



Comptroller of the Currency
Administrator of National Banks

SMALL
BANK

PUBLIC DISCLOSURE

September 1, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Grayson
Charter #12982
200 Carol Malone Boulevard
Grayson, Kentucky 41143**

Office of the Comptroller of the Currency
Charleston Field Office
100 Capitol Street, Suite 400
Security Building
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 **The First National Bank of Grayson** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of September 1, 1998. The agency evaluates performance in an assessment area, as delineated by the institution, rather than individual branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 CFR Part 25.

Institution's CRA Rating: This institution is rated **Satisfactory**.

The First National Bank of Grayson (FNB) 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; geographic distribution of loans; and, response to consumer complaints. This evaluation is based on information from October 31, 1995 through June 30, 1998.

The following table indicates the level of CRA performance of **The First National Bank of Grayson** with respect to each assessment criterion for small institutions:

SMALL INSTITUTION ASSESSMENT CRITERIA	THE FIRST NATIONAL BANK OF GRAYSON 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 Business Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	The Bank has received no CRA related complaints.		

DESCRIPTION OF THE INSTITUTION

FNB is a \$97.9 million community bank with five office locations in Kentucky. Offices are located in Grayson, Olive Hill, Willard, Rush, and Sandy Hook. Sandy Hook is located in Elliot County, while the other offices are located in Carter County. FNB is wholly owned by First Grayson Bancorp, Inc. which is a one bank holding company. FNB offers full service banking at all locations, with both lobby and drive-thru facilities. The bank operates five automatic teller machines with four being located at offices and one located at a local business. The Sandy Hook office recently opened in July, 1998. No offices have been closed.

To help meet the credit needs of the community, FNB offers a variety of traditional banking products and services. As of June 30, 1998, total loans represented 68% of total assets. FNB's loan portfolio consists of 38% consumer loans, 30% commercial loans, and 32% real estate loans. FNB offers a variety of consumer loans including the following: personal secured and unsecured with no minimum loan amount; various real estate loans such as balloon mortgages, home equity, home improvement, construction, and mobile home loans; and new and used auto loans. In addition, student loan and credit card applications are available to consumers which are then forwarded to other originators. Various commercial loans are also available including agricultural loans and small business loans. There are no financial conditions, legal constraints, or other conditions that would hinder the bank's ability to help meet the credit needs of its assessment area. FNB's last CRA evaluation was performed in October 1995 and was rated Satisfactory.

DESCRIPTION OF THE ASSESSMENT AREA

The bank's assessment area (AA) as of June 30, 1998, consists of Carter County in northeastern Kentucky. The area has experienced both business and population growth through the years due to major highways such as U.S. 60, I-64, and John Y. Brown Highway connecting the area to larger cities such as Huntington, WV and Ashland, KY. This county is mostly rural in nature and is home to two lakes and three state parks. Major employers include Kentucky Christian College, Cook Family Foods, the Board of Education, several hotels, fast food restaurants, and retail stores.

Carter County is one of six counties in West Virginia, Kentucky, and Ohio that comprise the Huntington, WV-Ashland, KY-Ironton, OH metropolitan statistical area (MSA). Based on 1990 U.S. Census Bureau data, 24,340 persons reside in Carter County, consisting of 6,974 total families. Banking in the AA is moderately competitive with two other financial institutions operating within Carter County.

Despite being included in a MSA, the Census Bureau has segmented Carter County into block numbering areas (BNA)*. The AA contains seven BNAs, five of which are categorized as moderate-income areas, with the remaining two being middle-income areas. There are no low or upper income tracts. The Grayson office is located in a middle income area while the other offices are located in moderate income areas. The AA meets the requirements of the regulation and does not reflect illegal discrimination or arbitrarily exclude low or moderate income areas.

Of the total population within the AA, 64% of the families reside in moderate-income areas and 36% reside in middle-income areas. Of the 6,974 families residing in the AA, 32% are considered

low-income; 19% are moderate-income; 19% are middle-income; and, 30% are upper-income. The median family income ** for the MSA is \$32,800.

