



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**May 23, 2006**

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

**The First National Bank of Odon  
Charter Number 7260**

**501 W. Main Street  
Odon, IN 47562**

**Comptroller of the Currency  
Southern Ohio & Kentucky  
9200 Shelbyville Road Suite 505  
Louisville, KY 40222**

**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 document is an evaluation of the Community Reinvestment Act (CRA) performance of The First National Bank of Odon, Indiana prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of May 22, 2006. 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.**

Major Conclusions:

- The distribution of loans reflects excellent penetration among individuals of different income levels.
- A substantial majority of loans and other lending-related activities are in the bank's assessment area.
- Geographic distribution of loans is reasonable, considering the community's credit needs and demographics in relation to the bank's location and capacity to lend. There were no conspicuous gaps in lending.
- The average loan-to-deposit ratio is reasonable, considering the bank's size, financial condition, and assessment area credit needs.

## **DESCRIPTION OF INSTITUTION**

The First National Bank of Odon (FNB) is an intrastate bank headquartered in Odon, Indiana. Controlling interest in the bank is held by Dearmin Bancorp Inc., a locally-owned one-bank holding company with total assets of \$48 million as of March 31, 2006. As of March 31, 2006, the bank had \$48 million in total assets and \$45.5 million in deposits. The bank operates three full service branches in the neighboring cities of Montgomery, Elnora, and Crane. FNB has three Automated Teller Machines (ATMs), one at each office except the Elnora branch. The bank is accessible to all segments of the community. However, due to the rural road system, it is less convenient for persons residing further away in the county. In relation to the bank's main office in Odon, Daviess County extends to the west, with Martin County to the east and Greene County to the north. Three offices are based in Daviess County. One branch serves the Crane military facility in Martin County. Greene County has loan and deposit customers but no branch locations.

Management indicated the bank has a significant customer base of former Crane military facility workers who have moved out of the area. These customers do not borrow from FNB, but they continue to maintain deposit accounts at the bank.

FNB of Odon is a full-service lender offering traditional banking products and services. The bank's primary lending focus is home mortgage loans and consumer loans to residents of Odon, and secondarily, to residents of Daviess, Greene and Martin counties. FNB also makes small loans to businesses in the area. The loan portfolio constitutes 41% of the bank's assets as of March 31, 2006. Loan portfolio mix is as follows: 1-4 family residential mortgages 48%, commercial and non-farm non-residential loans 22%, consumer loans 17%, farm loans 7%, and construction and development loans 6%. The bank is constrained from making large or complex commercial loans due to its small legal lending limit and the limited corporate lending business strategy.

Over the years, competition from credit unions, other banks, and nonbank financing sources has restricted FNB's competitiveness and opportunities to lend. FNB is the smallest bank in the assessment area and is engaged in intense competition for a limited number of customers. Several of its competitors are affiliates or branches of large regional banks with significant resources. Other than the legal lending limit restriction discussed above, there are no legal, financial, or other factors impeding FNB's ability to help meet the credit needs of the community it serves. As of March 31, 2006, FNB of Odon reported Tier 1 Capital of \$4 million.

FNB of Odon was rated "Satisfactory" at its last CRA evaluation dated October 29, 2001.

## **DESCRIPTION OF ASSESSMENT AREA**

FNB of Odon's assessment area (AA) consists of the contiguous counties of Daviess, Martin and Greene in Indiana. The assessment area delineation is in conformance with the regulatory requirements of CRA and appears appropriate in relation to the location of the bank's offices. The delineation of the assessment area does not arbitrarily exclude any low- or moderate-income areas. The AA includes the entire three counties and is located in the non-MSA portion of the State of Indiana.

For this examination, we will be using the 2000 U.S. Census. The 2000 U.S. Census divided the AA into 18 census tracts (CTs), with five of the CTs being designated as moderate-income CTs and thirteen being designated as middle-income CTs. There were no low- or upper-income CTs identified within the three counties of Daviess, Greene, and Martin.

