



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**January 26, 2004**

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

**The First National Bank of Grayson  
Charter Number 12982**

**200 S. Carol Malone Boulevard  
Grayson, KY 41143**

**Comptroller of the Currency  
Virginias Field Office  
Laidley Tower, Suite 730  
500 Lee Street, East  
Charleston, WV 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 majority of the bank's loans were originated within their assessment area.
- Analysis reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- No public complaints related to CRA have been filed since the last CRA examination.

## **DESCRIPTION OF INSTITUTION**

The First National Bank of Grayson (FNB) is a community bank with six office locations in Kentucky. Offices are located in Grayson, Olive Hill, Willard, and Rush in Carter County; Sandy Hook in Elliott County; and West Liberty in Morgan County. FNB is a wholly owned subsidiary of First Grayson Bancorp, Inc., a one-bank holding company. FNB has not closed any branches since the last CRA examination but opened one, the West Liberty Office, in April 2002. FNB's last CRA evaluation was performed in September 1998 and was rated Satisfactory.

FNB offers full service banking at all locations, with both lobby and drive-thru facilities. The bank's products include a variety of traditional deposit and loan products. The bank operates five automatic teller machines, located at each branch location with the exception of the Willard Office, and four cash machines located inside various gas stations/convenience stores in Grayson. There are no financial conditions, legal constraints, or other impediments to the bank's ability to meet the credit needs of its assessment area.

As of December 31, 2003, FNB's assets totaled \$147 million with net loans comprising 63% of that total. The following table reflects the composition of FNB's loan portfolio based on loans the bank has originated since the last CRA examination. Based on both the number and dollars of loans, FNB's primary loan products are residential real estate and consumer loans. Consequently, we considered these two types, in addition to loans to small businesses, for evaluation purposes to assess the bank's CRA performance.

Product Category	Loan Distribution 09/01/1998 – 12/31/2003			
	Number	Percent	Dollar (000's)	Percent
Other Consumer Loans	12,662	66.58	\$79,743	29.15
Residential RE – First Lien	2,817	14.81	\$97,724	35.73
Commercial/Industrial	1,358	7.14	\$38,027	13.90
Non-Farm/Non-Residential RE	1,036	5.45	\$32,900	12.03
Construction/Land Development	531	2.79	\$20,027	7.32
Revolving – Non-Residential RE	268	1.41	\$188	0.07
Agriculture	190	1.00	\$1,538	0.56
Farmland	118	0.62	\$1,761	0.64
Other Loans	17	0.09	\$1,042	0.38
Obligations of States/Political Subdivisions	8	0.04	\$332	0.12
Revolving – Residential RE	8	0.04	\$139	0.05
Residential RE – Second	4	0.02	\$95	0.03
Total	19,017	100.00	\$273,520	100.00

Source: Data Collected by the Bank

## DESCRIPTION OF ASSESSMENT AREAS

FNB's assessment area (AA), located in northeastern Kentucky, is comprised of the geographic boundaries of three contiguous counties – Carter, Elliott, and Morgan. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies. Competition within the AA consists of nine banks, national- and state-chartered, either based in or with branches operating in the three-county assessment area. Of the banking market within Carter, Elliott, and Morgan Counties, approximately 76% of the market share is divided between three banks: Commercial Bank of Grayson, FNB of Grayson, and Commercial Bank, as seen in the following table.

Institution Name	Total Assets (000's) 12/31/03	Deposit Market Share Inside of Market
Commercial Bank of Grayson	\$151,090	27.39%
<b>First National Bank of Grayson</b>	<b>\$146,867</b>	<b>27.37%</b>
Commercial Bank	\$119,813	21.41%
Bank of the Mountains	\$53,456	9.02%
People's Bank	\$75,195	6.92%
Heritage Bank of Ashland	\$125,400	2.78%
Classic Bank	\$340,439	2.54%
Peoples Bank National Association	\$1,724,359	2.51%
Citizens Bank	\$76,066	0.06%

Source: Data Reported to the Federal Financial Institutions Examination Council on the Consolidated Reports of Condition and Income; Federal Deposit Insurance Corporation's Market Share Report

We considered Carter County a separate AA for analysis purposes since, during the assessment period, it was one of six counties in West Virginia, Kentucky, and Ohio that comprised the Huntington-Ashland, WV-KY-OH Metropolitan Statistical Area (MSA). The population of Carter County was 26,889 according to 2000 census information, which was an 11% increase from 1990 data. The current unemployment rate is 9.1%, according to the Bureau of Labor Statistics. This is higher than the state average of 5.1% primarily because of the limited job opportunities in this area. According to the 1997 economic census, Carter County’s top three industries by distribution of employees are retail trade; manufacturing; and, accommodation and food services.

