



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 17, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Russell Springs
Charter Number 11348

Highways 127 and 80
Russell Springs, KY 42642

Office of the Comptroller of the Currency

Louisville Field Office
9200 Shelbyville Road, Suite 505
Louisville, KY 40222-5134

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 rating for The First National Bank of Russell Springs (FNB) is satisfactory based on the following information:

- FNB's loan-to-deposit ratio is reasonable, considering the bank's size, financial condition, and the assessment area (AA) credit needs.
- A majority of FNB's loans are within the AA.
- The distribution of loans reflects reasonable penetration among businesses of different sizes and borrowers of different incomes.
- FNB did not receive any complaints related to CRA during the evaluation period.

SCOPE OF EXAMINATION

FNB was evaluated under the Small Bank examination procedures, which includes a lending test. The lending test for FNB covers its performance from January 1, 2007 through June 30, 2009.

To measure the bank's performance in meeting the credit needs of its AA, we reviewed both the dollar amount and the number of loans originated during the evaluation period to determine the bank's primary lending products. We determined, and bank management concurred, FNB's primary loan products were business loans and home loans. We selected a sample of twenty business loans and twenty home loans originated in the period from January 1, 2007 through June 30, 2009, as this is representative of the bank's lending strategy since the last CRA examination on February 18, 2004.

DESCRIPTION OF INSTITUTION

The First National Bank of Russell Springs (FNB) is a full-service intrastate bank with headquarters in Russell Springs, Kentucky. As of June 30, 2009, FNB had total assets of \$164 million and tier one capital of \$22 million. FNB is wholly owned by First Bancorp, Inc., a two-bank holding company with consolidated assets of \$330 million. In addition to the main office, FNB operates two branches within the AA that are only for deposit transactions and processing loan payments. FNB has an ATM at the main office and one at the South branch, but neither accepts deposits. Since the last CRA examination, FNB has not opened or closed any branches, and there have not been any significant changes to FNB's corporate structure, including merger or acquisition activities.

FNB offers a full range of deposit and loan products and services. Business loans and residential mortgage lending are FNB's primary focus, with farm loans and consumer loans representing a small dollar portion of the loan portfolio. FNB also originates home mortgage loans to sell on the secondary market.

As of June 30, 2009, FNB reported total loans of \$94 million and had a net loans and leases to total assets ratio of 57%. The loan portfolio composition is as follows:

Loan Portfolio Summary by Loan Product June 30, 2009	
Loan Category	% of Outstanding Dollars
Business Loans	54.54%
Home Loans	22.29%
Farm Loans	12.75%
Consumer Loans	4.91%
Other Loans	5.51%

There are no legal or financial impediments to FNB's ability to meet the credit needs of its AA.

The bank was rated **satisfactory** at its last CRA examination dated February 18, 2004.

DESCRIPTION OF ASSESSMENT AREA(S)

FNB identifies Russell County as its AA for CRA purposes. This is a non-MSA AA, meets the requirements of the regulation, and does not arbitrarily exclude any low- or moderate-income areas.

Below is a summary of some demographic information for this AA:

Demographic Information for the Russell County AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	4	0%	0%	100%	0%
Population by Geography	16,315	0%	0%	100%	0%
Owner-Occupied Housing by Geography	5,514	0%	0%	100%	0%
Businesses by Geography	1,592	0%	0%	100%	0%
Farms by Geography	89	0%	0%	100%	0%
Family Distribution by Income Level	4,837	27.52%	19.10%	22.51%	30.87%
Household Distribution by Income Level	6,957	34.10%	16.96%	18.27%	30.67%
Census Median Family Income (MFI)		\$32,884	Median Housing Value		\$54,264
HUD-Adjusted MFI: 2009		\$42,300	Families Below the Poverty Level		20.41%
HUD- Adjusted MFI: 2008		\$41,000	Households Below the Poverty Level		26.26%
HUD – Adjusted MFI: 2007		\$39,100	Unemployment Rate		10.60%

Source: 2000 U.S. Census Data.

The AA has four census tracts (CTs) with each designated as middle-income. However, each CT is designated as “distressed,” because the poverty rate is above 20%. Each CT is also considered “underserved” because it is a remote rural area.

Competition from other financial institutions is average. The bank’s competitors include several local community banks, a branch of a large regional institution, and several mortgage/finance companies.

