



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 31, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Matewan National Bank/Kentucky
Charter Number #6622**

**334 Main Street
Pikeville, Kentucky 41501**

**Office of the Comptroller of the Currency
Administrator of National Banks
Charleston Duty Station
100 Capitol Street
Security Building - Suite 400
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 ***Matewan National Bank/Kentucky*** prepared by the ***Office of the Comptroller of the Currency***, the institution's supervisory agency, as of July 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 **Satisfactory**.

Matewan National Bank/Kentucky(MNB/KY) 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 complaints. This evaluation is based on information from September 30, 1994 through June 30, 1997.

The following table indicates the performance level of ***Matewan National Bank/Kentucky*** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	MATEWAN NATIONAL BANK/KENTUCKY 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		X	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

MNB/KY is a \$194 million institution with its main office located in Pikeville, Kentucky (KY). MNB/KY became a wholly owned subsidiary of Matewan Bancshares, Inc. on March 15, 1996. The holding company, which is located in Williamson, West Virginia, has approximately \$633 million in assets. It currently operates three bank subsidiaries and two non-bank subsidiaries. Prior to this time, MNB/KY was Bank One, Pikeville, N.A. which was a wholly-owned subsidiary of Banc One West Virginia, which in turn was wholly-owned by Banc One Corporation headquartered in Columbus, Ohio. The bank operates four branches, four full service automated teller machines (ATM's), and four cash dispensing ATM's throughout Pike County. All offices are full service which include lobby and drive-thru facilities. The main office has extended hours of 7:00 a.m. to 7:00 p.m. Monday through Saturday at the drive-thru. Three branches were closed in 1996 due to their close proximity to existing affiliate institutions.

As of June 30, 1997, net loans represented approximately 56% of total assets. The loan portfolio contains 40% residential real estate loans, 38% commercial loans, and 22% consumer loans. MNB/KY offers a variety of loans including secured and unsecured loans as low as \$2,000, three and five year balloon mortgages, adjustable rate mortgages, and 30-year fixed rate mortgage 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. MNB/KY's last CRA performance, under the name of Bank One, Pikeville, N.A., was performed in November 1994 and was rated satisfactory.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area (AA) is comprised of Pike County which is primarily rural and located in the coal fields of the Appalachian Mountains. It is Kentucky's largest county by area. The AA meets the requirements of the regulation and does not arbitrarily exclude low or moderate income geographies.

Pike County is considered a non-metropolitan statistical area (non-MSA) which includes 19 block numbering areas* (BNAs). Three BNAs qualify as moderate-income; 15 as middle-income; and one as upper-income. There are no low-income BNAs. The main office and Peters Creek Branch are located in moderate-income BNA's while the other three branches are located in middle-income BNAs.

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

The population of Pike County was 72,583 based on 1990 census data with a total of 21,072 families. The 1996 Housing and Urban Development agency's updated statewide non-MSA median family income** for KY is \$26,400. The income levels of the families in the AA are as follows: low-income (27%), moderate-income (17%), middle-income (19%), and upper-income (37%). Thirty-two percent of households in the AA receive social security benefits, while 12% receive some other type of public assistance.

The local economy remains somewhat depressed and dependent upon the coal mining industry with Pike county remaining one of the largest coal producing counties in the United States. The economy is experiencing some growth due to the expansion of the local Methodist Hospital and the new osteopathic school at the Pikeville Community College. Major industries in the area include mining, wholesale/retail, service, and state/local government. The AA's 1997 unemployment rate equaled 6.9% compared to the state's average of 5% and the national average of 4.7%.

Banking within the AA is competitive with numerous financial institutions to meet local credit needs. Pike County is the third largest banking center in the state. There are main offices or branches of a regional bank, one large community bank, one small community bank, one savings and loan, and several finance companies.

As part of our review, we consulted two members of the Pikeville community who deal with housing and business issues to help us better understand the local credit needs. Our contacts identified low or no down payment mortgage loans, including Federal Housing Administration and Kentucky Housing Authority loans; small business; and consumer loans as the credit needs in the community.