All three counties within the AA are rural in nature with a total population of 74,311, according to the 2000 U.S. Census (Daviess County – 30,446, Greene County - 33,479, and Martin County – 10,386). The 2000 population of the AA was comprised of approximately 28 thousand households, of which 45% are considered to have low- or moderate-incomes. In addition, the percentage of households in the AA living below the poverty level is approximately 12% with 31% of the households living on social security. The median family income for the assessment area is \$53,211.

The assessment area's largest city is Washington, with a population of 15,110. However, the main office for the bank is located in Odon, Indiana, (population 1,376) which is located 85 miles northeast of Evansville, Indiana. Note: Geographically, most of Martin County is federal land (i.e. Crane Naval Base).

The Odon area is dominated by small farms, and includes a growing Amish/Mennonite population. Daviess County has 600 or more Amish families with the majority of the families residing in the eastern half of the county. The Amish are engaged in farming, woodworking, and the construction trades. According to bank personnel familiar with the Amish community, they do not have significant credit needs.

The economy of the assessment area is stable with no significant industrial base. Major employers are Perdue Foods, Crane Naval Base, GPC (grain processing center), hospitals, nursing homes, and the local school systems. Unemployment is considered moderate. As of March 2006, the unemployment rate was 3.9% in Daviess County, 6.2% in Greene County and 6.1% in Martin County. Statewide, the unemployment rate in Indiana was 4.8% as of April 2006.

Competition is considered high and comes from a variety of banks and finance companies. The FDIC website shows thirteen other banks and thrifts operating 31 offices in the bank's AA. As of June 30, 2005, these offices held a combined total of \$858 million in deposits, with FNB of Odon having a 5% market share of these deposits. This competition also includes four large regional bank groups as well as a credit union for Crane employees (total deposits of \$113 million, as of June 30, 2001).

In order to gain insight into the community's credit needs and other factors affecting banks' ability to lend, we reviewed past community contacts. Two of the community contacts reviewed specialized in the area's economic development, and one specialized in residential real estate sales. They provided the following information:

- The financial institutions located in Washington, the area's largest city, have more opportunities to lend because they are closer to the customer base.
- The demand for loans in the immediate area of Odon is low compared to Washington. The Odon area has a slow growth rate and remains a rural community.
- Moderate unemployment exists in the area.
- Consumer banking habits of the area depend on location. Residents of a city tend to do business with that city's local bank, instead of traveling to another city to borrow.
- Financing for consumer purposes is met through a variety of sources in addition to banks.
- The Amish households generally do not have significant consumer credit needs, although some may seek financing for business purposes.
- Home financing needs exist throughout the different income levels. Numerous financial institutions and mortgage companies are available to meet this need.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Lending in Assessment Area

A majority of loans and other lending-related activities are in FNB's assessment area. The analysis shows approximately 96% of the number and 97% of the dollar amount of loan originations sampled were to borrowers inside the assessment area. To reach this conclusion, the OCC analyzed the bank's lending activity by selecting a random sample of seventy-six loans originated since the last CRA examination. See table below for details.

<b>SAMPLE OF LOAN ORIGINATIONS FROM JAN 2004 THROUGH MAY 2006</b>				
	<b>Number of Loans</b>	<b>Percentage of loans</b>	<b>Dollar Amt of Loans \$(000's)</b>	<b>Percentage of Loans</b>
<b>Within the Assessment Area</b>	73	96.05%	\$1,708	97.05%
<b>Outside the Assessment Area</b>	3	3.95%	\$ 52	2.95%
<b>Totals</b>	76	100.00%	\$1,760	100.00%

\* Source: Randomly selected sample of loans originated between Jan 2004 and May 2006.

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

The distribution of loans, given the demographics of the assessment area, reflects excellent penetration among individuals of different income levels (including low- and moderate-income). To reach this conclusion, the OCC analyzed the bank's lending activity by selecting a random sample of thirty-six loans of each of the bank's primary loan types, which was determined by reviewing the number of loans outstanding and the dollar amount of loans outstanding. Based on a review of both the number and dollar amount of loans within the loan portfolio, the primary loan types identified for this analysis included 1-4 family residential mortgages and consumer loans. See the tables below for details.

