



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**June 23, 2003**

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

**National Bank of Davis  
Charter Number 4828**

**William Avenue  
Davis, West Virginia 26260**

**Comptroller of the Currency  
Western Pennsylvania Field Office  
4075 Monroeville Boulevard Building 2, Suite 300  
Monroeville, PA 15146**

**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.**

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**INSTITUTIONS CRA RATING:** This institution is rated **SATISFACTORY.**

The primary factors supporting the bank's overall rating include:

The average loan to deposit ratio meets the standard for satisfactory performance since it compares reasonably to peer group loan to deposit averages considering area demographics.

The level of lending inside the assessment area meets the standard for satisfactory performance, since a majority of sampled loans originated during the evaluation period were originated within the assessment area.

The distribution of sampled loan originations among borrowers of different income levels and businesses of different sizes meets the standard for satisfactory performance since it is reasonable considering area demographics.

## **DESCRIPTION OF INSTITUTION**

The National Bank of Davis (NBD) is a \$25 million, independent, intrastate community bank, headquartered and operating in the town of Davis in Tucker County, West Virginia. Tucker County is situated in the northeast portion of West Virginia. Davis is located approximately 150 miles south east of Pittsburgh, Pennsylvania. NBD is a community bank offering basic deposit and loan products. Loan products include commercial, residential real estate and consumer loans. NBD received a satisfactory rating as a result of the previous CRA evaluation, which was conducted as of December 8, 1997.

Net loans represent 36% of NBD's assets. NBD's loan portfolio by dollar volume consists of: 46% residential real estate, 36% commercial and 18% consumer loans. There are no financial or legal impediments that would preclude NBD from lending.

## **DESCRIPTION OF ASSESSMENT AREA**

NBD has identified as its assessment area (AA), the town of Davis, West Virginia. Davis is situated in Tucker County within one of the three block-numbering areas (BNAs) into which the county is divided. The AA is not located within a Metropolitan Statistical Area (MSA). The U.S. Bureau of Census has designated all three BNA's in Tucker County, including the BNA in which NBD's AA is situated, as middle-income geographies. Consequently, Tucker County and NBD's AA contain no low-or moderate-income geographies. NBD's AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies.

NBD operates two full service branches in Davis. One of the two branches is housed with NBD's headquarters in Davis. The other branch office is located in the Canaan Valley section of Davis. NBD did not close any branch offices during the evaluation period. NBD operates automatic teller machines (ATM's) at each of its branch office locations. NBD also operates three additional ATMs all of which are situated in Davis. ATM locations include Canaan Valley Stores, Blackwater Lodge, and Deerfield Gift Shoppe in the spring, summer and fall. The

Deerfield Gift Shoppe ATM is moved to the Timberline Sky Lodge during winter months. Additionally, each branch location is equipped with a drive-through service window.

Tucker County, WV is situated in the Potomac Highlands and most of its land area (approximately 40%) is comprised of the Monongahela National Forest. The area also contains two major WV state parks and the Canaan Valley Wildlife Refuge. Tucker County's largest city and county seat is Parsons. Parsons is situated in the western portion of Tucker County, 16 miles west and slightly south of Davis. Davis, where NBD operates both of its branches however, is situated in the eastern portion of Tucker County. Additionally, Parsons is separated from Davis by Backbone Mountain. The mountain serves as a geographical barrier, which inhibits travel between Parsons and NBD. Travel throughout winter months proves to be particularly difficult. The mountainous terrain of Tucker County lends itself to a range of outdoor activities including skiing, hunting and fishing. Consequently, the area lends itself to tourism and serves as a location for second homes.

The AA's economy is stagnant and loan demand remains low. The area has experienced a loss of mining jobs. Local employment historically fluctuates throughout the year reflecting the seasonality of tourism related jobs. Over the evaluation period the seasonally adjusted statewide West Virginia unemployment rate ranged from 5.4% to 7.2%. Area employment is derived from the service industry, retail and wholesale trade, government and manufacturing. Construction, farming, government, and to a lesser extent, insurance, finance and real estate also support area employment. Tourism is a primary source of local service related jobs. Light manufacturing and logging also provide area employment. Major employers include the Tucker County Board of Education and various seasonal, tourist service providers.

The BNA, where NBD's AA is located encompasses approximately 40% of the land area and 32% of the population of Tucker County. Tucker County is rural and sparsely populated as is NBD's AA. The 1990 census reports population of the BNA in which NBD operates and Tucker County itself to be just 2,474 and 7,728 respectively. The population of NBD's AA, which is the town of Davis, consists of approximately 800 people. 1990 census data reports that for the geography in which NBD operates, 16% of the population is age 65 or older.

