

PUBLIC DISCLOSURE

February 3, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Community Bank of Mercer County, Inc.

5541201

P. O. Box 5939

Princeton, West Virginia 24740

Federal Reserve Bank of Richmond

P. O. Box 27622

Richmond, Virginia 23261

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

This document is an evaluation of the Community Reinvestment Act (CRA) performance of First Community Bank of Mercer County, Inc., Princeton, West Virginia, prepared by the Federal Reserve Bank of Richmond, the institution's supervisory agency.

The evaluation represents the agency's current assessment and rating of the institution's CRA performance based on an examination conducted as of February 3, 1997. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under five performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

This institution is rated Satisfactory, based on the findings presented in the following discussion of the institution's performance.

First Community Bank of Mercer County, Inc., primarily serves its delineated community through direct lending. A full range of credit options is offered including consumer, home improvement, residential mortgage, small business, and commercial loans. Furthermore, a majority of loans originated during 1996 were within the delineated community and the distribution of lending was considered reasonable. Community development loans have been extended that have promoted economic revitalization and growth. The institution's fair lending practices, policies, and procedures were determined to be appropriate. Additionally, management's outreach efforts are indicative of its clear commitment to assist local credit needs and community development endeavors.

SCOPE OF EXAMINATION

An evaluation of First Community Bank of Mercer County, Inc., was conducted to assess CRA performance. The assessment was based on statements made by bank management and staff, minutes of the board of directors' meetings, various other bank records, and a discussion with a local government official. The institution's performance was evaluated in the following categories: geographic distribution, marketing and types of credit extensions offered and extended, community development, fair lending, and ascertainment of community credit needs.

PROFILE

Description of the Institution

First Community Bank of Mercer County, Inc., (FCB Mercer), Princeton, West Virginia, began operations as a legal entity on December 30, 1995, when the Mercer County offices of First Community Bank, Inc., (FCB, Inc.), were segregated and separately chartered. FCB, Inc., which had been the sole banking subsidiary of FCFT, Inc., moved its main office to Buckhannon, West Virginia, and FCB Mercer became the lead bank.

FCB Mercer has its main office in Princeton, West Virginia, and operates six branch offices in Mercer County, West Virginia. As of December 31, 1996, the bank had \$452 million in assets, of which 71% was loans. A wide range of deposit and loan products is available through the institution, including loans for home purchase, residential construction, home improvement, consumer, and commercial purposes. The loan portfolio as of December 31, 1996, was 64% real

estate secured (consumer and business), 18% consumer, and 14% commercial. A review of 1996 lending volume revealed that 81% of the number of loan extensions was for consumer (non-real estate secured, direct and indirect) purposes, while 10% and 9% of all 1996 extensions were for consumer real estate and commercial purposes, respectively.

The bank's average loan-to-deposit ratio for the previous four quarters is 95%. Since March 31, 1995, total loans have increased by 6%, and total deposits have grown 2%. The average loan-to-deposit ratio for banks headquartered in nonmetropolitan areas of West Virginia and of similar asset size to FCB Mercer is 91%.

Reasonableness of Delineated Community

The local community has been delineated to include Mercer County, West Virginia, and the contiguous town of Bluefield, Virginia, which consists of Block Numbering Areas (BNAs) 9902 and 9911. Considering the bank's financial condition, resources, and the credit needs of the community, this delineation appears reasonable.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

Conclusion/Support

Through its outreach efforts management is aware of lending and community development opportunities within the delineated community. Princeton is the southern terminus of the 88-mile West Virginia Turnpike and a trade center for the agricultural, industrial, and coal mining industries. Mercer County is located in the southern portion of the state and has a population of 64,980 with a 7.4% minority population. The county has a diverse economy with the cities of Princeton and Bluefield, West Virginia, offering various employment opportunities. As a result, Mercer County has a relatively low unemployment rate of 4.9% when compared to the statewide average unemployment rate of 6.8%.

The contiguous town of Bluefield, Virginia, located in the western portion of the Commonwealth, is part of Tazewell County, Virginia, and has a population of 11,178. The town's economy is similar to Mercer County's although the economy of Tazewell County is persistently depressed. The current unemployment rate for Tazewell County is 8.6%, higher than the West Virginia rate, as well as the Virginia average of 3.9%. The nonmetropolitan median family incomes for Virginia and West Virginia are \$28,301 and \$22,655, respectively.

The delineated community includes 18 BNAs. One BNA is considered moderate-income, 15 BNAs are considered middle-income, and two BNAs are considered upper-income geographies. There are no low-income BNAs located within the delineated community. The table below shows the percentage of delineated community population residing in moderate-, middle-, and upper-income BNAs, based on the median family income appropriate to each jurisdiction.

Percentage of Population within the Delineation by Income Level of BNA

	Moderate- Income	Middle- Income	Upper- Income	Total
Percentage of Population Residing in BNAs	4%	86%	10%	100%

Additionally, the following table depicts area families by low-, moderate-, middle-and upper-income levels.