"Table INC-1 Home Mortgage Loans" shows the percentage of FNB's home mortgages to low- and moderate-income borrowers exceeded the percentage of families in the assessment area with low- and moderate-income. Low-income borrowers received 31% of the number of home mortgages, and moderate-income borrowers received 25% of the number of home mortgages. FNB's mortgage lending for the purpose of obtaining a home mortgage is excellent considering the home mortgage credit needs in the community.

**Table INC-1 Home Mortgage Loans**

<b>1-4 FAMILY MORTGAGES</b>					
<b>Borrower Income Level</b>	<b>Sampled Between January 2004 and May 2006</b>				<b>% of Families within each Income Category</b>
	<b># of Loans</b>	<b>%</b>	<b>\$ (000's)</b>	<b>%</b>	
<b>Low</b>	11	30.56%	\$ 334	18.79%	21.42%
<b>Moderate</b>	9	25.00%	\$ 450	25.31%	21.32%
<b>Middle</b>	11	30.56%	\$ 772	43.42%	25.26%
<b>Upper</b>	5	13.88%	\$ 222	12.48%	32.00%
<b>Total</b>	36	100.00%	\$1,778	100.00%	100.00%

\* Source: Randomly selected sample of 1-4 family residential mortgages (home purchase loans and refinance loans) originated between January 2004 and May 2006 from within the bank's assessment area.

\*\* Note: This information is based upon the 2000 U. S. Census.

“Table INC-2 Consumer Loans” shows the overall percentage of FNB’s consumer loans to low- and moderate-income borrowers exceeded the percentage of households in the assessment area with low- and moderate-income. Low-income borrowers received 36% of the number of consumer loans. Moderate-income borrowers received 31% of the number of consumer loans. FNB’s consumer lending is excellent considering the consumer credit needs in the community.

**Table INC-2 Consumer Loans**

<b>CONSUMER LOANS</b>					
<b>Borrower Income Level</b>	<b>Sampled Between January 2004 and May 2006</b>				<b>% of Households within each Income Category</b>
	<b># of Loans</b>	<b>%</b>	<b>\$ (000's)</b>	<b>%</b>	
<b>Low</b>	13	36.10%	\$ 90	28.13%	26.66%
<b>Moderate</b>	11	30.56%	\$ 83	25.94%	18.68%
<b>Middle</b>	6	16.67%	\$ 71	22.19%	20.82%
<b>Upper</b>	6	16.67%	\$ 76	23.74%	33.84%
<b>Total</b>	36	100.00%	\$320	100.00%	100.00%

\* Source: Randomly selected sample of consumer loans originated between January 2004 and May 2006 from within the bank’s assessment area.

\*\* Note: This information is based upon the 2000 U. S. Census.

We did not review farm and business loans as agricultural and commercial lending are not considered to be primary loan types for this bank and an analysis would not be meaningful.



## Geographic Distribution of Loans

The overall geographic distribution of loans reflects reasonable dispersion throughout the assessment area. FNB's lending activity extends throughout the assessment area. There were no conspicuous gaps in lending. To reach this conclusion, the OCC analyzed the bank's lending activity by selecting a random sample of thirty loans of each of the bank's primary loan types and compared the results to the 2000 census (see tables below). The primary loan types reviewed included 1-4 family home purchase loans and consumer loans.

"Table GEO-1 Home Mortgage Loans" shows FNB has reasonable penetration in making mortgage loans in the moderate-income census tracts. For FNB, there are only five moderate-income census tracts out of the eighteen census tracts identified within the assessment area (as designated by the 2000 U. S. Census). These five CTs contain approximately 20% of all owner-occupied housing in the assessment area and the sample selected for FNB showed 20% of the number of their 1-4 Family mortgages were made to borrowers located in the moderate-income census tracts.