Of households in NBD's geography, the majority (65%) of AA households are supported by wage or salaried jobs. However, of area households, 22% are retired residents, 37% derive income from social security and over 16% subsist below poverty level. 1990 census data also reports that area owner occupied housing represents 58% of housing, the median housing value equals \$34,800 and the median year built for AA housing is 1968. These AA demographic factors restrict loan demand for residential mortgage loans. Particularly restricted is residential mortgage demand from low-income borrowers impacted by issues of housing availability and affordability.

Demographic information derived from annually updated HUD data was used to analyze NBD's lending distribution among borrowers of different income levels. HUD data updated for 2002, reports the West Virginia, statewide, non-metropolitan, median family income to be \$32,400. Demographic information derived from annually updated HUD data, reports that of area families 19%, 22%, 39% and 40% are of low-, moderate-, middle- and upper-income respectively.

Banking competition consists primarily of larger financial institutions including banks and credit unions, which operate in the vicinity. Competitors, while not located in NBD's AA, are substantially larger in asset size and have more elaborate branch networks and a more established presence in comparatively more urban surrounding areas. The larger, more sophisticated profile of the competing financial institutions allows them to offer a greater variety of products and services. According to bank management, within the AA, credit needs continue to be concentrated in residential mortgage and business purpose lending.

Examiners contacted the Executive Director of the Tucker County Chamber of Commerce. The contact depicted economic conditions as stagnant. The contact explained that the local economy is impacted by poverty and indicated that employment generated by the seasonal tourist industry consists of lower paying jobs of which residents often hold two or three. The contact identified other employers, not located on the mountain in locations such as Parsons and Grant County. The contact described the area as sparsely populated and stated that the entire County of Tucker supports just 360 businesses. The contact referenced housing as a community need being met by local financial institutions. The contact also expressed a community credit need for small business lending, lower dollar amount loans and lines of credit. The contact specifically recognized NBD for offering commercial lines of credit. Additionally, the contact acknowledged NBD for financially supporting area events and fund-raisers.

## **SAMPLING**

NBD loan data was collected through a random sample consisting of a total of 50 loans. Examiners sampled 25 each of residential mortgage and business purpose loans originated to borrowers located inside and outside of the bank's AA over the evaluation period. Residential mortgage loans and business purpose loans, were selected for sampling since these loans represent 46% and 36% respectively of the bank's loan portfolio and are considered to be the NBD's primary loan products for the period. The loan sample was used to analyze the bank's record of originating loans inside its AA. The loan sample was expanded to facilitate an analysis of the bank's record of distributing loans among AA borrowers of different income levels and businesses of different sizes.

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

### **LOAN TO DEPOSIT ANALYSIS**

The loan to deposit ratio meets the standard for satisfactory performance, since given demographic constraints, it compares reasonably to the average loan to deposit ratio exhibited by peer banks over the same period.

To assess NBD's lending activity, we collected and analyzed loan to deposit data for the evaluation period for NBD and its local peer group. The peer group to which NBD's level of lending activity was compared, included banks with assets up to \$35 million, operating within a radius of approximately 150 miles of Davis, West Virginia. The peer group included nine banks operating in West Virginia, western Virginia, southwestern Pennsylvania and southeastern Ohio.

Levels of lending activity were measured by comparing the average loan to deposit ratios achieved by NBD and its local peer group over the twenty-two quarters since the previous evaluation. The average loan to deposit ratios for the evaluation period were calculated using quarter-end financial data from 12/31/97 through 3/31/03. NBD's level of lending over the period compares favorably to lending by its local peer group of banks. Specifically, NBD achieved a twenty-two quarter average loan to deposit ratio of 48%. In comparison, a local peer group achieved an average loan to deposit ratio of 44% over the period.

The decrease in NBD's loan to deposit ratio over recent quarters to 38% as of 3/31/03, can be attributed in part to deposit growth, which has outpaced loan growth. Specifically, over the previous 12 months, deposits have grown nearly 25% while for the same period loans have grown at just over 5%. Prior to a significant increase in deposits, which occurred during 2002, the NBD's loan to deposit ratio more closely approximated historical levels. Specifically, between year-end 1998 and year-end 2001, NBD's loan to deposit ratio averaged 48%.

NBD's deposit growth over recent quarters can be attributed to the substantial deposit of proceeds from the sale of a customer's business. NBD also experienced deposit growth, resulting from customer migration when a nearby bank was purchased by a larger out of area bank in 2001. Additionally, NBD has a customer base from which there is greater demand for deposit than loan products. Specifically, NBD has a significant amount in burial trusts earmarked for funerals and customers who reside in nursing homes and have a need for deposit products but little need for credit.