Percentage of Families in the Delineated Community by Income Level

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Percentage of Families	20%	17%	20%	43%	100%

FCB Mercer has been supportive of local community development efforts and helped meet community credit needs by participating in various projects and lending opportunities consistent with its size, financial capacity, location, and local conditions.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

Conclusion/Support

The board of directors has appointed a CRA Officer to coordinate the CRA program. The program integrates various activities directed toward achieving and maintaining appropriate CRA performance. Outreach, marketing, training, periodic self-assessments by the board of directors, and branch closing procedures are all part of the program. The CRA officer periodically attends board meetings and makes recommendations concerning CRA matters. Board minutes reflect general discussions of CRA-related activities and the board of directors reviews the geographic distribution of all applications received on a quarterly basis to insure that the needs of the entire delineated community are being served, including low- and moderate-income areas. CRA goals and objectives are clearly outlined and understood by all personnel. Furthermore, the board has expanded its CRA Statement to include a detailed description of the bank's performance in helping to meet community credit needs.

CRA PERFORMANCE

I. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING BRANCHES

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

Conclusion/Support

The bank records the geographic distribution of all credit applications by zip code. Management prepares a formal report on a quarterly basis for analysis and board review. The report tracks lending activity for each of the 25 zip codes in the delineated community. As previously mentioned, the majority of BNAs located within the delineated community are considered middle-income geographies. Likewise, most of the zip code locations were considered to be middle-income areas.

The geographic distribution of lending activity evidenced penetration in all 25 zip codes. Also, the geographic data supports the reasonableness of the delineation. The following chart illustrates the institution's volume of lending within the delineated community from January 1, 1996, to September 30, 1996.

Comparison of Credit Extended Inside and Outside of the Delineation

	Inside Delineated Community	Outside Delineated Community	Total
Total Number of Loans	3,719	1,088	4,807
Percentage of Total Loans	77%	23%	100%
Total Amount of Loans (000's)	\$60,686	\$67,603	\$128,289
Percentage of Total Amount	47%	53%	100%

While a majority of the above extensions were provided to local businesses and residents of the community, a slight majority of the dollar amounts of the above loans was provided to individuals and businesses residing outside of the delineated community. Accounting for most of this disparity is the bank's commercial lending which was low in volume, but high in amounts extended outside the delineated community. Specifically, \$74 million of the \$128 million (57%) extended during the first three quarters of 1996 was for commercial purposes.

Conclusion/Support--contd.

A further analysis focused on consumer lending, which accounts for the majority of the number of loans extended, although typically such loans are for smaller dollar amounts compared to commercial loans. A significant portion of this lending was within the delineated community. For example, 86% of all mortgage loans and 78% of the dollar amount of such loans were extended within the defined community.

A review of denied applications was also conducted. From January 1, 1996, to September 30, 1996, 40% of all denied applications received were from community businesses and individuals. The bank receives a significant number of applications through dealer relationships, including many from outside its delineated area. A somewhat higher denial rate for all indirect applications accounts for the large number of denied applicants from outside the delineated community.

Given the institution's size, location, and volume of indirect lending, the geographic distribution of loans and denials appears reasonable.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

Conclusion/Support

The institution's seven offices are reasonably accessible to all segments of the community and hours of operation are considered convenient. There have been no branch openings or closings since the bank was chartered on December 29, 1995. A formal policy addressing branch closings that meets the requirements of the Federal Deposit Insurance Corporation Improvement Act 1991 has been adopted.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

Conclusion/Support

As identified in the CRA Public File, a full range of credit products is offered including residential mortgage, home improvement, small business, commercial, consumer, and community development loans. The following chart depicts the bank's 1996 lending activity by number and amount.

FCB Mercer Bank Loan Originations - 1996		
Description	Number	Amount (000's)
Mortgage Purchase & Refinance Loans	219	\$8,949
Other Secured Real Estate Loans	234	\$8,841
Construction Loans	26	\$3,041
Home Equity Loans	75	\$2,753
Non-Real Estate Secured Consumer Loans	5,317	\$44,242
Commercial Loans	581	\$96,117
Total	6,452	\$163,943

A significant portion of FCB Mercer's consumer loans made during 1996 was mortgages for various purposes. The conventional purchase and refinance mortgage products include a loan with a maximum term of 15 years and three- and five-year balloon payment loans all based on an amortization of 20 years. The home equity loan offering included, for 88 days, the "Special 888" loan that has an 8.88% annual percentage rate with no closing costs. From November 3, 1996, to date, 46 "Special 888" loans totaling \$1.9 million were extended. Mobile home loans, which provide affordable housing to low- and moderate-income residents, are also routinely made. During 1996, 25 mobile home refinance and purchase loans for \$756,487, nine mobile home secured loans for \$799,981, and 63 unsecured mobile home loans for \$713,466 were originated.

Small dollar amount consumer loans are offered that often help meet the needs of low- and moderate-income borrowers. In 1996, 947 loans for \$1,500 or less were provided.