**Table GEO-1 Home Mortgage Loans**

<b>Geographic Distribution of 1-4 Family Mortgage Loans By Geography Income Designation Originated Between January 2004 – May 2006</b>					
<b>Income Level of Census Tract Areas</b>	<b>1-4 Family Mtg Loan Originations</b>				<b>Distribution of Owner Occupied Housing</b>
	<b># of Loans</b>	<b>%</b>	<b>\$ (000's)</b>	<b>%</b>	
<b>Moderate</b>	6	20.00%	\$ 180	11.27%	20.08%
<b>Middle</b>	24	80.00%	\$1,417	88.73%	79.92%
<b>Total</b>	30	100.00%	\$1,597	100.00%	100.00%

\* Source: Randomly selected sample of 1-4 family residential mortgages (home purchase loans and refinance loans) originated between January 2004 and May 2006 from within the bank's assessment area.

\*\* Note: The assessment area has no low-income or upper-income geographies.

“Table GEO-2 Consumer Loans” shows FNB has reasonable penetration in making consumer loans in the moderate-income census tracts. For FNB, there are only five moderate-income census tracts out of the eighteen census tracts within the assessment area (as designated by the 2000 U. S. Census). These five CTs contain approximately 23% of all households in the assessment area and the sample selected for FNB showed 20% of the number of their consumer loans were made to borrowers located in the moderate-income census tracts.

**Table GEO-2 Consumer Loans**

<b>Geographic Distribution of Consumer Loans By Geography Income Designation Originated Between January 2004 – May 2006</b>					
<b>Income Level of Census Tract Areas</b>	<b>Consumer Loans Originations</b>				<b>Distribution of Households</b>
	<b># of Loans</b>	<b>%</b>	<b>\$ (000's)</b>	<b>%</b>	
<b>Moderate</b>	6	20.00%	\$ 63	25.20%	23.36%
<b>Middle</b>	24	80.00%	\$187	74.80%	76.64%
<b>Total</b>	30	100.00%	\$250	100.00%	100.00%

\* Source: Randomly selected sample of consumer loans originated between January 2004 and May 2006 from within the bank’s assessment area.

\*\* Note: The assessment area has no low-income or upper-income geographies.

We did not review farm and business loans as agricultural and commercial lending are not considered to be a primary loan types for this bank and an analysis would not be meaningful.

**Loan-to-Deposit Ratio**

The loan-to-deposit ratio is reasonable (considering seasonal variations and taking into account lending-related activities) given the bank’s size, financial condition, and assessment area credit needs.

FNB of Odon’s average net loan-to-deposit ratio for the eighteen quarters since the last CRA evaluation is 43.04%. The loan-to-deposit ratio has increased since the last CRA evaluation and as of March 31, 2006 is 46.03%.

FNB’s loan-to-deposit ratio is influenced by several factors, as discussed in the Description of Institution section. The bank’s three offices are distant from Washington, which is the largest city within the AA. FNB’s main office is located in Odon and the area of Odon has a large concentration of Amish, who tend to not borrow. In addition, the bank’s deposit-customer base is not the same as its borrowing-customer base. Its loan-to-deposit ratio reflects the large

amount of deposits from customers who are no longer living in the assessment area or borrowing from the bank. These factors have resulted in a low loan-to-deposit ratio.

As part of our analysis, we identified a few local competitors as well as four similarly situated financial institutions operating in markets similar to FNB of Odon's market. The similarly situated banks are comparable to the bank in asset and deposit size and major lending products as well as rural marketing area. For these identified banks (i.e. peer), the loan-to-deposit ratios ranged from 51% to 92% with an average ratio of approximately 72%.

<b>Institution</b>	<b>Average</b>
FNB of Odon	43.04%
Bank #1 (local competitor)	50.52%
Bank #2 (local competitor)	89.08%
Bank #3 (local competitor)	80.70%
Bank #4 (local competitor)	62.02%
Bank #5	92.06%
Bank #6	82.23%
Bank #7	80.57%
Bank #8	77.88%

### **Responses to Complaints**

FNB of Odon has not received any complaints about its performance in helping to meet assessment area needs during this evaluation period.

### **Fair Lending or Other Illegal Credit Practices Review**

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