



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**December 16, 2004**

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

**The First National Bank of Jackson  
Charter Number 9320**

**1124 Main Street  
P.O. Box 640  
Jackson, KY 41339**

**Comptroller of the Currency  
West Virginia Field Office  
Laidley Tower, Suite 730  
500 Lee Street, East  
Charleston, West Virginia 25301-2117**

**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 institution is rated Satisfactory.**

We assigned the Community Reinvestment Act (CRA) rating based on the following information:

- The bank's loan-to-deposit ratio is reasonable.
- A substantial majority of the bank's loans were originated within their assessment area.
- Analysis reflects reasonable penetration among individuals of different income levels.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment area.
- No public complaints related to CRA have been filed since the bank's last CRA examination.

## **DESCRIPTION OF THE INSTITUTION**

First National Bank (FNB) is a community bank headquartered in Jackson, Kentucky and operates two banking locations in Jackson. The main bank facility is located in downtown while the branch is located within two miles on a main thoroughfare. FNB is a wholly owned subsidiary of First National Holding Company of Jackson, Kentucky, a one-bank holding company. FNB serves all areas of Breathitt County. FNB's last CRA examination was performed in October 1999 and was rated Satisfactory.

FNB offers full service banking at both of its locations, with lobby and drive-thru facilities. The bank's products include a variety of traditional deposit and loan products. The bank operates one automatic teller machine located at the branch. There are no legal or financial impediments to FNB's ability to meet the credit needs of its assessment area.

As of September 30, 2004, FNB's assets totaled \$98 million with net loans totaling approximately \$28 million or 29% of total assets. FNB's primary lending focus is on residential real estate and consumer installment loans. The following table reflects the composition of FNB's loan portfolio as of September 30, 2004, which indicates that 71.9% are consumer related. Consequently, we considered these consumer related loans for the purpose of evaluating FNB's CRA performance. These loans are granted for a variety of purposes: 1-4 family residential, home improvement, mobile homes, construction, new and used auto, and personal consumer.

| <b>Loan Product Category</b>   | <b>Dollar<br/>(000's<br/>)</b> | <b>Percent of Net<br/>Loans</b> |
|--|--------------------------------|---------------------------------|
| 1-4 Family Residential Properties (including residential farm loans) | 15,914                         | 55.5%                           |
| Commercial & Industrial Loans  | 6,829                          | 23.8%                           |
| Consumer Loans (installment, single-pay, student loans, etc.)        | 4,711                          | 16.4%                           |
| Farm   | 861                            | 3.0%                            |
| Other  | 373                            | 1.3%                            |
| <b>Total</b>   | <b>28,688</b>                  | <b>100%</b>                     |

*Source: Data reported to the Federal Financial Institutions Examination Council (FFIEC) on the September 30, 2004 Consolidated Report of Condition and Income.*

## **DESCRIPTION OF THE ASSESSMENT AREA**

FNB's assessment area (AA) is comprised of Breathitt County, Kentucky in its entirety. The bank's headquarters is located in the city of Jackson, the seat for county government for Breathitt County. FNB's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas of Breathitt County. The county has no divisions that would affect banking and marketing of lending products. The bank has a branch located approximately two miles from the main office. Financial services from other institutions outside the county exist but are minimal. Breathitt County is sparsely populated, as are the surrounding counties.

Breathitt County is located in the eastern portion of the state, approximately 110 miles southeast of the state capital of Frankfort and 85 miles southeast of Lexington. According to the 1990 U.S. Census, the AA consists of seven census-tract areas (CT). Of these seven CTs, six are moderate-income (86% of total), and one is middle-income (14% of total). There are no low-income or upper-income tracts identified within the AA.

Breathitt County possesses a population of 15,703 according to the 1990 Census Bureau information. The U.S. Census Data revealed that 29% of the households receive social security income and 24% receive some other type of public assistance. Housing types are typical for rural Kentucky as 65% of the housing units are owner occupied. This supports the bank's primary product line of residential Real Estate Mortgages (REM).

