



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 14, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Farmers National Bank
Charter Number 4271**

**136 West Main Street
Lebanon, Kentucky 40033**

Office of the Comptroller of the Currency

**One Financial Place
440 South LaSalle Street, Suite 2700
Chicago, Illinois 60605**

NOTE: 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

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the CRA performance of **Farmers National Bank** prepared by **Office of the Comptroller of the Currency**, the institution's supervisory agency. It covers the period from March 31, 1994 to November 14, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.*

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory".

- The bank's record of lending to borrowers of different income levels, including low- and moderate-income individuals, is good.
- The majority of the bank's loans were made within the assessment area.
- The average quarterly loan-to-deposit ratio since our last evaluation is reasonable and comparable to the most similar area competitor.

The following table indicates the performance level of Farmers National Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>FARMERS NATIONAL BANK</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to businesses of Different sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

Farmers National Bank (FNB) had total assets of approximately \$59 million as of September 30, 1996. FNB is 100% owned by Lebanon Bancshares, Inc., a one-bank holding company. The bank's main office and only branch are located in downtown Lebanon, Kentucky. The branch does not make loans. Both locations have drive-up facilities, and the branch has an automated teller machine (ATM). An ATM is being installed at the main office.

FNB is a consumer oriented lender. As of September 30, 1996, net loans represented approximately 43.60% of total assets. The composition of the loan portfolio was as follows: 28% one-to-four family residential loans; 27% loans to individuals; 26% agricultural loans; and, 19% business loans. They have not made any long term mortgages to date; however, management recently took steps to allow the bank to offer this type of product. There are no legal or financial constraints, or other factors, impeding the bank's ability to help meet the credit needs in its assessment area. The bank's prior CRA public performance evaluation is dated March 31, 1994.

DESCRIPTION OF MARION COUNTY

The Board has designated Marion County as the bank's assessment area. Their designation meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. There are eight Block Numbering Areas (BNAs) in the assessment area with the following designations: two moderate-income, five middle-income and one upper-income. The 1990 median family income for Marion County was \$22,269. The 1995 statewide median family income for non-metropolitan areas was \$26,400.

Lebanon is the county seat of Marion County which is located midway between Interstates 65 and 75 in the center of Kentucky. The local economy has historically been based on agriculture with approximately 40% of the income in the county earned from farming, primarily tobacco. In the past several years manufacturing has become more of an employment base. The industrial park is now full and additional acreage has been purchased to expand the park. The largest private employers in the area include Worthington Custom Plastics, Marion County Cooperage, Angell Manufacturing, and Curtis Maruyasu America. The unemployment rate in the county is typically above state and national levels. As of July, 1996 the unemployment rate in Marion County was 6.7% versus 4.8% for Kentucky and 5.6% nationwide¹. The population in the assessment area is approximately 17,000 and is projected by the U.S. Census Bureau to increase moderately through 2015.

The bank's competitors in the assessment area include three independent banks, and single branches of a regional bank, a community bank and savings bank, all headquartered outside the assessment area. FNB also faces competition from two small loan companies located in Lebanon. The primary credit needs identified by management are for small consumer loans.

¹ Source: Department for Employment Services

There is a significant volume of public and subsidized housing scattered throughout the county.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Ratio

FNB’s average quarterly net loan-to-deposit ratio for the period from 6-30-94 to 9-30-96 was 54.22%. The average ratio for the same period for the other independent national bank in Lebanon was 53.77%. This bank is the most comparable financial institution in the assessment area because it is a similar size and has a similar business focus. As of 9-30-96, FNB’s loan-to-deposit ratio was 47.17%.

Lending in Assessment Area

We reviewed a sample of consumer installment loans to determine the level of lending within the assessment area. Of the 32 loans reviewed, 29 (90.63%) were made within the assessment area. Management tracks the geographic pattern of its mortgage loan portfolio. They were able to generate a report, which we verified, showing that 90.91% of the mortgage loans made since our last CRA performance assessment were within Marion County.

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

We reviewed a sample of consumer and mortgage loans to evaluate this criterion. The distribution of FNB’s lending, particularly for consumer loans, exceeds the income characteristics of the assessment area. Our results are depicted in the following table.

	Proportion of Population within Assessment Area *	Distribution of Consumer Loans in Sample by Income	Percent of Number of Consumer Loans	Distribution of Mortgage Loans in Sample by Income	Percent of Number of Mortgage Loans
Low-Income	25.4%	12	37.50%	2	5.13%
Moderate-Income	16.0%	9	28.13%	7	17.95%
Middle-Income	18.6%	6	18.75%	11	28.21%
Upper-Income	40.0%	5	15.62%	19	48.71%
Totals	100%	32	100%	39	100%

* According to the U.S. Census Bureau

The bank's Consolidated Report of Condition as of June 30, 1996 indicated there were 233 small business loans outstanding totaling approximately \$5 million and 353 small farm loans outstanding totaling \$6.6 million. The vast majority of the commercial and agricultural loans, which represent 45% of the total loan portfolio, met the regulatory definition of "small" business and farm loans and were made within the assessment area.

Geographic Distribution of Loans

Management prepares an analysis of their mortgage lending patterns. The mortgage loans made from April 1, 1994 to October 29, 1996 were distributed among the BNAs as depicted in the following table.

MORTGAGE LOAN DISTRIBUTION

	Number of Loans Made in the A.A.	Percent of Total Number	Original Amount of Loans	Percent of Original Amount
Moderate-income	30	15.79%	\$686,987	16.14%
Middle-income	140	73.68%	\$3,102,535	72.87%
Upper-income	20	10.53%	\$467,697	10.99%
Totals	190	100%	\$4,257,219	100%

We prepared a geographic analysis of a sample of consumer loans made within the assessment area.

CONSUMER LOAN SAMPLE

	Number of Loans Made in the A.A.	Percent of Total Number	Original Amount of Loans	Percent of Original Amount
Moderate-income	6	20.69%	\$28,066	24.98%
Middle-income	21	72.41%	\$78,765	70.10%
Upper-income	2	6.90%	\$5,529	4.92 %
Totals	29	100%	\$112,360	100%

The distribution depicted in the preceding tables reflects reasonable penetration in all the BNAs within the assessment area. This includes two moderate-income BNAs.

Responses to Complaints

No complaints have been received since our last examination.

Compliance with Antidiscrimination Laws

We did not identify any violations of the substantive provisions of the antidiscrimination laws and regulations.