



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 30, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Northern Kentucky
Charter No. 22439
P.O. Box 17190
Ft. Mitchell, Kentucky 41017

Office of the Comptroller of the Currency

Central District Office
One Financial Place, 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 Community Reinvestment Act (CRA) performance of First National Bank of Northern Kentucky prepared by Office of the Comptroller of the Currency, the institution's supervisory agency, as of June 30, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

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

The First National Bank of Northern Kentucky exhibits a satisfactory performance record. This record is supported by:

- The bank has established itself as a leader in small business lending in the three years since its founding.
- A majority (63%) of the business loans sampled were to small businesses.
- The loan-to-deposit ratio is more than reasonable compared to more established peers.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>(NAME OF FINANCIAL INSTITUTION)</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 CRA-related complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

The First National Bank of Northern Kentucky (FNB, N. Ky) is a \$57 million bank which is a member of a one bank holding company. The main office is in Ft. Mitchell, Kentucky which is located in Kenton County. This is the bank's only location. The bank also maintains an automatic teller machine (ATM) on the outside of the main office. Since its founding in 1992, the primary business focus of FNB, N.Ky has been to serve the needs of the community through small business lending. The bank's lending staff were previously commercial lenders from local regional banks. The bank's commercial loan portfolio is dominated by commercial customers who previously dealt with FNB, N.Ky's officers at those banks. The bank's loan portfolio is comprised of the following categories:

- 71% Commercial loans
- 16% 1-4 family mortgage loans
- 13% Consumer loans

There are no financial or legal impediments that affect the bank's ability to help meet the credit needs of its assessment area. FNB, N.Ky's last CRA rating as of December 31, 1993 was "Satisfactory Record of Meeting Community Credit Needs." The bank's lending performance for 1994, 1995, and year-to-date 1996 was reviewed in detail.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area (AA) consists of 12 census tracts in the Cincinnati MSA 1640. These tracts are located in Kenton County, Kentucky. The bank is located in an area which includes 10 upper-income census tracts and two (2) middle-income census tracts. This assessment area was selected based on the bank's ability to service its deposit base. FNB, N.Ky had previously included in its assessment area all of Kenton County, and selected tracts in Campbell, Boone, and Hamilton Counties.

Based upon our review of loan distribution for 1994, 1995 and year-to-date 1996, FNB, N.KY's assessment area is too narrowly defined. Through discussions with management, the assessment area has been expanded to 46 tracts, adding 32 tracts where loan activity was observed. Our analysis is based on this revised assessment area.

The median family income for MSA 1640 is \$36,658. The bank's AA has a population of 170,626. The distribution of families in income categories is as follows: 18% are low income, 18% are moderate income, 26% are middle income, and 38% are upper income.

The local economy is considered strong. Competition is provided by four local financial institutions and 2 branches of Cincinnati regional banks.

We conducted two interviews with individuals from the community to ascertain the credit needs of the community. We met with a local mayor and a county commissioner.

Community contact interviews did not identify any credit needs that are needed in the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Ratio

The loan-to-deposit ratio is more than reasonable given the bank’s size, financial condition, and assessment area credit needs.

The bank’s average loan-to-deposit ratio utilizing ten quarters since December 31, 1993 is 85.34%. FNB, N.Ky has increased its loan-to-deposit ratio from 81% to 88% in the last four (4) quarters. The bank’s loan-to-deposit ratio is in the upper nine (9)% of its 568 bank peer group.

Lending in Assessment Area

A majority of loans are inside the bank’s assessment area.

Lending In Assessment Area				
Loan Category	#	%	\$	%
Small Business	25	64%	1960	75%
Consumer	20	69%	268	73%
Mortgage	23	66%	1189	59%

Above listed is the number and dollar percentage of loans made inside the bank’s AA during 1994, 1995 and year-to-date 1996. A sample of the bank’s small business and consumer loans originated in 1994, 1995, and 1996 was taken to determine the percentage of lending within the bank’s AA. We sampled 5% of the consumer loans and 4% of the business loans originated each year. Mortgage loans totals listed in the table are 100% of those originated in the same period.

Our sample encompassed only 4% of the commercial originations. Since the commercial portfolio represents 71% of total loans, the actual percentage of loans within the assessment area may be greater than the limited sample would indicate. The bank was unable to provide geocoding of its loan activity.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals (including low-and moderate-income) and businesses given the demographics of the bank’s AA.

The following table shows the distribution of real estate and consumer loans among borrowers of different incomes. The percentage of mortgage loans to low income families is lower than the percentage of those families in the bank’s AA. However, mortgage loans originated to moderate and middle income borrowers exceed percentages of those families in that income range in the assessment area. FNB, N.Ky offers, but does not actively market real estate mortgage loans. Likewise, the percentage of consumer loans to low and middle income families is lower than the percentage of those families in the bank’s AA. However, the percentage of loans to moderate income families exceeds the percentage of families in the AA.

Distribution of Real Estate & Consumer Loans Among Individuals								
Type of Loan	Low Income		Moderate Income		Middle Income		Upper Income	
	#	\$	#	\$	#	\$	#	\$
Mortgage	11%	15%	21%	19%	37%	26%	31%	40%
Consumer	5%	4%	35%	28%	10%	9%	50%	59%
AA	18%		18%		26%		38%	

We sampled 39 business loans originated in 1994, 1995, and YTD 1996. 25 (64%) were located within the bank’s AA. Of these, 92% were loans with an original amount of \$250,000 or less. The 25 loans made in the assessment area are considered to be small business loans. The following table is the distribution among different size of businesses.

Distribution of Business Loans				
Revenue (in \$000's)	#	%	\$	%
< 100	1	4%	26	1%
100 - 250	8	32%	334	17%
250 - 1,000	12	48%	1052	54%
> 1,000	4	16%	548	28%

In a December 1995, Cincinnati Business Courier article, FNB, N.Ky was noted as having the highest percentage of small business loans to total assets of all lenders in greater Cincinnati.

Geographic Distribution of Loans

The income distribution of geographies reflects reasonable dispersion of the bank's loans throughout its assessment area.

Geographic Distribution of Mortgage Loans								
	Low Income Census Tract		Moderate Income Census Tract		Middle Income Census Tract		Upper Income Census Tract	
	#	\$	#	\$	#	\$	#	\$
	0%	0%	13%	6%	61%	62%	26%	32%
OOU *	2%		11%		50%		37%	

* OOU = Percentage of owner occupied units

The percentage of loans originated to moderate and middle income borrowers exceeds the percentage of those families in those tracts. While there are no loans to borrowers in low income census tracts, the percentage of owner occupied units in these tracts is very limited.

Geographic Distribution of Instalment Loans								
	Low Income Census Tract		Moderate Income Census Tract		Middle Income Census Tract		Upper Income Census Tract	
	#	\$	#	\$	#	\$	#	\$
	0%	0%	5%	5%	40%	28%	55%	67%
AA	7%		19%		46%		28%	

FNB, N.Ky does not offer financing to potential customers through dealers, such as automobile or home improvement dealers. Therefore, instalment loan totals represent only direct loans made to customers at the bank's Ft. Mitchell location. The low percentages of originations in low and moderate income census tracts is a result of the bank's proximity to

those tracts. Since the bank does not advertise instalment loans, only customers in close proximity to the bank borrow on an instalment, direct loan, basis.