39 percent of the county residents live below the poverty level. Recent unemployment figures reflect the county unemployment rate of 10 percent is above both state and national averages. Local businesses are tied mainly to the coal industry, with the County Board of Education also employing a significant portion of the population.

Laurel County, a non-MSA, is adjacent to Clay County and has a population of approximately 52,700 persons. Recent unemployment figures reflect the county unemployment rate of 5.7 percent is comparable to the state average. The county consists of eleven CTs, with one moderate-income and ten middle-income geographies. There are no low-income CTs in Laurel County. The 2000 U.S. Census median family income for the county is \$31,747, or 81 percent of the state median income. Approximately 37 percent, or 5,723 families, are considered upper-income, with low-, moderate-, and middle-income families constituting 23 percent, 18 percent, and 22 percent, respectively.

The combined assessment area of Clay and Laurel counties consists of 17 CTs: one low-income, six moderate-income, ten middle-income, and zero upper-income.

Five national banks and two state-chartered banks, all located within the Clay and Laurel counties, provide strong competition in these areas.

We performed one community contact interview and used three community contact interviews from an examination that just occurred within FNB's assessment area. The consensus was the overall credit needs of the community, centered in residential mortgages and business loans, is being met by local banks.

The following demographic information covering the bank's AA of Clay and Laurel counties is based on 2000 census data, unless otherwise indicated.

Type of Information	AA	
Total Population in AA	77,271	
Kentucky HUD Adjusted Median Family Income -- 2005	\$38,400	
Kentucky HUD Adjusted Median Family Income -- 2006	\$39,300	
Kentucky HUD Adjusted Median Family Income -- 2007	\$39,100	
Families in AA:		
Income Levels of Families	#	%
Low	6,367	29
Moderate	4,024	19
Middle	4,180	19
Upper	7,290	33
Total Families within AA	21,861	100
Median Home Value:	\$56,182	
Median Year Built:	1981	
Businesses in AA:		
	#	%
Under \$1 Million Revenue	2,808	58
Over \$1 Million Revenue	225	5
Revenue Not Reported	1,825	37
Total	4,858	100

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This Performance Evaluation assesses First National Bank's (FNB) record of meeting the credit needs of the communities in which it operates. We evaluated FNB under the Small Bank performance criterion. The evaluation period covers lending from January 1, 2005 to June 30,

2007.

Conclusions regarding the bank's lending performance are based upon our evaluation of the bank's primary loan products originated January 1, 2005 through June 30, 2007. We determined FNB's primary product lines (residential real estate loans and business loans) by reviewing available lending reports for a representative timeframe and through discussions with management. To analyze the two primary loan products, we selected random samples from each of the portfolios, using source documents to collect the data.

Note: FNB is not subject to the data collection and reporting requirements of the Home Mortgage Disclosure Act (HMDA)

### **Loan-to-Deposit Ratio**

The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. FNB's average net loan-to-deposit ratio for the 17 quarters since the last CRA public evaluation is 67 percent. The loan-to-deposit ratio has increased significantly since the last CRA evaluation (55 percent) and as of June 30, 2007 was 71 percent.

We compared FNB to three similarly situated banks operating in Laurel and Clay counties. These banks are comparable to FNB in asset size, deposit size, number of offices, and major lending products. FNB's average loan-to-deposit ratio is reasonable to the three similarly situated banks. The table below shows the average loan-to-deposit ratios of the other banks for the period under review range from 65 percent to 96 percent with an average ratio of 80 percent.

<b>Institution</b>	<b>Average</b>
First National Bank of Manchester	67.05%
Bank #1	80.68%
Bank #2	65.30%
Bank #3	95.59%

## Lending in Assessment Area

A substantial majority of loans and other lending-related activities are in FNB's Assessment Area (AA). The analysis shows 95 percent of the number and 97 percent of the dollar amount of loan origination were to borrowers inside the AA. To reach this conclusion, the OCC analyzed the bank's lending activity by selecting a random sample of 30 residential and 30 business loans originated between January 1, 2005 and June 30, 2007. See the following table for details.

<b>Loan Originations Between January 1, 2005 and June 30, 2007</b>				
	<b>Number of Loans</b>	<b>Percentage of Loans</b>	<b>Dollar Amt of Loans \$(000's)</b>	<b>Percentage of Loans</b>
<b>Within the Assessment Area</b>	57	95%	\$ 5,705	97%
<b>Outside the Assessment Area</b>	3	5%	\$ 198	3%
<b>Totals</b>	60	100%	\$ 5,903	100%

*\*Source: Randomly selected sample of 1-4 family residential loans and business loans originated within the evaluation period.*

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

The distribution of loans, given the demographics of the assessment area (AA), reflects reasonable penetration among individuals of different income levels (including low- and moderate-income borrowers) and businesses of different sizes. To reach this conclusion, the OCC analyzed the bank's lending activity by selecting a random sample of 40 residential and 30 business loans originated within FNB's AA between January 1, 2005 and June 30, 2007. See the tables below for details.

Income Distribution of 1-4 Family Residential Loans shows the percentage of FNB's residential loans to both low- and moderate-income borrowers is comparable to the demographic comparators. FNB's residential mortgage lending performance is reasonable given the credit needs of the AA.