Since two of the counties, Elliott and Morgan, are not included in an MSA and are homogenous, we combined these for our analysis. The combined population of Elliott and Morgan Counties was 20,696 according to 2000 census information. The population in Elliott County increased 4.5% from 1990 to 2000 while Morgan County’s increased 19.7% during that same period. According to the Bureau of Labor Statistics, the current unemployment rate in Elliott and Morgan Counties is 8.7% and 8.1%, respectively. As with Carter County, this is higher than the state average of 5.1% primarily because of the limited job opportunities in this area. The top three industries in Elliott and Morgan Counties, according to the 1997 economic census, by distribution of employees are retail trade; health care and social assistance; and, accommodation and food services.

The following table includes general demographic data describing the assessment areas.

<b>Demographic Characteristics of Assessment Areas</b>			
		<b>Assessment Areas</b>	
		<b>Carter</b>	<b>Elliott-Morgan</b>
<u>Number of Geographies by Income Level:</u>	Low-Income	0	0
	Moderate-Income	4	6
	Middle-Income	3	1
	Upper-Income	0	0
<u>Percent of Geographies by Income Level:</u>	Low-Income	0.00%	0.00%
	Moderate-Income	57.14%	85.71%
	Middle-Income	42.86%	14.29%
	Upper-Income	0.00%	0.00%
<u>Percent of Population in each Tract:</u>	Low-Income	0.00%	0.00%
	Moderate-Income	63.09%	68.61%
	Middle-Income	36.91%	31.39%
	Upper-Income	0.00%	0.00%
<u>Percent of Families by Income Level:</u>	Low-Income	31.78%	36.88%
	Moderate-Income	18.80%	14.81%
	Middle-Income	19.10%	16.26%
	Upper-Income	30.33%	32.05%
<u>Median Housing Characteristics:</u>	Median Home Value	\$33,945	\$30,930
	Percent Owner-Occupied Units	74.77%	69.42%
	Median Gross Rent	\$265	\$193
<u>1990 Median Income Data:</u>	Median Family Income	\$26,374	\$22,542
	Updated Median Family Income	\$37,600	\$36,300

Source: 1990 U.S. Census Data

## Community Contacts

We reviewed information from two interviews conducted in September 2003 to ascertain the credit needs of the community. One interview was with a representative of an economic development organization, and the other was with a representative of a community development organization. These community contacts were in the Huntington, West Virginia area and dealt solely with the Huntington-Ashland KY-WV-OH MSA. We conducted an additional interview with a community-based organization in Elliott County, the non-MSA area. Community contacts did not identify any specific credit needs for the assessment area.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and comparison to similarly-situated financial institutions. We considered bank data and found that FNB is similarly-situated to Commercial Bank of Grayson, Commercial Bank, Peoples Bank, and Bank of the Mountains. These banks are FNB's closest competitors in terms of market share and offer similar credit products as FNB.

Institution Name	Average Loan-to-Deposit Ratio
	Twenty-One Quarters Beginning October 1, 1998
Bank of the Mountains, Inc.	89.44%
Peoples Bank	71.27%
<b>The First National Bank of Grayson</b>	<b>70.04%</b>
The Commercial Bank of Grayson	56.66%
Commercial Bank	54.39%

*Source: Data Reported to the Federal Financial Institutions Examination Council on the Consolidated Reports of Condition and Income*

### Lending in Assessment Areas

FNB originated a majority of their total loans within their AAs. We considered information the bank collected for each loan originated since the prior CRA examination to determine the percentage of lending within the AA. The following table summarizes the results of our review.