NBD has achieved loan growth at a moderate pace despite the fact that community credit needs center around lower dollar amount loans. NBD has originated a comparatively large number of lower dollar amount loans to achieve modest growth in its lending level. Specifically, of sampled residential mortgage loans, granted during the evaluation period, 92%, 84% and 52% were originated for dollar amounts less than or equal to \$100,000, \$50,000, and \$35,000 respectively. Similarly, of sampled business purpose loans granted during the evaluation period, 100%, 80%, and 56% were originated for dollar amounts less than or equal to \$100,000, \$50,000 and \$15,000 respectively.

NBD's ability to lend is adversely affected by low area loan demand, which is attributable to local demographics. Davis, WV, where NBD operates both of its two branches, is sparsely populated. Davis is situated on a mountaintop and surrounded by state parks, a national forest and wildlife reserves, which serve to restrict industrial development and promote recreation and the second home market. The second home market, however, is largely supported by residents of Baltimore, MD and Washington, D.C. who obtain financing from financial institutions convenient to their primary residences. NBD is also physically isolated by mountainous terrain from other more populated cities and towns. Consequently, Davis is removed from commercial districts and major thoroughfares. Restrictions on development and limited road access have inhibited the growth of local business and industry, impacting area loan demand. NBD faces comparatively heavy competition from financial institutions and credit unions, which are larger with more expansive branch networks. These competitors are much more visible and accessible and are able to offer a greater variety of products and services. Therefore, NBD's

level of lending is considered to be reasonable considering area demographics and the context in which NBD operates.

### LENDING IN ASSESSMENT AREA

Lending in the assessment area (AA) meets the standard for satisfactory performance.

NBD originated a majority of its mortgage and business loans within its AA.

An analysis of mortgage and business purpose loans originated by NBD over the evaluation period (12/8/97 – 6/23/03) revealed that of the residential mortgage and business purpose loans sampled that 54% were originated within NBD’s AA.

The following table details NBD’s record of residential mortgage and business purpose lending inside and outside of its AA, over the evaluation period.

### LENDING INSIDE VS OUTSIDE THE ASSESSMENT AREA

	Inside AA		Outside AA		TOTALS	
	####	\$000	####	\$000	####	\$000
<b>Residential Mortgage Loans</b>	12	\$327	13	\$354	25	\$681
	48%	51%	52%	49%	100%	100%
	15	\$188	10	\$290	25	\$479
<b>Business Purpose Loans</b>	60%	61%	40%	49%	100%	100%
	27	\$515	23	\$644	90	\$1,160
<b>Combined Loans</b>	54%	44%	46%	56%	100%	100%

### LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS

#### *Income Distribution of Residential Mortgage Lending*

NBD’s record of lending to borrowers of different income levels meets the standard for satisfactory performance and is reasonable considering area demographics.

Demographic data compiled during the 1990 census for the bank’s AA categorizes income levels of area families as follows:

- 19% of area families are low-income families
- 22% of area families are moderate-income families
- 39% of area families are middle-income families
- 40% of area families are upper-income families

NBD's record of residential mortgage lending among AA borrowers of different income levels is reasonable considering area demographics. A sample of residential mortgage loans originated by NBD over the evaluation period was reviewed to assess the bank's record of lending to low- and moderate-income AA borrowers. Data from sampled residential mortgage loans originated in the AA over the evaluation period was collected and analyzed. The analysis was performed to assess the distribution among AA borrowers of different income levels compared to the representation of income levels among area families.

Demographic information derived from annually updated HUD data, reports that of area families 19% and 22% are of low- and moderate-income respectively. Low-income area families by definition are families with annual incomes below \$16,200. AA moderate-income area families by definition are families with annual incomes between \$16,200 and \$25,920. Consequently, of area families, 41% report annual incomes of less than \$25,920.

As indicated below, data derived from the sample of residential mortgage loans originated by NBD in the AA over the evaluation period, revealed that the volume of residential mortgages originated by NBD to low and moderate-income AA borrowers represented 8% and 28% of the sample respectively. This level of residential mortgage lending to borrowers of different income levels is reasonable considering the demographic context in which the NBD operates.

NBD's ability to extend residential mortgage loans to low-income borrowers is hampered by AA demographics. Specifically, of households in the bank's AA, 16% of the AA population is age 65 or older and 22% of AA households are comprised of retired residents. In addition, 37% of area households derive income from social security and 16% are considered to be at or below poverty level. The percentages of retired, senior, AA residents and limited income, AA households restrict residential mortgage demand particularly from low-income AA families.

Limited residential mortgage loan demand from low-income families can be attributed to many low-income families consisting of more senior, long time residents who have already owned and occupied residences in the area for many years. For this segment of the population, often housing needs tend to shift from owner occupied housing to apartment living.