Although the unemployment rate is increasing in the area because of the national recession, the local economy is characterized as good. The economic activity is relatively diverse with manufacturing, tourism, services, and agriculture. Manufacturing currently provides over 2,000 jobs in Russell County, with Fruit of the Loom being the largest employer of over 700 people. The tourism from Lake Cumberland generated \$38 million in spending in 2007. The Russell County School System employs over 600 people.

In assessing FNB, we contacted a local organization to determine the area’s credit needs. This contact indicated most business lending needs were being met, but loans for start-up businesses are needed.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

FNB’s performance under the lending test is satisfactory. All criteria of the lending test are documented below:

Loan-to-Deposit Ratio

FNB’s net loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and the AA’s credit needs. The bank’s average net loan-to-deposit ratio was 61% over the 21 quarters since the last CRA examination. This ratio ranged from a quarterly low of 54%¹ to a quarterly high of 64%.

The bank’s net loan-to-deposit ratio is similar to its primary competitor in the AA. However, FNB ranked sixth among six similarly situated banks. The average net loan-to-deposit ratios for the other five banks over the same 21 quarters ranged from 63% to 98%.

An additional factor mitigating the bank’s loan-to-deposit ratio rating is it originates home loans for the secondary market. From January 1, 2007 through June 30, 2009, FNB originated and sold \$3.3 million (26 loans) in home loans to the secondary market, which reduced the loan-to-deposit ratio.

¹ This low loan-to-deposit ratio was the result of one very large deposit that was in the bank for a few days at the end of a quarter.

Loan-to-Deposit Ratios	
Institution	Average
The First National Bank of Russell Springs	61.17%
Bank # 1	84.98%
Bank # 2	98.47%
Bank # 3	88.32%
Bank # 4	62.76%
Bank # 5	89.79%

Lending in Assessment Area

A majority of FNB's loans were made within the AA. Table 1 details lending within the AA by number and dollar amount of loans. Eighty-two percent of the number of loans originated in the period from January 1, 2007 through June 30, 2009 was to borrowers within the AA.

Table 1 – Lending in the Russell County AA										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Totals	2,968	82.01	651	17.99	3,619	79,346	67.50	38,210	32.50	117,556

Source: Bank-generated report for all new/renewed loans from January 1, 2007 through June 30, 2009.

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

The distribution of loans reflects a reasonable penetration among businesses of different sizes and borrowers of different incomes. FNB exceeds the standard for lending to businesses of different sizes; however, FNB does not meet the standard for home loans. For an overall rating, more weight was given to business loans since business lending makes up the majority of FNB's loans, and an identified credit need in the community. FNB also recently started participating in a new Small Business Administration (SBA 504)² program to lend to start-up businesses and/or business expansions.

Business Loans

The distribution of loans to businesses reflects excellent penetration to small businesses. Table 2A shows 95% of the number of business loans was to small businesses (i.e., businesses with less than \$1 million in annual revenues). Census data reveals only 56% of businesses reported revenues of \$1 million or less in annual revenues.

² FNB is participating in the SBA 504 program through the Southeast Kentucky Economic Development Corporation (SKED).

Table 2A - Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	56.28	3.20	40.52	100%
% of Bank Loans in AA by #	95.00	5.00	0.00	100%
% of Bank Loans in AA by \$	98.67	1.33	0.00	100%

Source: CRA Wiz data for 2008 and business loan data sampled from 2007 through June 30, 2009.

Home Loans

The distribution of home loans to borrowers reflects poor penetration among borrowers of different income levels. Table 2B shows only 10% of the bank's home loans were to low- and moderate-income families compared to 47% of the families in the AA with low-to-moderate income. FNB management agreed with our sample's conclusions. Reasons for the poor penetration include the high level of poverty (26% of households), high level of households receiving social security (38%, with only 17% in retirement), and a high level of rental units (19%).

Table 2B – Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential Homes	27.52	5.00	19.10	5.00	22.51	25.00	30.87	65.00

Source: CRA Wiz data for 2009 and HUD-updated 2000 U.S. Census data.

Geographic Distribution of Loans

The geographic distribution of loans is not meaningful because the AA only has middle-income CTs. Table 3A shows business loans and Table 3B shows residential real estate loans.

Table 3A - Geographic Distribution of Loans to Businesses in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans
Business	N/A	N/A	N/A	N/A	100%	100%	N/A	N/A

Source: CRA Wiz data for 2009 and bank reports.

Table 3B - Geographic Distribution of Residential Real Estate Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Homes	N/A	N/A	N/A	N/A	100.00%	100.00%	N/A	N/A

Source: CRA Wiz data for 2009 and bank reports.

Responses to Complaints

FNB has not received any CRA complaints during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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