



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

June 30, 1997

**First National Bank of Keystone
Charter Number - 10369
69 Main Street
Keystone, West Virginia 24852**

by

Office of the Comptroller of the Currency
Southeastern District
Marquis One Tower, Suite 600
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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 supervisor 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 CRA performance of the First National Bank of Keystone prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of June 30, 1997. The agency evaluates performance in assessment areas, as they are delineated by the institution. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: First National Bank of Keystone is rated **"Satisfactory."**

The following table indicates the performance level of the First National Bank of Keystone with respect to the lending, investment, and service tests.

Performance Levels	First National Bank of Keystone Performance Tests		
	Lending Test	Investment Test	Service Test
Outstanding			
High satisfactory			
Low satisfactory	X	X	X
Needs to improve			
Substantial noncompliance			



Basis for the Rating

The assessment of the institution's record takes into account its financial capacity, size, legal impediments, and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based upon a review of the three performance tests; lending, investments, and service tests.

Assignment of Rating

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.



Description of Institution

First National Bank of Keystone operates its main office and two full-service branches within McDowell County. It also operates a loan production office (LPO), which is located in Bluefield, Mercer County, West Virginia. It is the largest of four financial institutions operating in McDowell County. This bank's primary business is the purchase, securitization, and sale of conventional and government insured junior lien mortgage loans on a national level. On June 30, 1997, the bank reported \$425 million in loans resulting in a loan to deposit ratio of 109%. For the purpose of evaluating CRA performance in its local market, out of area loans which were purchased, securitized, and sold have been excluded in the analysis. When that is done, real estate lending is the primary loan product for the bank and far exceeds the other loan categories. Real estate loans totaled \$22 million and represented 62% of total loans, commercial lending represented 22% and consumer loans the remaining 16% of First National Bank's loan portfolio. Due to the securitization program, the bank offers deposit rates considerably higher than local institutions, thus drawing deposits from out-of-area. These out-of-area deposits were also eliminated in the analysis. Following the eliminations, the net loan to deposit ratio drops to 25%.

As of June 30, 1997, First National Bank of Keystone had total assets of \$639 million. First National Bank reported a net income of approximately \$20 million. This level of earnings represented a return on average assets of 6.68%. This means that the bank earned \$6.68 for every one hundred dollars of its average assets. Also on June 30, 1997, tier one leverage capital was 16.51%, which is considered "well-capitalized" for prompt corrective action purposes. This is defined in Banking Circular 268 - Prompt Corrective Action, dated February 25, 1993.

There are no known legal or financial impediments that limit First National Bank's ability to meet community credit needs. This bank continues to help meet these needs consistent with its size, financial condition and product offerings.

Description of the Assessment Area

The bank defined its assessment area as all of McDowell County and the western portion of Mercer County. McDowell County has always been the seat of banking for First National Bank, while Mercer County has been designated due to the migration of the bank's historical customers to that area and the need for loan diversity that does not exist in McDowell County. The assessment area consists of 21 block numbering areas (BNAs). McDowell County, which is more rural, has nine BNAs, while Mercer County has twelve. Of the nine BNAs in McDowell County, seven are designated moderate-income geographies while the others are designated middle-income geographies. The portion of Mercer County is more diverse with only one BNA designated as moderate-income, nine designated as middle-income, and the remaining two designated as upper-income geographies. There are no low-income geographies within the assessment area.

The area can be identified as having a lack of credit demand, especially in McDowell County where the bank's main office and two branches are located. This lack of opportunity to make



loans has developed over the years due to high unemployment, aging of the population, and a high level of poverty. These factors are detailed in the following paragraphs.

The assessment area (AA) is well defined between the two counties as they are distinct and very different. McDowell County is more rural with a population of 35,233 based on the census data for 1990. West Virginia Economic Summary, a publication from the Bureau of Employment Programs, estimated that McDowell County's population declined to 31,524 in 1996. The AA portion of Mercer County contains two of the state's larger cities, Bluefield and Princeton, and had a population of 48,370 in 1990. Employment is also distinct between the two areas. Coal mining and its related industries continues to be the largest employers in McDowell County, while retail service and light industry lead employment in Mercer County. Two state supported colleges add to the diversity of Mercer County. McDowell County's unemployment is among the highest in the state at 10.6% while all of Mercer reports a below state average of 5%. McDowell County, which at one time had the third largest population in the state, continues to feel the effects of the depressed coal market from the 1980's, when unemployment was more than 20% for seven consecutive years. A result of this unemployment has been an aging population. There is little or no job opportunity in McDowell County, especially for the young. Based on 1990 census data, 24% of the population was more than 65 years old. New employment opportunity is also limited by the topography of the land, as McDowell County is very mountainous which affords little chance for industrialization. The consequence of all this is an area of poverty, as 25% of the households are below the poverty level.