Additionally, 1990 census data also reports that area, owner occupied housing represents 58% of housing, the median housing value equals \$34,800 and the median year built for AA housing is 1968. These AA demographic factors restrict loan demand for residential mortgages from low-income individuals, which by definition have annual incomes of less than \$16,200. As previously noted, 16% of households in the AA are considered to be at or below poverty level. Demand for residential mortgages from low-income individuals is adversely impacted by issues of housing availability and affordability. Therefore, the bank's opportunity to originate residential mortgage loans to low -income borrowers is limited.



NBD, however, is responsive to the needs of AA residential mortgage borrowers for whom closing costs represent a barrier to obtaining home purchase financing. Historically, NBD has not charged documentation preparation or loan origination fees and only charges the fees incurred from third party settlement providers such as appraisal, credit report, legal and reporting fees. Although NBD began charging borrowers an application fee during 2001, the fee is nominal totaling just \$10.00.

NBD is also responsive to the needs of AA low-and moderate-income borrowers by originating an overwhelming majority of its sampled residential mortgages in amounts representing the smaller dollar loans needed by low-and moderate-income individuals. For example, of sampled AA residential mortgage loans 92%, 84%, and 52% were originated for dollar amounts less than or equal to \$100,000, \$50,000 and \$35,000 respectively.

The following table details the distribution of residential mortgages originated by NBD in its AA over the evaluation period, among AA borrowers of different income levels.

**INCOME DISTRIBUTION OF AA RESIDENTIAL MORTGAGE LOANS**

	<b>Low Income Families</b>		<b>Moderate-Income Families</b>		<b>Middle Income Families</b>		<b>Upper Income Families</b>		<b>TOTALS</b>	
<b>AA Families</b>	<b>19%</b>		<b>22%</b>		<b>39%</b>		<b>40%</b>		<b>100%</b>	
	#####	\$000	#####	\$000	#####	\$000	#####	\$000	#####	\$000
<b>Residential Mortgages</b>	2	\$41	7	\$289	5	\$180	6	\$233	25	\$742
	8%	6%	28%	39%	20%	24%	24%	31%	100%	100%

*Income Distribution of Business Purpose Lending*

NBD’s record of lending to AA businesses of different sizes is reasonable considering area demographics.

Demographic data compiled during the 1990 census for the area indicates that of area businesses (119), which reported annual revenues, revenue was recorded as follows:

- 108 or 91% of area businesses report annual revenues < or = \$1 million
- 11 or 9% of area businesses report annual revenues > than \$1 million

NBD's record of business lending among businesses of different income levels is reasonable considering area demographics. A sample of business purpose loans, originated by NBD to AA businesses over the evaluation period, was reviewed to assess the bank’s record of lending to AA small businesses. Small business loans are defined as those loans made to business enterprises whose annual, gross revenues are \$1 million or less. Small businesses, according to Dunn and

Bradstreet, represent 91% of total area businesses. Of sampled business purpose loans originated by NBD to AA businesses over the evaluation period, 88% of the sample was originated to small businesses. This level of business lending to borrowers of different income levels is reasonable considering the environment in which NBD operates.

NBD is also responsive to the needs of AA small businesses by originating an overwhelming majority of its sampled business purpose loans in amounts representing the smaller dollar loans needed by AA small businesses. For example, of sampled AA business purpose loans 100%, 80%, and 56% were originated for dollar amounts less than or equal to \$100,000, \$50,000 and \$15,000 respectively.

The following table details the distribution of sampled AA business purpose loans originated by NBD in the AA over the evaluation period, to reporting AA businesses of different sizes.

### INCOME DISTRIBUTION OF AA BUSINESS LOANS

	Annual Revenues < or \$1MM		Annual Revenues > \$1MM		TOTALS	
<b>AA Businesses</b>	<b>91%</b>		<b>9%</b>		<b>100%</b>	
	#####	\$000	#####	\$000	#####	\$000
<b>Business Purpose Loans</b>	3	\$569	22	\$256	25	\$825
	<i>88%</i>	<i>69%</i>	<i>12%</i>	<i>31%</i>	<b>100%</b>	<b>100%</b>

### GEOGRAPHIC DISTRIBUTION OF LOANS

NBD's AA consists of the town of Davis, which is located in a single BNA, designated by the U.S. Bureau of Census as a middle-income geography. Since NBD's AA does not include any low- or moderate-income geography, an analysis of the geographic distribution of AA loans is not considered to be meaningful and consequently was not performed.

### RESPONSE TO COMPLAINTS

No complaints have been received since the last examination.

### RECORD OF COMPLIANCE WITH ANTI-DICRIMINATION LAWS

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