



## **PUBLIC DISCLOSURE**

August 18, 2014

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

The First National Bank of Russell Springs  
Charter Number 11348

Highways 127 and 80  
Russell Springs, Kentucky 42642

Office of the Comptroller of the Currency

10200 Forest Green Blvd  
Suite 501  
Louisville, Kentucky 40223

**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 OVERALL CRA RATING: SATISFACTORY**

The First National Bank of Russell Springs (FNB) has a satisfactory record of meeting the credit needs of its community. This conclusion is based on the following.

- The average loan-to-deposit (LTD) ratio is reasonable given FNB's size, financial condition, and the credit needs of its assessment area (AA).
- A majority of FNB's loans were originated to borrowers within its AA.
- FNB's distribution of loans to low- and moderate-income individuals and small businesses with gross revenues less than \$1 million reflects reasonable penetration.
- The overall geographic distribution of loans reflects reasonable dispersion in the moderate-income census tract.

## **SCOPE OF THE EVALUATION**

The Office of the Comptroller of the Currency (OCC) evaluated FNB using the Small Bank Evaluation Procedures. These procedures consist of a lending test to assess FNB's record of meeting the credit needs of its AA through its lending activities.

The CRA evaluation period was from August 17, 2009 to August 18, 2014. Conclusions for the lending performance are based on FNB's primary loan products – residential real estate mortgages and commercial loans. We performed analysis for both products through random samples of 20 commercial loans and 20 residential mortgage loans originated between January 1, 2012 and June 30, 2014. The loan review period was representative of FNB's lending strategy since the previous CRA performance evaluation dated August 17, 2009.

Examiners used the 2010 United States Census (2010 Census) data for analyzing loans originated and purchased during the loan review period. To develop an understanding of FNB's performance context, we reviewed internal bank records, publicly available loan and financial information, 2010 Census information, Business Geo-demographic Data from Dunn & Bradstreet, and a community contact familiar with local credit needs.

OCC records and FNB's CRA Public file did not contain any complaints relating to FNB's CRA performance since the prior evaluation.

## **DESCRIPTION OF THE INSTITUTION**

FNB is a full-service, \$206 million, intrastate institution headquartered in Russell Springs, Kentucky. FNB is wholly owned by First Bancorp, Inc., a two-bank holding company headquartered in Russell Springs, Kentucky. In addition to the main office, FNB operates two branches within the AA that offer deposit transactions and processing of loan payments. There are automated teller machines (ATMs) at FNB's main office and South branch. Neither ATM accepts deposits. Since the previous CRA evaluation, FNB has not opened or closed any branches, and there have not been any significant changes to the corporate structure such as merger or acquisition activities.

FNB offers traditional community bank products and services. Business loans and residential mortgage lending are the primary focus, with farm loans and consumer loans representing a small dollar portion of the loan portfolio. In addition to originating loans for its own loan portfolio, FNB originates residential mortgage loans to sell on the secondary market.

As of June 30, 2014, net loans represented approximately 42 percent of total assets. The loan portfolio mix was as follows: business purpose loans (56 percent), one-to-four family residential real estate loans (24 percent), farm loans (10 percent), consumer loans (5 percent), and municipal loans (5 percent).

There are no legal or financial circumstances that impede FNB’s ability to meet its community’s credit needs. FNB received a “Satisfactory” rating at its last CRA evaluation, dated August 17, 2009.

**DESCRIPTION OF THE ASSESSMENT AREA**

FNB’s AA consists of Russell County, Kentucky. Russell County is a non-MSA AA. The AA is appropriate in relation to the location of the bank’s offices and does not arbitrarily exclude any low- or moderate-income areas.

The 2010 Census designates Russell County as five census tracts consisting of four middle-income census tracts and one moderate-income tract. The 2010 Census divided census tract 9601 into two tracts, with tract 9601.01 designated as a moderate-income census tract and tract 9601.02 designated as a middle-income tract. Tract 9601.01 is located west of U.S. 127 and is the northernmost quadrant of Russell County. Each of the four middle-income tracts is designated as “distressed” and “underserved” because of high poverty rates and because the areas are considered remote, rural areas.

The following demographic information on FNB’s AA is based on 2010 Census data, unless otherwise indicated.

Demographic Information for the Russell County					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	5	0%	20%	80%	0%
Population by Geography	17,565	0%	20.51%	79.49%	0%
Families by Geography	4,894	0%	21.54%	78.21%	0%
Businesses by Geography	1,311	0%	16.25%	83.75%	0%
Farms by Geography	138	0%	18.12%	81.88%	0%
Family Distribution by Income Level	4,894	25.58%	16.35%	22.33%	35.74%
Owner Occupied Housing by Geography	9,854	0%	21.79%	78.21%	0%
Census Median Family Income (MFI)		\$39,428	Median Housing Value		\$81,542
HUD-Adjusted MFI: 2014		\$45,900	Families Below Poverty		19.66%
Households Below Poverty		27.10%	Unemployment Rate		9.10%

Source: 2010 Census data and 2014 HUD updated MFI. These figures were obtained directly from U.S. Census data and may or may not total to 100 percent.