The economy is somewhat depressed but stable. According to the Bureau of Labor Statistics, the current unemployment rate for the county is approximately 9%, which is considerably higher than the statewide and National averages of 4.5% and 5.4%. The top industries, according to the 2002 economic census, by distribution of employees are services and retail trade. The major employers within the area include the local government, Board of Education, hospital, and service industry.

The following table includes general demographic information describing the AA:

| <b>Demographic Characteristics of Assessment Area</b> |   |                 |
|---|---|-----------------|
| <b>Number of Geographies by Income Level:</b>         | <b>Low-Income</b>                       | <b>0</b>        |
|   | <b>Moderate-Income</b>                  | <b>6</b>        |
|   | <b>Middle-Income</b>                    | <b>1</b>        |
|   | <b>Upper-Income</b>                     | <b>0</b>        |
|   | <b>N/A</b>                              | <b>0</b>        |
| <b>Percent of Geographies by Income Level:</b>        | <b>Low-Income</b>                       | <b>0</b>        |
|   | <b>Moderate-Income</b>                  | <b>85.71</b>    |
|   | <b>Middle-Income</b>                    | <b>14.29</b>    |
|   | <b>Upper-Income</b>                     | <b>0</b>        |
|   | <b>N/A</b>                              | <b>0</b>        |
| <b>Percent of Population in each Tract:</b>           | <b>Low-Income</b>                       | <b>0</b>        |
|   | <b>Moderate-Income</b>                  | <b>91.35</b>    |
|   | <b>Middle-Income</b>                    | <b>8.65</b>     |
|   | <b>Upper-Income</b>                     | <b>0</b>        |
|   | <b>N/A</b>                              | <b>0</b>        |
| <b>Percent of Families by Income Level:</b>           | <b>Low-Income</b>                       | <b>40.38</b>    |
|   | <b>Moderate-Income</b>                  | <b>15.53</b>    |
|   | <b>Middle-Income</b>                    | <b>14.52</b>    |
|   | <b>Upper-Income</b>                     | <b>29.57</b>    |
| <b>Median Housing Characteristics:</b>                | <b>Median Home Value</b>                | <b>\$28,319</b> |
|   | <b>Percent Owner-Occupied Units</b>     | <b>65.00</b>    |
|   | <b>Median Gross Rent</b>                | <b>\$197</b>    |
| <b>Median Income Data:</b>                            | <b>1990 Census Median Family Income</b> | <b>\$15,408</b> |
|   | <b>Updated Median Family Income</b>     | <b>\$36,300</b> |

Source: U.S. Census Data

### **Community Contacts**

We reviewed information from an interview performed in December 2003 with the Kentucky Housing Corporation to help ascertain the credit needs of the community. The purpose of the interview was to seek information regarding the credit needs within the area and how well, in the opinions of the interviewee, local banking institutions were addressing those needs. The result was that local financial institutions are viewed as being readily accessible and are meeting all community credit needs. The contact identified affordable rental housing as a primary need throughout the state.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

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

FNB's loan-to-deposit ratio is reasonable given the bank's size and the credit needs within the AA. During the 20 quarters from December 31, 1999 through September 30, 2004, FNB's net quarterly loan to deposit ratio averaged 48%. The ratio has declined throughout the time period, but is comparable to the last evaluation, 51%. In making our determination, we considered the financial data for the other financial institution in the market area, the local economy, and the AA credit needs. We found that FNB is similarly situated to that institution (Citizens Bank &

Trust of Jackson) in terms of both market share and credit product offerings, and similar in total asset size and number of branch locations. Citizens Bank & Trust of Jackson's 20 quarter average loan-to-deposit ratio was 85% from December 31, 1999 through September 30, 2004. Although this is much higher than FNB's average ratio, Citizens operates a branch in a larger market which increases their ability to generate additional loan volume. FNB operates in a single market, which has a high poverty rate, and thus limits lending opportunities.