The unemployment rate for Carter County is 12%, which exceeds the 7% rate for the state of Kentucky. Thirty-one percent of the households receive social security income, while another 13% receive some type of public assistance. Approximately 26% of the households within the AA are considered to be below the poverty level. Twenty-seven percent of the housing units are mobile homes and another 20% are rental units.

As part of our review, we also conducted one community contact with an individual who deals with economic development in the area.

* *A BNA is a non metropolitan area defined by the Bureau of the Census for information gathering purposes.*

** *The term median family income describes the median income earned by people sharing a home that are related by birth, marriage, or adoption.*

CONCLUSIONS WITH RESPECT TO THE PERFORMANCE CRITERIA

- **Loan-to-Deposit Ratio**

FNB's loan-to-deposit ratio is reasonable. As of June 30, 1998, the bank's ratio was 74%. The bank's national peer group average was 71% for the same time period. During the eleven quarters since the last CRA examination, FNB's loan to deposit ratio has increased from 69.57% to 74.26%, with an average loan to deposit ratio of 69.94%. The loan to deposit ratios for the other two local banks as of year end 1997, were 57% and 60%.

- **Lending in the Assessment Area**

A substantial majority of the bank's lending activity is within the AA. In order to determine this, we used the bank's loan origination data for 1997. The following table depicts the bank's lending performance inside the AA.

BNA	Consumer Loans		Commercial Loans		Real Estate Loans	
	#	\$	#	\$	#	\$
Total in AA	2034	\$10,842,279	1383	\$21,084,721	237	\$9,307,049

Total Loans	2589	\$14,325,345	1667	\$26,849,138	290	\$11,204,498
% in AA	78.56%	75.69%	82.96%	78.53%	81.72%	83.07%

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

Lending levels reflect a reasonable distribution among borrowers of various income levels and businesses of different sizes. We determined this by analyzing a sample of real estate related loans originated between January 1, 1998 and June 30, 1998. The chart below illustrates FNB's lending to individuals of different income levels, based on this sample of loans.

Income Level	Families by Income Level	Number of Loans	Percent by # of Loans	\$ Amount of Loans	Percent by \$ Amount
Low	32%	20	42%	\$112,000	23%
Moderate	19%	12	25%	100,000	21%
Middle	19%	9	18%	94,000	20%
Upper	30%	7	15%	174,000	36%
Total	100%	48	100%	\$473,000	100%

The bank's level of lending to businesses of different sizes is good. By using the size of loans as an indicator of business size, we found that 100% of commercial loans approved between the months of January and June 1998, were for amounts less than \$1 million. The average amount extended was \$117,000. The bank currently has \$1.1 million in agricultural loans as of June 30, 1998.

- Geographic Distribution of Loans**

FNB's geographic distribution of loans reflects a reasonable dispersion within the moderate- and middle-income BNAs, based on both number of loans and amount loaned. This determination is based on the bank's analysis of loans originated during 1997. The following table illustrates the geographic lending performance for consumer, commercial, and real estate loans in 1997.

BNAs within AA	Families within BNA	Number of Loans	Percent by # of Loans	\$ Amount of Loans	Percent by \$ Amount
Moderate	64%	1898	52%	\$19,336,406	47%
Middle	36%	1756	48%	21,897,643	53%

Total	100%	3654	100%	\$41,234,049	100%
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Analysis of the lending pattern for 1997 shows that the majority of the lending, within both moderate- and middle-income areas, was concentrated around the AA's two primary population centers, Grayson and Olive Hill. This lending pattern does not exhibit any conspicuous or unexplainable gaps.

- **Response to Complaints**

FNB has not received any CRA related consumer complaints since its prior CRA evaluation in October 1995.

- **Compliance with Antidiscrimination Laws and Regulations**

A fair lending examination was performed in conjunction with our CRA evaluation. The fair lending examination consisted of a comparative analysis of real estate related loans. This file analysis compared the treatment of approved single male applicants to denied single female applicants. No violations of the substantive provisions of antidiscrimination laws and regulations were identified.