The real estate market is almost nonexistent for McDowell County, as the value of homes dwindles and little opportunity to sell them exists. There are 37,037 housing units throughout the assessment area, with owner-occupied 1-4 family units the primary housing stock. Multifamily units represent 6% of all units in the assessment area and mobile homes and trailers represent 18%. The median housing value is only \$25,500 and 12% are vacant. Community contacts have cited an overall lack of credit demand for home mortgages, especially in McDowell County.

Lending opportunity can further be defined as limited through the loan to deposit ratio of First National Bank's local competition. The McDowell County National Bank had a loan to deposit ratio of 49.4%, the Bank of Iaeger reported 45.4%, and Ameribank 43.7%.

We conducted one community contact and reviewed the community contacts performed in conjunction with other CRA examinations in the assessment area. We met with a civic leader to identify any unmet credit needs. The contacts did not identify any unmet credit needs and generally stated that the banks were doing a good job overall in serving the community. The declining and aging population, as well as high unemployment, were cited as factors that contribute to low loan demand and lack of opportunity.



Conclusions with Respect to Performance Tests

Lending practices, qualified investments, and the system for delivering retail banking and community development services meet the credit needs of the entire assessment area, including low- and moderate-income borrowers in a satisfactory manner.

Performance under the lending test is rated **“Low Satisfactory.”** Lending levels reflect the lack of credit demand in the assessment area, but management has shown an adequate response by making housing and small business loans when afforded the opportunity. This opportunity has been limited due to significant unemployment in the past, an aging of the population with the exodus of youth, and a depressed real estate market. A majority of the loans made are in the bank’s assessment area. The bank also made a reasonable number of loans of less than \$100,000 to small businesses. There is no demand for small farm loans in the bank’s assessment area.

Lending distribution reflects a reasonable penetration among borrowers of various income levels and business customers of different sizes. The opportunity to assist in or make loans to community development projects has been limited. The bank offers no innovative or flexible lending practices. The USDA’s Rural Economic and Community Development loans for home buyers and West Virginia Economic Development Association - CAP loans for businesses are available.

Performance under the investment test is rated **“Low Satisfactory.”** The bank does not have any qualified investments in its portfolio and had not purchased any during the rating period. Management of the bank stated that none existed and this was supported by the community contacts in the assessment area. Management has expressed a willingness to invest should opportunities arise.

Performance under the service test is rated **“Low Satisfactory.”** The system for delivering banking services is good as the main office and both branches offer full-service and hours that meet the communities’ needs. These services and hours are the same in all three facilities. The main office and one branch are located in middle-income geographies, while a second branch is located in a moderate-income geography. These locations appear to be readily accessible to the majority of the population in the assessment area. In addition, a Loan Production Office is located in Bluefield, West Virginia for the purposes of providing loan applications and lending information.

Please see the discussion entitled “Discussion of Performance Tests in the Assessment Area” for more details on the bank’s performance under each of these three tests.

First National Bank of Keystone was found to be in compliance with antidiscrimination laws, including the Equal Credit Opportunity Act and the Fair Housing Act. The bank is not currently subject to the reporting requirements of the Home Mortgage Disclosure Act.



Discussion of Performance Tests in the Assessment Area

Lending Test

I. Lending Activities

During the review period First National Bank made 475 loans (consumer, home mortgage, and small business) totaling \$9.8 million. 398 of these for \$5.9 million were made to borrowers in the assessment area. This meant that 84% by number, and 61% by dollar of all loans made were within the assessment area. The dispersal of loans throughout the assessment area by dollar was 41% home mortgage loans, 36% consumer loans, and 23% commercial loans. This reflects management's willingness to lend. A reasonable number of home mortgage loans were made given the opportunity. The bank approved 63% of the real estate applications taken during the review period.