** 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 PERFORMANCE CRITERIA:

◆ Loan to Deposit Ratio

MNB/KY's loan to deposit ratio is reasonable. During the ten quarters since the last CRA examination, MNB/KY's loan to deposit ratio has decreased from 92% on December 31, 1994 to 68% on June 30, 1997, with an average loan to deposit ratio of 78%. The average loan to deposit ratios of two similarly situated institutions in the AA were 51% and 89%. These are the two national community banks with headquarters in Pikeville.

Reasons for the decline in MNB/KY's loan to deposit ratio partially stem from different ownership and less holding company resources since the last CRA review; customer reaction to the various name changes; additional competition from the new bank which opened January 1996; and the payoff of a large participation loan with a Bank One affiliate.

◆ **Lending in Assessment Area**

A substantial majority of the bank's lending activity is within the AA. In order to determine this, we utilized the bank's automated loan reports which were based on outstanding balances of loans originated from 1/1/96 to 1/31/97. This report shows 81% of the number and 84% of the dollar amount of loans are made within the AA. The table below illustrates the bank's lending by product type within the AA.

Loan Type	# of Loans	Percent	\$ of Loans	Percent
Consumer	1,483	68%	5,466,746	30%
Real Estate	229	11%	6,751,574	37%
Commercial	57	3%	3,096,749	17%
Total	1,769	81%	15,315,069	84%

◆ **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 the bank's automated loan reports originated from 3/15/96 through 1/31/97 by original balance. In addition, a sample of 11 consumer and 41 real estate loans made in 1997 were reviewed during our examination. Based on our sample, the percentage distribution was approximately the same as the bank's reports. The following table illustrates MNB/KY's penetration of loans to individuals within each income level base on the automated reports.

Percentage of the Number of Loans to Individuals of Different Income Levels Within the AA				
Income Level	Families in the AA	Consumer Loans	Residential Real Estate Loans	Total Loans to Individuals
Low	27%	12%	5%	11%
Moderate	17%	22%	9%	20%
Middle	19%	26%	19%	25%
Upper	37%	40%	67%	44%
Total	100%	100%	100%	100%

Although the number and dollar volume of loans to low-income borrowers appears low, this can be explained, in part, by the number of families with low income levels. Of the approximately 21,000 families, 5,655 made approximately \$11 thousand annually based on 1990 census data. This income level makes it difficult to qualify for loans, especially housing related loans. Kentucky's median family income is low compared to all other states ranking 47th out of 50.

The bank's level of lending to businesses of different sizes is reasonable. By using the size of loans as an indicator of business size, we found that approximately 90% of commercial loans originated during the first six months of 1997 were for amounts less than \$1 million. In addition, 61% of these loans were for amounts less than \$100,000. The bank has originated nine Small Business Administration loans since the last CRA examination totaling \$390 thousand.

◆ **Geographic Distribution of Loans**

MNB/KY's geographic distribution of loans reflects a reasonable dispersion throughout their AA based on the bank's automated loan reports for loans originated from 1/1/96 through 1/31/97 by outstanding balance. As mentioned earlier in this public evaluation, the majority of geographies are middle income. We found that the majority of loan originations are concentrated in areas closest to the bank's offices. The following table illustrates the dispersion of loans made in 1996 to families within the AA's various BNA's.

Percentage of the Number of Loans to Individuals Within Different Income Block Numbering Areas				
Tract Income Levels	Families in BNA's	Real Estate Loans	Consumer Loans	Total Loans to Individuals
Moderate	16%	14%	23%	22%
Middle	77%	78%	72%	72%
Upper	7%	7%	5%	5%
Total	100%	100%	100%	100%

◆ **Response to Complaints**

MNB/KY has received no CRA related complaints since the prior CRA evaluation in November 1994.

◆ **Compliance with Antidiscrimination Laws and Regulations**

A fair lending examination was performed in conjunction with our CRA evaluation. No violations of the substantive provisions of antidiscrimination laws and regulations were identified.