<b>Income Distribution of 1-4 FAMILY RESIDENTIAL LOANS</b>					
<b>Borrower Income Level</b>	<b>Loan Originations Between Jan 1, 2005 and Jun 30, 2007</b>				<b>Percentage of Families within each Income Category</b>
	<b>Number of Loans</b>	<b>Percentage of Loans</b>	<b>Dollar Amt of Loans \$ (000's)</b>	<b>Percentage of Dollars</b>	
<b>Low</b>	9	23%	\$ 191	6%	29%
<b>Moderate</b>	8	20%	\$ 186	6%	19%
<b>Middle</b>	7	17%	\$ 637	19%	19%
<b>Upper</b>	16	40%	\$ 2,264	69%	33%
<b>Total</b>	40	100%	\$ 3,278	100%	100%

\* Source: Randomly selected sample of 1-4 family residential loans originated within the bank's assessment area.

\*\* Further segmentation of home mortgage lending activity by purpose was not available from the data used for this analysis.

Income Distribution of Business Loans indicates the percentage of FNB's business loans extended to companies considered small in size (revenues under \$1 million) exceeds the percentage of businesses in the assessment area with revenues under \$1 million. Of the total number of business loans sampled, 87 percent were to small businesses. Demographics indicate 58 percent of all businesses in the assessment area have revenues less than \$1 million. However, in this AA the percentage of businesses with unreported revenue is high at 37 percent. FNB's business lending performance is excellent considering the demographic information.

<b>Income Distribution of BUSINESS LOANS</b>					
<b>Business Income Level in Revenues</b>	<b>Loan Originations Between Jan 1, 2005 and Jun 30, 2007</b>				<b>Percentage of Businesses in the AA</b>
	<b>Number of Loans</b>	<b>Percentage of Loans</b>	<b>Dollar Amt of Loans \$(000's)</b>	<b>Percentage of Dollars</b>	
<b>&lt; \$1 Million</b>	26	87%	\$ 1,260	43%	58%
<b>&gt; \$1 Million</b>	4	13%	\$ 1,677	57%	5%
<b>Not Reported</b>	0	0%	\$ 0	0%	37%
<b>Total</b>	30	100%	\$ 2,937	100%	100%

\*Source: Randomly selected sample of commercial loans originated within the bank's assessment area.

## Geographic Distribution of Loans

The overall geographic distribution of loans reflects excellent dispersion throughout the assessment area. No conspicuous gaps in lending were noted. To reach this conclusion, the OCC analyzed the bank's lending activity by selecting a random sample of 40 residential loans and 30 business loans originated between January 1, 2005 and June 30, 2007.

Geographic Distribution of 1-4 Family Residential Loans shows FNB has excellent penetration in making home purchase and refinance loans in the low- and moderate-income census tracts. FNB originated one loan within the low-income census tract, which represents three percent of the number of the sampled loans. This comes close to meeting the comparator of four percent. Loans to the moderate-income census tract represented 80 percent of the sampled loans which is more than double the demographic comparator.

<b>Geographic Distribution of 1-4 Family Residential Loans By Geography Income Designation Originated Between January 1, 2005 – June 30, 2007</b>					
<b>Income Level of Census Tracts</b>	<b>1-4 Family Residential Loans</b>				<b>Distribution of Owner Occupied Housing</b>
	<b>Number of Loans</b>	<b>Percentage</b>	<b>Dollars \$(000's)</b>	<b>Percentage</b>	
<b>Low</b>	1	3%	\$ 9	0%	4%
<b>Moderate</b>	32	80%	\$ 1,952	60%	28%
<b>Middle</b>	7	17%	\$ 1,316	40%	68%
<b>Upper</b>	0	0%	\$ 0	0%	0%
<b>Total</b>	40	100%	\$ 3,277	100%	100%

*\*Source: Randomly selected sample of 1-4 family residential loans originated within the bank's AA.*

*\*\* Further segmentation of home mortgage lending activity by purpose was not available from the data used for this analysis.*

Geographic Distribution of Business Loans shows FNB has excellent penetration in making business loans in the low- and moderate-income census tracts. The one low-income census tract within the assessment area contains one percent of all businesses in the assessment area. While none of the loans reviewed originated within the one low-income census tract, this is still considered reasonable because there are a very low percentage of businesses within that census tract. Loans to the moderate-income census tract represented 77 percent of the sampled loans which is more than three times the demographic comparator.



**Geographic Distribution of Business Loans  
By Geography Income Designation  
Originated Between January 1, 2005 – June 30, 2007**

Income Level of Census Tracts	Business Loans				Distribution of Businesses in the AA
	Number of Loans	Percentage	Dollars \$(000's)	Percentage	
Low	0	0%	\$ 0	0%	1%
Moderate	23	77%	\$ 3,019	92%	23%
Middle	7	23%	\$ 260	8%	76%
Upper	0	0%	\$ 0	0%	0%
<b>Total</b>	30	100%	\$ 3,279	100%	100%

\* Source: Randomly selected sample of business loans originated within the bank's AA.

### Responses to Complaints

FNB has not received any complaints about its performance in helping meet assessment area credit needs during this evaluation period.

### Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.