The following table reflects the banking competition within FNB's AA:

| Institution Name                 | Market Share of Deposits Inside the AA |
|----------------------------------|--|
| First National Bank of Jackson   | 48.64%                                 |
| Citizens Bank & Trust of Jackson | 51.36%                                 |
| Total                            | 100.00%                                |

*Source: Data reported to the Federal Financial Institutions Examination Council (FFIEC) on the June 30, 2004 Consolidated Reports of Condition and Income; Federal Deposit Insurance Corporation's (FDIC) June 30, 2003 Market Share Report.*

### Lending in Assessment Area

FNB originated a substantial majority of their total loans within their AA. We selected a sample of twenty loans within each primary loan product originated since the prior CRA examination through December 31, 2002 to determine the percentage of lending within the AA. The following table summarizes the results of our review:

| Lending Inside/Outside the Assessment Area (AA) |             |        |          |        |             |        |
|---|-------------|--------|----------|--------|-------------|--------|
|   | Real Estate |        | Consumer |        | Total loans |        |
|   | Number      | Dollar | Number   | Dollar | Number      | Dollar |
| <b>Inside AA</b>                                | 95%         | 98%    | 95%      | 87%    | 95%         | 96%    |
| <b>Outside AA</b>                               | 5%          | 2%     | 5%       | 13%    | 5%          | 4%     |
| <b>Total</b>                                    | 100%        | 100%   | 100%     | 100%   | 100         | 100%   |

*Source: Data Collected by the Bank and verified for accuracy during this evaluation*

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

The distribution of loans, given the demographics of the AA, reflects reasonable penetration among borrowers of different income levels (including low- and moderate-income). The analysis of lending to borrowers of different income levels was completed using loans in the AA from the original sample described in the Lending in Assessment Area section of this evaluation. This sample consisted of 19 REM loans and 19 Consumer loans.

The following table illustrates the distribution of the 19 REM loans within the income levels compared to the percentage of families in each income level. The 19 loans represented \$476,936 in originating amounts. The distribution of REM loans to low-income borrowers is reasonable. The distribution is somewhat lower than the distribution of low-income families, however, this is mitigated by the fact that the majority of low-income families are below poverty level. The

distribution of REM loans to moderate-income borrowers is excellent and exceeds the percent of moderate-income families in the AA.

| <b>Distribution by Borrower Income of Residential Real Estate Loans</b> |                            |              |               |                                 |              |               |                               |              |               |                              |              |               |
|---|----------------------------|--------------|---------------|---------------------------------|--------------|---------------|-------------------------------|--------------|---------------|------------------------------|--------------|---------------|
| <b>Assessment Area</b>  | <b>Low-Income Families</b> |              |               | <b>Moderate-Income Families</b> |              |               | <b>Middle-Income Families</b> |              |               | <b>Upper-Income Families</b> |              |               |
|   | Families                   | # Bank Loans | \$ Bank Loans | Families                        | # Bank Loans | \$ Bank Loans | Families                      | # Bank Loans | \$ Bank Loans | Families                     | # Bank Loans | \$ Bank Loans |
|   | 40%                        | 21%          | 18%           | 16%                             | 31%          | 23%           | 14%                           | 11%          | 13%           | 30%                          | 37%          | 46%           |

Source: Data Collected by the Bank; 1990 U.S. Census Data

The following table illustrates the distribution of consumer loans by the borrower’s income level compared to the percentage of AA households that are within each of those income levels. The distribution of consumer loans made to low- and moderate-income households in Breathitt County is reasonable. The higher number of loans to low- and moderate-income households in the county is due to the products offered. Our sample basically consisted of used car loans and small consumer loans, which primarily targets lower income households.

