



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**May 04, 2009**

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

The Citizens National Bank of Lebanon  
Charter Number 3988

149 W. Main Street  
Lebanon, KY 40033

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 Citizens National Bank of Lebanon (CNB) is satisfactory based on the following information:

- The average loan-to-deposit ratio is reasonable, considering the bank's size, financial condition, and assessment area credit needs.
- A substantial majority of the bank's loans are originated in the assessment area.
- The distribution of loans reflects reasonable penetration among individuals of different income levels.
- CNB did not receive any consumer complaints about its performance in helping meet the credit needs of the assessment area during the evaluation period.

## **SCOPE OF EXAMINATION**

The evaluation period for this examination is March 1, 2004 to March 31, 2009. We evaluated the bank's performance under the Community Reinvestment Act (CRA) using small bank procedures. We reviewed both the dollar amount of loans and the number of loans originated during the evaluation period to determine the bank's primary lending product. We determined that The Citizens National Bank of Lebanon's primary loan product is 1-4 family residential loans. To assess the bank's lending performance, we reviewed a sample of 60 residential loans originated from January 1, 2007 through March 31, 2009. The last CRA evaluation was performed on March 1, 2004. The bank received a rating of satisfactory.

## **DESCRIPTION OF INSTITUTION**

The Citizens National Bank of Lebanon (CNB) is a full-service intrastate bank 100 percent owned by CNB of Lebanon Bancorp, Inc., a one-bank holding company headquartered in Lebanon, Kentucky. As of March 31, 2009, the bank had \$110 million in total assets, \$86 million in deposits, \$39 million in loans, and \$10.6 million in Tier One Capital. The bank offers traditional banking products and services and operates one full-service office, located in downtown Lebanon, Kentucky. Currently, the bank has four Automated Teller Machines (ATMs). One ATM is located at the main office and one is located at the local Kroger store, both are accessible to all segments of the community. The bank has two additional ATMs located at one of the communities' largest employers, TG Kentucky. TG Kentucky, LLC employs 850 individuals. CNB is in the process of installing a fifth ATM at the local Wal-Mart. All ATMs are cash-withdrawal only.

The bank's primary lending focus is home mortgage loans. CNB also makes loans to consumers, small businesses, and farms in the area. As of March 31, 2009, net loans represented

approximately 36 percent of the bank's average assets. The loan portfolio mix is as follows: 1-4 family residential mortgages - 38 percent, consumer loans - 17 percent, agriculture loans - 15 percent, commercial and industrial loans - 12 percent, total commercial real estate loans - 11 percent, and municipal loans - 7 percent.

## **DESCRIPTION OF ASSESSMENT AREA**

CNB's assessment area (AA) meets the technical requirements of the Act and does not arbitrarily exclude low-or moderate-income census tracts. The AA is defined as all of Marion County, which is not part of any MSA and is comprised of six census tracts (CTs), with four middle- and two upper-income geographies. There are no low- or moderate-income tracts within the bank's assessment area.

Marion County is a rural county located in central Kentucky with a total population of 18,212 according to the 2000 U.S. Census. That number has risen to approximately 19,228 in 2008. The 2000 population of the AA was comprised of 6,603 households, of which 2,481, or 38 percent, are considered to have low- or moderate-incomes, based on a median family income of \$35,884. Owner occupied housing in the county was 71 percent, with the median housing value at \$69,150. In addition, the percentage of households in the AA living below the poverty level is approximately 19 percent. Other significant factors to consider are: 5 percent of the households receive public assistance and 30 percent of the households receive social security benefits. The Department of Housing and Urban Development's (HUD) 2008 updated median family income estimate for the assessment area is \$41,000.

The economy of the assessment area is considered to be recovering after weakening over the past several months. While a portion of workers in Marion County commute to jobs in surrounding counties, the county's largest employer is the Board of Education. Other major employment opportunities in Lebanon revolve around automotive manufacturing positions. Specifically, major employers in Marion County include Angell-Demmell Manufacturing (automotive parts), Curtis-Maruyasu America (automotive supplier), TG Kentucky (automotive supplier), Kentucky Cooperage (white oak barrels), Montebello (tube manufacturing), Wilbert Plastic Services (plastic injection molding), Toyota Boshoku Manufacturing Kentucky (automotive parts manufacturing), Joy Mining Machinery (mining equipment) and Portland Forge (forging operation).

Unemployment rates increased overall through 2007 and 2008. According to the U.S. Department of Labor, the 2007 and 2008 unemployment rates were 5.7 percent and 6.4 percent respectively. The projected unemployment rate as of March 2009 is 13.4 percent, and is above both the state (10.3%) and national (8.5%) unemployment rates.

Competition is considered moderate to strong and involves competition from banks, farm credit services, and finance companies.

A community contact familiar with the area's credit needs indicated all local banks are active in the community and are willing to provide financing for potential projects. The contact did not identify any credit needs in the county that were not being addressed by the banks or through

other sources.

The following demographic information covering the bank’s AA of Marion County is based on 2000 census data, unless otherwise indicated.

