

## **PUBLIC DISCLOSURE**

**April 28, 2014**

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

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

**1124 Main Street  
Jackson, Kentucky 41339**

**Office of the Comptroller of the Currency  
Roanoke Field Office  
4419 Pheasant Ridge Road  
Suite 300  
Roanoke, Virginia 24014**

**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.**

The major factors supporting the institution's rating include:

- The bank's average quarterly net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs;
- A majority of loans originated are in the bank's AA;
- The distribution of loans reflects reasonable penetration among borrowers of different incomes; and,
- The geographic distribution of loans reflects reasonable dispersion throughout census tracts of different income levels.

**SCOPE OF EXAMINATION**

The First National Bank of Jackson (FNB Jackson) was evaluated using Small Bank Community Reinvestment Act (CRA) procedures. This Performance Evaluation assesses the bank's performance under the Lending Test for the period of January 1, 2009 through December 31, 2013. We sampled loans originated between January 1, 2012 and December 31, 2013 as this was representative of the bank's lending strategy since the last CRA evaluation. We selected home mortgage loans and consumer loans as the primary loan products based on total loans originated during the evaluation period and discussions with bank management. Our analysis was based on the sample of home mortgage loans and consumer loans originated during the evaluation period. The sample was selected based on judgmental sampling guidelines.

The Lending Test analysis is based on the bank's performance during the evaluation period using comparative demographic data from the 2010 U.S. Census.

**DESCRIPTION OF INSTITUTION**

FNB Jackson is an independent, intrastate community bank headquartered in Jackson, Kentucky. The bank, established in 1909, is wholly owned by The First National Holding Company of Jackson, a single-bank holding company also headquartered in Jackson, Kentucky. As of December 31, 2013, FNB Jackson had total assets of \$102.3 million and Tier One Capital of \$14.8 million. FNB Jackson has no subsidiary organizations.

As of December 31, 2013, the bank has two branches, two "drive-thru" locations, and two Automated Teller Machines (ATMs). The bank's main branch is located at 1126 Main Street, Jackson, Kentucky. The second branch, which opened in March 1977, is located at 770 KY Highway 15 North, Jackson, Kentucky. Office hours for both locations are from 9:00 a.m. until 4:00 p.m. Monday, Tuesday, Thursday and Friday and

from 9:00 a.m. until 12 noon on Wednesday and Saturday. The branch bank location is open until 6:00 p.m. on Fridays.

The branches offer full-service banking, while the drive-thru locations offer limited banking, which consists of loan payments, deposits, withdrawals, and cashier's checks. The main office and the branch also have ATMs. No branches were opened or closed during the evaluation period.

FNB Jackson offers a variety of deposit and loan products to meet consumer and commercial banking needs. Banking services are standard, with the addition of on-line banking with free bill pay. FNB Jackson also offers 24-hour account access service. The bank's Internet website, [www.firstnationalbankjackson.com](http://www.firstnationalbankjackson.com), provides detailed information on products and services for both consumers and businesses.

As of December 31, 2013, FNB Jackson's gross loans totaled \$45 million and total deposits were \$87 million. Gross loans represented 44 percent of total assets. The institution's loan portfolio as of December 31, 2013 is listed in Table 1 below.

Table 1 Loan Product Category	Gross Loans as of December 31, 2013*	
	Dollar (\$000's)	% of Total Loans
<b>Residential Mortgage Loans</b>	<b>20,749</b>	<b>46.07</b>
<b>Commercial and Commercial Real Estate</b>	<b>9,829</b>	<b>21.82</b>
<b>Commercial and Industrial</b>	<b>7,116</b>	<b>15.80</b>
<b>Individuals</b>	<b>6,249</b>	<b>13.87</b>
<b>All Other</b>	<b>558</b>	<b>1.24</b>
<b>Construction &amp; Land Development</b>	<b>542</b>	<b>1.20</b>
<b>Total</b>	<b>45,043</b>	<b>100.00</b>

\*Data obtained from "Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only – FFIEC 041" as of December 31, 2013.

Competition for loans and deposits comes from one local community bank in Breathitt County. FNB Jackson's primary competitor is Citizens Bank and Trust Company of Jackson.