Lending Inside/Outside the Assessment Area								
	Residential Real Estate		Consumer		Small Loans to Businesses		Total Sampled Loans	
	Number	Dollar	Number	Dollar	Number	Dollar	Number	Dollar
Inside AA	85%	84%	83%	81%	84%	69%	83%	81%
Outside AA	15%	16%	17%	19%	16%	31%	17%	19%
Total	100%	100%	100%	100%	100%	100%	100%	100%

*Source: Data Collected by the Bank*

FNB collects information regarding the borrower's geographic location and income for each residential real estate and consumer loan originated, and also collects geographic information for business loans. We selected a sample of each type of loan and validated the integrity of the information coded into the bank's system. Since the data proved reliable, we considered the entire population of loans originated between

September 1, 1998 and December 31, 2003, as detailed in the following table, in our analyses. We used the bank-coded income information to determine the distribution of loans within the assessment area based on borrowers income and bank-coded geographic information.

<b>Reviewed Loans Inside the Assessment Area</b>												
<b>Assessment Area</b>	<b>Total Residential Real Estate Loans</b>				<b>Total Consumer Loans</b>				<b>Total Small Loans to Business</b>			
	<b>#</b>	<b>% of Total</b>	<b>\$ (000)</b>	<b>% of Total</b>	<b>#</b>	<b>% of Total</b>	<b>\$ (000)</b>	<b>% of Total</b>	<b>#</b>	<b>% of Total</b>	<b>\$ (000)</b>	<b>% of Total</b>
<b>Carter</b>	2,004	84	\$67,793	83	8,497	81	\$52,843	82	317	93	\$14,108	89
<b>Elliott-Morgan</b>	387	16	\$14,004	17	1,956	19	\$11,713	18	25	7	\$1,718	11

Source: Data Collected by the Bank

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

When evaluating a bank's CRA lending performance within the various income brackets, it is customary to use the applicable U.S. Census Bureau data as the benchmark. In this instance, the evaluation period encompasses two census periods: 1990 and 2000. With the publication of the 2000 census data effective January 1, 2003, it was necessary to segment the bank's loan data accordingly and, thus, compare it to the appropriate census data. Therefore, we segmented those loans originated by the bank since its last CRA examination, or September 1998, through December 31, 2002, comparing that performance to the 1990 census data. Likewise, we segmented loans originated from January 1, 2003 through December 31, 2003 for comparison to 2000 census data. After analyzing the two segments, we noted no significant differences in lending performance and no salient changes in the census information from 1990 to 2000. Therefore, since a substantial majority of the bank's loans were made within the September 1998 to year-end 2002 segment, we elected to utilize those loans, compared to the 1990 census data, on which to assess the bank's lending performance.

The following table illustrates the distribution of residential real estate loans by the borrower's income level. Our review revealed that the number of residential real estate loans made to low- and moderate-income families is reasonable when compared with the percentage of each AA's families that are in each of those income levels. Although the number of residential real estate loans made to low-income borrowers in the Carter AA is significantly less than the percentage of families in that area, this can be attributed to the relatively low level of owner-occupied housing available within Carter County. The distribution by dollar volume appears to be skewed toward upper-income families. However, that is misleading because the amount of each residential real estate loan to middle- and upper-income families is usually higher than similar loans to borrowers in low- and moderate-income families.

<b>Borrower Distribution 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>		
	<b>Families</b>	<b># Bank Loans</b>	<b>\$ Bank Loans</b>	<b>Families</b>	<b># Bank Loans</b>	<b>\$ Bank Loans</b>	<b>Families</b>	<b># Bank Loans</b>	<b>\$ Bank Loans</b>	<b>Families</b>	<b># Bank Loans</b>	<b>\$ Bank Loans</b>
<b>Carter</b>	32%	17%	7%	19%	22%	16%	19%	29%	31%	30%	33%	46%
<b>Elliott-Morgan</b>	37%	33%	13%	15%	18%	15%	16%	31%	47%	32%	18%	26%

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 with the percentage of each AA's households that are within each of those income levels. The distribution of consumer loans made to low- and moderate-income families is reasonable, with lending to the low-income households far exceeding the demographics for the AAs.

<b>Borrower Distribution 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
<b>Carter</b>	32%	48%	39%	16%	24%	21%	18%	18%	20%	34%	10%	20%
<b>Elliott-Morgan</b>	34%	66%	65%	18%	14%	12%	17%	14%	10%	31%	6%	10%

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

FNB does not collect revenue information when originating business loans. Since revenue information was not available, we used loan size as a proxy for business size. Loans to businesses with an original amount less than \$1 million are considered indicative of a loan to a small business (businesses with \$1 million or less in gross annual revenues). The following table shows a stratification of business loans by original amount, allowing a comparison with the percentage of small businesses in each AA. The distribution of loans to small businesses was excellent in each AA, with most loans being \$100,000 or less and all loans being \$1 million or less.