| <b>Distribution by Borrower Income of Consumer Loans</b> |                              |              |               |                                   |              |               |                                 |              |               |                                |              |               |
|--|------------------------------|--------------|---------------|-----------------------------------|--------------|---------------|---------------------------------|--------------|---------------|--------------------------------|--------------|---------------|
| <b>Assessment Area</b>                                   | <b>Low-Income Households</b> |              |               | <b>Moderate-Income Households</b> |              |               | <b>Middle-Income Households</b> |              |               | <b>Upper-Income Households</b> |              |               |
|  | % HH                         | # Bank Loans | \$ Bank Loans | % HH                              | # Bank Loans | \$ Bank Loans | % HH                            | # Bank Loans | \$ Bank Loans | % HH                           | # Bank Loans | \$ Bank Loans |
|  | 40%                          | 68%          | 67%           | 15%                               | 32%          | 33%           | 14%                             | 0%           | 0%            | 31%                            | 0%           | 0%            |

Source: Data Collected by the Bank; 1990 U.S. Census Data

### Geographic Distribution of Loans

There are no low- income or upper- income geographies in the AA, however, there are moderate and middle-income geographies. To determine the geographic distribution throughout the AA, we analyzed the consumer and real estate loans from our original sample. The real estate loan review compared the percent of owner-occupied housing in each tract and the consumer review compared the percent of population in each tract. We evaluated the lending distribution within the AA, considering branching, competition, market conditions, and demographic information. We did not identify any unexplained conspicuous gaps. The geographic distribution of loans reflects excellent dispersion throughout FNB’s AA.

The following table illustrates the geographic distribution of residential real estate loans among geographies of different income levels compared to the percentage of owner occupied housing. The six moderate- income tracts accounts for 90% of the Owner Occupied Housing, while 10% reside in the middle- income tract. The distribution of loans among the geographies is excellent.

| <b>Geographic Distribution of Residential Real Estate Loans</b> |                               |              |               |                                    |              |               |                                  |              |               |                              |              |               |
|---|-------------------------------|--------------|---------------|------------------------------------|--------------|---------------|----------------------------------|--------------|---------------|------------------------------|--------------|---------------|
| <b>Assessment Area</b>  | <b>Low-Income Geographies</b> |              |               | <b>Moderate-Income Geographies</b> |              |               | <b>Middle-Income Geographies</b> |              |               | <b>Upper-Income Families</b> |              |               |
|   | % Owner Occ. Units            | # Bank Loans | \$ Bank Loans | % Owner Occ. Units                 | # Bank Loans | \$ Bank Loans | % Owner Occ. Units               | # Bank Loans | \$ Bank Loans | % Owner Occ. Units           | # Bank Loans | \$ Bank Loans |
|   | 0%                            | 0%           | 0%            | 90%                                | 95%          | 98%           | 10%                              | 5%           | 2%            | 0%                           | 0%           | 0%            |

Source: Data Collected by the Bank; 1990 U.S. Census Data

The following table illustrates the geographic distribution of consumer loans throughout the AA compared to the percentage of households. The six moderate- income tracts include 91% of the households, while 9% reside in the middle- income tract. The distribution of consumer loans between the geographies is excellent.

| <b>Geographic Distribution of Consumer Loans</b> |                               |              |               |                                    |              |               |                                  |              |               |                                 |              |               |
|--|-------------------------------|--------------|---------------|------------------------------------|--------------|---------------|----------------------------------|--------------|---------------|---------------------------------|--------------|---------------|
| <b>Assessment Area</b>                           | <b>Low-Income Geographies</b> |              |               | <b>Moderate-Income Geographies</b> |              |               | <b>Middle-Income Geographies</b> |              |               | <b>Upper-Income Geographies</b> |              |               |
|  | % HH                          | # Bank Loans | \$ Bank Loans | % HH                               | # Bank Loans | \$ Bank Loans | % HH                             | # Bank Loans | \$ Bank Loans | % HH                            | # Bank Loans | \$ Bank Loans |
|  | 0%                            | 0%           | 0%            | 91%                                | 89%          | 89%           | 9%                               | 11%          | 11%           | 0%                              | 0%           | 0%            |

Source: Data Collected by the Bank; 1990 U.S. Census Data.

### **Responses to Complaints**

FNB has not received any CRA-related complaints since its last CRA examination in October 1999.

### **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of illegal discrimination or other illegal credit practices.