There are no legal or financial factors impeding the bank's ability to help meet the credit needs in its AA. The bank was rated "Satisfactory" at its last CRA evaluation, which was dated February 11, 2009.

## **DESCRIPTION OF ASSESSMENT AREA(S) (AA)**

FNB Jackson has identified Breathitt County as its AA, located in a non-MSA. Breathitt County consists of seven census tracts (CTs). One CT is a low-income geography, five CTs are moderate-income geographies, and one CT is a middle-income geography.

The middle-income geography was designated as a distressed and underserved non-metropolitan middle-income geography due to the poverty rates, population losses and remote rural location of the AA. There are no upper-income CTs in the AA. This AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. Table 2 below presents demographic data for the AA using 2010 US Census data.

<b>Table 2. Demographic Information for Assessment Area: Breathitt County AA</b>					
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>
Geographies (Census Tracts/BNAs)	7	14.29	71.43	14.29	0.00
Population by Geography	13,878	14.36	59.03	26.61	0.00
Owner-Occupied Housing by Geography	3,770	11.35	64.06	24.59	0.00
Business by Geography	838	6.92	36.40	56.68	0.00
Farms by Geography	20	0.00	60.00	40.00	0.00
Family Distribution by Income Level	3,338	39.87	19.53	14.02	26.57
Distribution of Low and Moderate Income Families throughout AA Geographies	1,983	20.07	61.02	18.91	0.00
Median Family Income		\$43,212	Median Housing Value		\$52,557
HUD Adjusted Median Family Income for 2012		\$44,700			
Households Below Poverty Level		35.44%			

Source: 2010 U.S. Census and 2013 HUD updated MFI

Breathitt County is a rural area located in the foothills of the Appalachian Mountains in the Eastern Coal Field area of Kentucky, covering 495 square miles. The county seat is Jackson. Timber and coal mining helped bring jobs and grow the county's economy. The timber industry was vibrant until the late 1960s when coal mining began to bring in more money. After the late 1980s, the coal mining boom in Breathitt County slowed and coal mining families looked other places to find work. Currently, the county continues in a transitional period, moving from a strong timber industry to increased coal mining. This change was due to increased demand for coal from overseas markets, namely China, combined with new technology for mining coal. EPA regulations have not impacted mining in Breathitt County because of the low sulphur content in the coal.

The 2010 U.S. Census reported the total population in the AA at 13,878. Within the AA, there are 3,338 families and 5,257 households. Approximately 40 percent of the families are categorized as low-income, 19 percent as moderate-income, 14 percent as middle-income, and 27 percent as upper-income. The percentage of households below the poverty level is 35 percent. There are 6,386 housing units, of which 59 percent are owner-occupied, 23 percent are rental-occupied, and 18 percent are vacant housing units.

Major employment in the AA includes services with 45 percent, retail trade with 14 percent, and non-classifiable establishments at 14 percent. According to Kentucky Division of Workforce and Employment Services, the top three employers in the county were Kentucky River Medical Center, Walmart, and Nim Henson Geriatric Center. According to the U. S. Bureau of Labor Statistics, the March 2014 unemployment rate for Breathitt County was 12.2 percent. This rate is much higher than the state's average unemployment rate of 7.9 percent and the national average unemployment rate of 6.7 percent.

According to the June 30, 2013 FDIC Summary of Deposits Market Share Report, FNB Jackson ranked second out of two institutions in the Breathitt County Kentucky non-MSA AA with 43.67 percent of deposits. Citizens Bank and Trust Company of Jackson ranked first with deposit market share of 56.33 percent.

## **COMMUNITY CONTACT**

We completed a community contact with a representative of the City of Jackson, a local governmental entity in Jackson, Kentucky. The city government's mission is to use financial and human resources to provide services and ensure civil order for residents. The contact commented that area banks have been supportive of the community, providing credit availability for local agencies. The contact did not identify any unmet credit needs in the AA.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

FNB Jackson's performance is "Satisfactory". The evaluation period covered lending activity for home mortgage loans and consumer loans from January 1, 2012 through December 31, 2013. These loans were the primary loan products reviewed as determined by the volume of loan originations during the evaluation period.