Management shows good responsiveness to small businesses in the community, particularly in relation to the number and size of the businesses located within the community. Given the topography of the assessment area, there is no demand for agriculture loans.

Following is a breakdown of lending activity pertaining to home mortgage loans, small business loans, and small farm loans made during the period beginning January 1, 1996 and ending June 30, 1997. The table shows the number (#) of loans, dollar amount of loans (\$), and the percentage of each to the total (%). All of the loans were originated and retained at First National Bank.

**Number, Dollar Volume and Location of Home Mortgages, Small Business
and Small Farm Loans¹**
(Dollar Amounts in Millions)

	Home Mortgages				Small Business Loans			Small Farm Loans		
	#	%	\$	%	#	%	\$	#	%	\$
Assessment Area	43	68	2.4	56	21 50	78	1.4	0 0	0	0
Outside of Area	20	32	1.9	44	6 50	22	1.4	0 0	0	0

¹Small Business loans are based on an original amount of loan being less than \$1,000,000 and Small Farm loans are based on original amount of loan less than \$500,000.



Total	63	100	\$4.3	100	27	100	\$2.8	100	0	0	0
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II. Geographic Distribution

Lending levels reflect a good distribution throughout the assessment area based on our review. The combined real estate and business loans sampled were made in 13 of the 21 existing BNAs.

First National Bank made 63 real estate loans throughout the review period and 43 of these or 68% were made in the assessment area. We sampled 17 of those assessment area loans made and found them to represent a good portion of the assessment area's BNAs. While there are 21 BNAs, the real estate loans penetrated 10 BNAs. Six of these loans were in BNAs declared as moderate-income geographies, three of these were in middle-income, and one was in an upper-income BNA. There are no low-income geographies in the assessment area.

Small business loans were equally represented throughout the assessment area. First National Bank made 27 commercial loans throughout the review period and 21 or 78% of these were made in the assessment area. We reviewed all 21 loans and found them to represent 10 of the 21 BNAs. Five of the business loans were in BNAs declared as moderate-income geographies, three middle-income, and two upper-income. There were no small farm loans to review.

Of the combined loans above, only one moderate-income BNA was unrepresented by either a real estate or business loan. That tract is in the most western portion of McDowell County and has a very sparse population due to a state forest located there.

III. Borrower Characteristics

A sample of real estate loans reveals a reasonable distribution among borrowers of various income levels, but, with the declining population, especially in McDowell County, the demand for home purchases is low. The sample consisted of 17 loans, representing 40% of the mortgage loans made to borrowers in the bank's assessment area. While the number and dollar volume of home mortgage loans to low- and moderate-income borrowers appears low, it reflects the low demand for credit that exists and did reach all four income categories.

In addition to the factors already discussed low credit demand is also being impacted by the level of creditworthy applicants and the lack of demand and lack of turnover of houses. Demographic data also indicates that many people within the assessment area rent, as opposed to owning their own home. In 1990, there were 8,807 rental units within the assessment area and a substantial portion, or 88%, of these units were occupied. Rental units accounted for 24% of the 37,037



total housing units in the assessment area. The bank's low level of direct lending to low and moderate income borrowers is somewhat offset by their provision of a construction loan to build low and moderate income rental housing. (See Community Development lending for further details)

The distribution of home mortgage loans by the various income levels is presented below.

Number and Dollar Volume of Home Mortgage Loans by Borrower Characteristics²
(Dollar Amounts in Thousands)

	Number	%	Amount	%	% of Families in the Assessment Area By Category
Low	1	5.9	16	1.4	26.7
Moderate	1	5.9	12	1.0	17.4
Middle	7	41.2	234	19.9	18.2
Upper	8	47.0	911*	27.7	37.7
Total	17	100	1,173	100	100

* - Sample contained a real estate loan for \$640,000.

First National Bank does a good job in granting small business loans. Of the total loans made in the assessment area, 90% were for loans less than \$100 thousand and to businesses that reported revenues less than \$1 million. Management stated that all commercial loans made during the review period were to businesses reporting revenues less than \$1 million.

²Categories of borrower income levels based on HUD's 1996 median family income for statewide nonmetropolitan areas. HUD's 1996 family median income for West Virginia was \$26,600, and for 1997 \$27,600. The income categories are defined as:

Low-income less than 50% of the area family median income
Moderate-income at least 50%, but less than 80% of area family median income
Middle-income at least 80%, but less than 120% of the area family median income
Upper-income 120% or more of the area family median income.