<b>Borrower Distribution of Small Loans to Businesses</b>							
<b>Assessment Area*</b>	<b>% of Businesses with Revenues of \$1 Million or Less</b>	<b>Loans by Original Amount Regardless of Business Size</b>					
		<b>\$100,000 or Less</b>		<b>&gt;\$100,000 to \$250,000</b>		<b>&gt;\$250,000 to \$1,000,000</b>	
		#	\$	#	\$	#	\$
<b>Carter</b>	67%	87%	39%	10%	32%	3%	29%
<b>Elliott-Morgan</b>	64%	88%	39%	8%	23%	4%	38%

Source: Data Collected by the Bank; Dunn and Bradstreet Data

\* 29% of businesses did not report revenue data.

### Geographic Distribution of Loans

We used the same segmentation discussed in the previous section of this Evaluation to analyze performance in lending to low- and moderate-income geographies within the AA. Again, based on the small difference in census data from 1990 to 2000 and the predominance of the bank's lending being prior to December 31, 2002, we based our analysis of geographic distribution of the bank's loans on this timeframe.

The geographic distribution of loans reflects reasonable dispersion throughout FNB's AA. We evaluated the lending distribution within the AAs, considering branch locations, competition, market conditions, and demographic information. We did not identify any unexplained conspicuous gaps. There are no low- or upper-income geographies in either AA. Therefore, our review focused on loan distribution in moderate-income geographies.

The following table shows the geographic distribution of residential real estate loans among geographies

of different income levels compared to the percentage of owner occupied housing. The distribution of loans between geographies in the Carter AA was adequate. The distribution of loans to borrowers in moderate-income geographies was lower than the percentage of owner occupied housing, however this is primarily due to the low level of available owner-occupied housing, as well as the mountainous regions of southern Elliot and southwestern Morgan Counties. These regions are less accessible due to the limited road network. All geographies within the Elliott-Morgan AA are moderate-income with the exception of the Sandy Hook area. Most of FNB's loans are distributed within that middle-income area because FNB's only branch location was in Sandy Hook until April 2002 when the bank's branch in Morgan County opened.

<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 Geographies</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
<b>Carter</b>	0%	0%	0%	63%	44%	37%	37%	56%	63%	0%	0%	0%
<b>Elliott-Morgan</b>	0%	0%	0%	69%	43%	40%	31%	57%	60%	0%	0%	0%

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

The table below illustrates the geographic distribution of consumer loans among geographies of different income levels compared to the percentage of households in each income tract. The distribution of loans between geographies in the Carter AA was good. The distribution of loans to borrowers in moderate-income geographies was significantly lower than the percentage of owner occupied housing in the Elliott-Morgan AA. Again, this is attributed to the location of FNB's branches as discussed previously.

<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
<b>Carter</b>	0%	0%	0%	47%	46%	43%	53%	54%	57%	0%	0%	0%
<b>Elliott-Morgan</b>	0%	0%	0%	76%	43%	41%	24%	57%	59%	0%	0%	0%

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

The following table illustrates the geographic distribution of business loans among geographies of different income levels compared to the percent of businesses located in each tract category. The distribution of loans to businesses in moderate-income geographies in the Carter and Elliott-Morgan AAs is adequate.

<b>Geographic Distribution of Small Loans to Businesses</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>		
	% Bus	% Bank # Loans	% Bank \$ Loans	% Bus	% Bank # Loans	% Bank \$ Loans	% Bus	% Bank # Loans	% Bank \$ Loans	% Bus	% Bank # Loans	% Bank \$ Loans
<b>Carter</b>	0%	0%	0%	66%	38%	31%	34%	62%	69%	0%	0%	0%
<b>Elliott-Morgan</b>	0%	0%	0%	77%	52%	67%	23%	48%	33%	0%	0%	0%

Source: Data Collected by the Bank; Dunn and Bradstreet Data

### **Responses to Complaints**

FNB has not received any CRA-related complaints since the September 1, 1998 CRA examination.

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

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