To achieve the lending test rating, loans to consumers were given more weight than home mortgage loans because there were almost ten times as many consumer loan originations (792) as there were home mortgage loan originations (73) during the evaluation period. Also, loans made to low- and moderate-income borrowers were given more weight than loans made to middle-income borrowers since 60 percent of the families and 73 percent of the households are in low- and moderate-income census tracts.

Our analysis of the bank's performance for the respective evaluation factors is described below.

### **LOAN-TO-DEPOSIT RATIO**

FNB Jackson's average quarterly net loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and AA credit needs. This meets the standard for

satisfactory performance. We reviewed the quarterly net LTD ratios for the twenty-one quarters since the bank's last CRA evaluation.

FNB Jackson's average quarterly net LTD ratio for this time period is reasonable at 52.14 percent. The bank's quarterly LTD ratios ranged from a quarterly low of 44.60 percent at December 31, 2012 to a quarterly high of 58.46 percent at June 30, 2010. The peer average quarterly loan-to-deposit ratio for this same time period is 65.59 percent.

The Citizens Bank and Trust of Jackson ("CB&T Jackson") was identified as a similarly-situated competitor institution to FNB Jackson. Both institutions have a residential loan focus, comparable branching structure, similar asset size, and operate in the same market areas. The average quarterly net LTD ratio for CB&T Jackson for the previous 21 quarters is 87.14 percent. This quarterly average net LTD ratio is well above the quarterly average LTD ratio for FNB Jackson. FNB Jackson has experienced declines in its quarterly net LTD ratios over the 21 quarters in the evaluation period, and the same has occurred with CB&T Jackson's quarterly net LTD ratios.

## **LENDING IN ASSESSMENT AREA**

FNB Jackson originated a majority of loans inside its AA. Based on the home mortgage loans and the consumer loans sampled during the evaluation period, 80 percent of the total loans sampled were made within the bank's AA. By product type, 80 percent of the home mortgage loans sampled were originated within the combined AA, and 80 percent of the consumer loans sampled were originated within the bank's combined AA.

## **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 and businesses of different sizes. FNB Jackson's record of lending to borrowers of different incomes meets the standard for satisfactory performance.

The analysis of lending to borrowers of different income levels was completed using loans made inside the AA from the loan sample discussed above.

## **HOME MORTGAGE LOANS**

FNB Jackson's distribution of home mortgage loans reflects adequate penetration among borrowers of different income levels as depicted in Table 3 below. FNB Jackson's record of home mortgage lending to borrowers of different incomes meets the standard for satisfactory performance.

The percentage of loans to low income borrowers is significantly below the percentage of low-income families in the AA. The percentage of loans to moderate-income

borrowers is well below the percentage of moderate-income families in the AA. Since the one middle-income geography was designated as a distressed and underserved non-metropolitan middle-income geography, the bank received consideration for lending to consumers in the middle-income geography. The percentage of home mortgage loans made in the middle-income geography exceeds the percentage of households located in this geography.

<b>Table 3 – Borrower Distribution of Home Mortgage Loans in Breathitt County AA</b>		
<b>Income Level</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>
Low	39.87	15.00
Moderate	19.53	10.00
Middle	14.02	30.00
Upper	26.57	45.00

Source: 2010 U.S. Census and FNB Loan Sample

The bank has made reasonable efforts to lend to low and moderate income borrowers. The level of unemployment in the AA is very high, which restricts certain lending opportunities.

In our analysis, we took into consideration the lack of affordability for low- or moderate-income individuals to purchase a home. The average median housing value in the AA was \$52,557. According to the 2013 HUD updated median family income, low-income individuals earn less than \$22,350 and moderate-income individuals earn between \$22,350 and less than \$35,759. Additionally, 35 percent of households in the AA are below the poverty level. The lack of affordability limits the opportunities for home purchase, home improvement, and home refinance lending to low- and moderate-income individuals.

## **CONSUMER LOANS**

The distribution of consumer loans reflects reasonable penetration among borrowers of different income levels. FNB Jackson’s record of consumer lending to borrowers of different incomes meets the standard for satisfactory performance.