Type of Information	AA	
Total Population in AA	18,212	
Kentucky HUD Adjusted Median Family Income – 2007	\$39,100	
Kentucky HUD Adjusted Median Family Income – 2008	\$41,000	
Families in AA:		
Income Levels of Families	#	%
Low	985	21
Moderate	654	14
Middle	1,007	21
Upper	2,132	44
Total Families within AA	4,778	100
Median Home Value:	\$69,150	
Median Year Built:	1971	
1-4 Family Housing Units	97%	
Occupancy:	#	%
Owner Occupied Units	5,173	71
Renter Occupied Units	1,440	20
Vacant Units	664	9
Total Units within AA	7,277	100

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

This Performance Evaluation assesses CNB’s record of meeting the credit needs of the communities in which it operates. We evaluated CNB under the Small Bank performance criterion. Conclusions regarding the bank’s lending performance are based upon our evaluation of the bank’s primary loan products originated January 1, 2007 through March 31, 2009. We determined CNB’s primary product lines (residential real estate loans) by reviewing available lending reports for a representative timeframe and through discussions with management. To analyze the primary loan product, we selected a random sample from the residential real estate portfolio, using source documents to collect the data.

Note: CNB is not subject to the data collection and reporting requirements of the Home Mortgage Disclosure Act (HMDA).

**Loan-to-Deposit Ratio**

The loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and assessment area credit needs. CNB’s average net loan-to-deposit ratio for the 21 quarters since the last CRA public evaluation is 49 percent. The loan-to-deposit ratio decreased since the last CRA evaluation (52 percent) to 49 percent as of March 31, 2009.

We compared CNB to two similarly situated banks. These banks are comparable to CNB in asset size, deposit size, number of offices, and major lending products. CNB’s average loan-to-deposit ratio is reasonable compared to the two similarly situated banks. The table below shows the average loan-to-deposit ratios of the other banks for the period under review.

<b>Institution</b>	<b>Average</b>
Citizens National Bank of Lebanon	48.63%
Bank #1	57.93%
Bank #2	82.66%

**Lending in Assessment Area**

A substantial majority of loans are in the AA. Our analysis shows 93 percent of the number and

96 percent of the dollar amount of loan originations were to borrowers in the AA. To reach this conclusion, we analyzed CNB’s lending activity by selecting a random sample of 30 residential loans originated between January 1, 2007 and March 31, 2009. See the following table for details.

<b>Loan Originations Between January 1, 2007 and March 31, 2009</b>										
<b>Loan Type</b>	<b>Number of Loans</b>					<b>Dollars of Loans</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$ (000's)</b>	<b>%</b>	<b>\$ (000's)</b>	<b>%</b>	
<b>Residential</b>	28	93	2	7	30	\$1,940	96	\$88	4	\$ 2,028
<b>Totals</b>	28	93	2	7	30	\$1,940	96	\$88	4	\$ 2,028

*\*Source: Randomly selected sample of 1-4 family residential loans originated within the evaluation period.*

**Lending to Borrowers of Different Incomes**

The distribution of loans, given the demographics of the assessment area, reflects reasonable

penetration among individuals of different income levels, including low- and moderate-income borrowers. To reach this conclusion, we analyzed the bank’s lending activity for the bank’s primary loan type and selected a random sample of 60 1-4 family residential mortgages, originated between January 1, 2007 and March 31, 2009. The original selected sample size of 30 was not sufficient to evaluate the bank’s performance; therefore, we expanded the sample size to 60. See the following table for details.

Table INC-1 1-4 Family Residential Loans shows the percentage of CNB’s residential loans to low-income borrowers is lower than the demographic comparator but exceeds the demographic comparator to moderate-income borrowers. CNB’s residential mortgage lending performance is reasonable given the credit needs of the AA.

<b>1-4 FAMILY RESIDENTIAL LOANS</b>					
<b>Borrower Income Level</b>	<b>Loan Originations Between Jan 1, 2007 and Mar 31, 2009</b>				<b>Percentage of Families within each Income Category</b>
	<b>Number of Loans</b>	<b>Percentage of Loans</b>	<b>Dollar Amt of Loans \$ (000's)</b>	<b>Percentage of Dollars</b>	
<b>Low</b>	10	17%	\$ 379	10%	21%
<b>Moderate</b>	10	17%	\$ 387	11%	14%
<b>Middle</b>	11	18%	\$ 714	19%	21%
<b>Upper</b>	29	48%	\$2,199	60%	44%
<b>Total</b>	60	100%	\$3,679	100%	100%

\* Source: Randomly selected sample of 1-4 family residential loans originated within the bank’s assessment area.

\*\* Further segmentation of home mortgage lending activity by purpose was not available from the data used for this analysis.

**Geographic Distribution of Loans**

The bank’s assessment area does not contain low- or moderate-income geographies to measure

dispersion performance, thus an analysis is not meaningful.

### **Responses to Complaints**

There have not been any complaints regarding the bank's CRA performance since our previous examination.

### **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.