The following table shows small business and small farm loans by loan value category.

**Small Business and Small Farm Loans by Loan Value
(Dollar Amounts in Thousands)**

Loan Value Category	Small Business Loans		Small Farm Loans	
	Number	\$ Amount	Number	\$ Amount
<= \$100	19	799	0	0
> \$100 and <= \$250	1	250	0	0
> \$250	1	342	0	0
Total	21	1,391	0	0

IV. Community Development Lending

The bank made one loan that meets the regulatory definition of a community development loan. First National Bank of Keystone funded \$372,082 to the Elkhorn Valley Housing Authority in the construction of a 15 unit low and moderate income housing project. The construction funding was necessary to obtain FmHA funds for the project. First National Bank of Keystone was the only bank involved in the project. This project will provide housing for individuals in McDowell County as well as surrounding counties. Rental guidelines are to follow HUD criteria with low and moderate income individuals having rental assistance and preference. The project is being built between Keystone and Welch, West Virginia.

Although opportunities are limited in the area, the bank was considered a leader in developing and completing the Elkhorn Valley project.

V. Innovative or Flexible Lending Practices

There are no innovative or flexible lending practices presently offered.

Investment Test

The bank had no qualified investments and no qualified donations. Management stated no qualified investments had been available for purchase since the last examination and that there were no qualified groups that needed donations in the AA. A review of past community contacts performed with other CRA examinations in the assessment area did not reveal any to exist. A



community contact interviewed with this CRA examination concurred with the previous disclosures that none existed.

Service Test

The systems for delivering retail banking services are good and the level of community development, while limited, is adequate. The bank's current delivery systems serve the majority of the population within the assessment area.

A. Retail Banking Services

I. Distribution of Branches Among Geographies

First National Bank of Keystone has its main office and both full-service branches located in McDowell County. The main office in Keystone is located in a middle-income geography. The Gary branch is designated as a middle-income geography and the Bradshaw branch is located in a moderate income geography. The branches provide the same products and services and follow the same fee schedule as the main office. Banking products and services are readily accessible to the majority of the population. Extended banking hours are available in all facilities, self-addressed stamped envelopes are provided for deposit customers, as well as 24-hour deposit drops. Account information is provided without charge by telephone.

II. Record of Opening and Closing Offices

No offices have been opened or closed since the last CRA examination.

III. Alternative Systems for Delivering Retail Banking Services

First National Bank provides loan applications and lending assistance at its Loan Production Office. This facility is located in Bluefield, Mercer County.

B. Community Development Services

I. Extent of Community Development Services

A community development service provided by First National Bank of Keystone is free government check cashing for account and nonaccount holders alike. This increases access to financial services for low- and moderate-income individuals.

First National Bank also worked with the Stop Abusive Family Environments, Inc., (SAFE) to help them qualify for an Affordable Housing Grant through the Federal Home Loan Bank (FHLB) of Pittsburgh. The bank handled the application and paperwork and acted as a conduit of subsidized funds from FHLB to SAFE. The entire \$120,000 was funded on January 30, 1997. The bank must continue to monitor the progress of SAFE for the next 20 years through quarterly



reports to FHLB. SAFE provides housing for victims of domestic violence and/or homeless persons and their dependent children. While located in McDowell County, it will also serve the counties of Mercer and Wyoming.

II. Innovativeness and Responsiveness of Community Development Services

The above services are not considered innovative, but they show a good responsiveness to the community.

Appendix A: Scope of Examination

A Community Reinvestment Act (CRA) examination commenced on August 19, 1997. The object of the examination, which was performed onsite, was to assess the bank's record of serving the credit needs of the entire assessment area, including low-and moderate-income areas, and to assign an overall rating to the bank. This examination considered the bank's performance throughout 1996 and to June 30, 1997. We also considered any qualifying investments held prior to 1996 and still outstanding as of our examination date. Performance was evaluated under the newly revised CRA regulation, which was modified to reduce regulatory burden on banks and to be more performance oriented.

The examination included a review of all home mortgage loans and small business loans originated during the time frame above. Small farm loans would also have been considered, but none have been made. Qualified investments and services were also evaluated since the previous examination dated December 15, 1995.