The percentage of loans made to consumers in the low-income geography exceeds the percentage of households located in this geography. The percentage of loans made to consumers in moderate-income geographies is significantly below the percentage of households located in these geographies. Since the one middle-income geography was designated as a distressed and underserved non-metropolitan middle-income geography, the bank received consideration for lending to consumers in the middle-income geography. The percentage of home mortgage loans made in the middle-income geography exceeds the percentage of households located in this geography.

Table 3A details the bank’s performance in consumer lending for the period of January 1, 2012 through December 31, 2013.

<b>Table 3A – Borrower Distribution of Consumer Loans within Breathitt County AA</b>		
<b>Income Level</b>	<b>% of AA Households at each income level</b>	<b>% of Number of Loans</b>
Low	43.45	60.00
Moderate	16.47	5.00
Middle	13.28	20.00
Upper	26.80	15.00

Source: 2012-2013 loan sample; 2010 U.S. Census Data

## **GEOGRAPHIC DISTRIBUTION OF LOANS**

The geographic distribution of home mortgage loans and consumer loans reflects reasonable dispersion throughout census tracts of different income levels. FNB Jackson's performance meets the standard for satisfactory performance. There were no conspicuous gaps identified within the bank's AA.

There is one low-income geography, five moderate-income geographies, and one middle-income geography in the AA. The middle-income geography has been designated as a distressed and underserved geography because of the poverty rate, population losses, and the remote rural location of the AA.

## **HOME MORTGAGE LOANS**

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout census tracts of different income levels. FNB Jackson's performance for home mortgage lending meets the standard for satisfactory performance.

The percentage of home mortgage loans made in the low-income geography is well below the percentage of owner-occupied housing units in this geography. FNB Jackson's ability to extend home mortgage loans to the low-income geography is hampered by AA demographics as discussed above.

The percentage of home mortgage loans made in moderate-income geographies exceeds the percentage of owner-occupied housing units in these geographies. Since the one middle-income geography was designated as distressed and underserved non-metropolitan middle-income geographies for the duration of the evaluation period, the bank received consideration for lending to the middle-income geographies. The percentage of home mortgage loans made in the middle-income geography exceeds the percentage of owner-occupied housing units in this geography.

Table 4 details the bank's performance as compared to the percentage of owner-occupied housing units in each census tract income level for the period of January 1, 2012 through December 31, 2013.

<b>Table 4 – Geographic Distribution of Home Mortgage Loans in Breathitt County AA</b>		
<b>Income Level</b>	<b>% of AA Owner Occupied Housing Units</b>	<b>% of Number of Loans</b>
Low	11.35	5.00
Moderate	64.06	65.00
Middle	24.59	30.00
Upper	0.00	0.00

Source: 2010 U.S. Census and FNB Loan Sample

## CONSUMER LOANS

The geographic distribution of consumer loans reflects reasonable dispersion throughout census tracts of different income levels. FNB Jackson's performance meets the standard for satisfactory performance.

The percentage of loans made to consumers in the low-income geography exceeds the percentage of households located in these geographies. The percentage of loans made to consumers in moderate-income geographies is below the percentage of households located in these geographies. Since the one middle-income geography was designated as a distressed and underserved non-metropolitan middle-income geography, the bank received consideration for lending to consumers in middle-income geographies. The percentage of loans made to consumers in the middle-income geography exceeds the percentage of households located in this geography.

Table 4A details the bank's performance as compared to the percentage of households in each income level census tract for the period of January 1, 2012 through December 31, 2013.

<b>Table 4A – Geographic Distribution of Consumer Loans within Breathitt County AA</b>		
<b>Income Level</b>	<b>% of AA Households located in each income level part of the AA</b>	<b>% of Number of Loans</b>
Low	12.08	30.00
Moderate	60.80	40.00
Middle	27.13	30.00
Upper	0.00	0.00

Source: 2010 U.S. Census and FNB Loan Sample

## RESPONSES TO COMPLAINTS

FNB Jackson did not receive any complaints about its performance in helping to meet credit needs in the assessment area during this evaluation period. This has a neutral impact on the bank's CRA assessment.

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

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.