As previously mentioned, 9% of all loans extended in 1996 were for commercial purposes, although such loans accounted for 57% of the dollar volume of lending. Furthermore, an estimated 85% of all commercial loans originated were extended to small businesses (defined as gross revenues under \$1 million) for business start up, expansion, and working capital purposes.

Assessment Factor J - The institution's participation in governmentally insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

Conclusion/Support

Various subsidized loan products are offered by the bank for consumer and commercial purposes. Federal National Mortgage Association (FNMA) and West Virginia Housing loan products provide affordable housing options. Both products offer a maximum term of 30 years and a 0% to 5% down payment with an interest rate determined by FNMA and West Virginia Housing, respectively.

Conclusion/Support--contd.

To assist the commercial borrower, Low-Doc, 7A, and 504 Small Business Administration (SBA) loans and West Virginia Economic Development Authority (WVEDA) loans are also available from the institution. The WVEDA loan product requires a 10% down payment with the remainder financed by the bank (45%) and the WVEDA (45%). The bank decides its own market rate, while the WVEDA takes the prime rate and subtracts 4%, with a minimum rate of 5%. The following table depicts the institution's participation in governmentally insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

FCB Mercer Bank Subsidized Loan Originations - 1996		
Description	Number	Amount (000's)
FNMA	62	\$3,869
West Virginia Housing	10	\$500
SBA	5	\$190
WVEDA	4	\$2,021
Total	81	\$6,580

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

Conclusion/Support

The marketing program primarily consists of service and product advertisements placed in area newspapers and broadcast on local radio stations. Loans and deposits are further promoted through billboards, statement stuffers, and lobby posters. Although advertisements are generally institutional in nature, the bank periodically uses these mediums to promote new loan and deposit products. Director and officer contact and involvement with civic, business, and social organizations are also utilized for communicating the availability of products and services. This marketing strategy is considered adequate given the institution's size and location.

III. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

Conclusion/Support

The institution's participation in various projects promoting economic revitalization and growth within its community has taken the form of direct loans, government assisted loans, contributions, financial services, and technical expertise.

Conclusion/Support--contd.

Support for community development primarily through direct lending to small businesses, individuals, nonprofit organizations, and local government, is evidenced by a 95% loan-to-deposit ratio. These types of credits have financed business start up and affordable housing projects that have created jobs and housing for local residents. Specifically, 11 business start up loans totaling \$412,600 were originated in 1996. Loans to finance affordable housing projects (rental, multifamily, and mobile home parks) totaled 15 for \$4.3 million in 1996. Some of the affordable housing loans recently extended for community development purposes include:

Two loans totaling \$2 million were originated to construct the West Virginia Department of Health and Human Resources facility, refurbish the former "Virginia Hotel" into a 21-unit apartment complex with four commercial locations, and construct 24 townhouses. Under terms of the agreement the West Virginia Housing Development Fund will pay off the loan.

A \$385,000 credit was extended to establish a mobile home park. At completion, the mobile home park will have 50 available home lots.

A \$125,000 construction loan was made to build a four-unit apartment building.

The bank is a member of the West Virginia Banker's Association Community Development Corporation (WVBA-CDC) and has funded \$86,726 of a \$274,533 commitment to the WVBA-CDC. The WVBA-CDC is comprised of West Virginia financial institutions that have combined their resources to promote small business development. Currently, the WVBA-CDC has a \$1.4 million fund that will provide lending opportunities to commercial entities that meet SBA's definition of small business.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

Conclusion/Support

Donations of human and financial resources are routinely made to a variety of local nonprofit organizations and schools. From January 1, 1996, to December 31, 1996, \$80,487 was contributed to various nonprofit causes and charities.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

Conclusion/Support

A review was made of written loan policies, forms, and accepted and denied loan applications. A loan officer interview was also conducted to obtain information regarding management's fair lending policies and procedures. Isolated violations of the technical aspects of the Equal Credit Opportunity Act's Regulation B were identified during the examination. The review of files conducted during the examination demonstrated an equal application of credit standards and no discriminatory credit practices were identified. Furthermore, management has adopted audit procedures to test for equal treatment of all applicants.

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

Conclusion/Support

Adequate policies, procedures, and training have been developed to support nondiscrimination in lending and credit activities. Applications are solicited from all segments of the delineated communities, including low- and moderate-income neighborhoods.

V. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

Conclusion/Support

Outreach efforts are considered strong and demonstrate a willingness by the institution to assist community development. Management utilizes an officer call program to help determine the credit needs of the delineated community. Under the program, bank officers contact local business and community organizations and leaders on a regular basis by telephone and in person. Additionally, director and officer involvement in community and trade organizations supplements the call program. Bank officials maintain significant relationships with economic development organizations, chambers of commerce, and civic groups.

The bank has also formed an advisory board that meets monthly to discuss community needs and is comprised of the Chief Executive Officer, area business leaders, and local residents. Furthermore, surveys are periodically used to allow for customer feedback regarding local credit needs. The institutions's outreach efforts are ongoing, include contact with individuals and groups that represent a large segment of community concerns, and are well documented.