FNB operates in a moderately competitive environment with six other financial institutions operating in Russell County. According to the Federal Deposit Insurance Corporation Deposit Market Share Report dated June 30, 2013, FNB has a 48 percent market share of the county's deposits. Its primary competitor, Bank of Jamestown (BOJ), has a 37 percent market share. The two other community banks and two regional banks each have 5 percent, or less, of the deposit market share. According to the community contact familiar with the market, BOJ has traditionally served the southern part of Russell County while FNB has served the northern part of the county.

Russell County's unemployment rate as of June 30, 2014 was high at 9.10 percent compared to the state unemployment rate of 7.4 percent and the national unemployment rate of 6.1 percent. The major industry in Russell County is manufacturing, which accounts for 1,800 jobs or 29.5 percent of all jobs in Russell County. Fruit of the Loom is the largest employer with over 600 employees. Three other manufacturers employ approximately 1,000 workers in the county. The local economy has remained stable. A new manufacturer recently opened a facility and three manufacturers expanded their existing facilities. The expansions and new facility have partially offset closures of several large employers. However, Fruit of the Loom's plan to close its plant in 2014 will increase unemployment significantly. A community contact, who is familiar with the local economy, estimates the unemployment rate could rise to 12 percent over the next 12 months.

We performed one community contact during our evaluation. In assessing FNB, we contacted a local organization to determine the area's credit needs. The contact identified small business loans as a credit need of the community. The contact indicated local banks are active in meeting these needs.

## **CONCLUSIONS WITH RESPECT TO THE PERFORMANCE CRITERIA**

FNB's performance under the lending test is satisfactory. The LTD ratio is reasonable and the majority of its loans were originated inside its AA. FNB's borrower distribution reflects reasonable penetration among borrowers of different income levels and small businesses with gross revenues less than \$1 million. FNB's geographic distribution reflects reasonable dispersion. There were no complaints regarding FNB's performance in meeting the credit needs of the community.

### **Loan-to-Deposit Ratio**

The LTD ratio is reasonable given the bank's size, financial condition, and the AA's credit needs. The LTD ratio averaged 67 percent over the 20 quarters since the previous CRA evaluation. The ratio ranged from a quarterly low of 48 percent to a quarterly high of 73 percent during the evaluation period.

We compared FNB's LTD ratio to that of five similarly situated local banks. Over the same 20 quarters, the five bank's LTD ratios ranged from 56 percent to 89 percent. FNB's average LTD ratio shared the fourth position in the comparison below. FNB's LTD ratio exceeded that of its primary competitor in the AA, which had an average LTD ratio of 56 percent.

The table below shows the average LTD ratio of FNB and five similarly situated banks since FNB’s previous CRA evaluation in August 2009.

<b>Loan-to-Deposit Ratios</b>	
<b>Institution</b>	<b>Average</b>
The First National Bank of Russell Springs	67
Bank # 1	89
Bank # 2	86
Bank # 3	84
Bank # 4	67
Bank # 5	56

Source: Bank call report data

FNB’s LTD ratio somewhat understates the bank’s lending activity because FNB originates residential loans for the secondary market. From January 1, 2012 through June 30, 2014, FNB originated and sold \$5.4 million (44 loans) in residential loans to the secondary market, which are not included in its LTD ratio.

**Lending in Assessment Area**

FNB originated a majority of its loans inside the AA. Sixty-five percent of the number of loans originated between January 1, 2012 and June 30, 2014 were to borrowers within the bank’s AA. Table 1 details lending within the AA by number and dollar amount of loans.

<b>Table 1 – Lending in Russell County</b>										
	Number of Loans					Dollars of Loans (000’s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Totals	13	65.00	7	35.00	20	1,711	94.74	95	5.26	1,806

Source: OCC loan sample

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

The distribution of loans reflects excellent penetration among businesses of different sizes and reasonable penetration among borrowers of different incomes.

Business Loans

The distribution of business loans, given the demographics of the AA, reflects excellent penetration when compared to the percentage of small businesses in the AA. Loans originated to small businesses with annual revenues less than \$1 million represented 90 percent of the number of sampled business loans. This level exceeds the 76 percent of AA businesses that reported revenues of \$1 million or less in annual revenues.

<b>Table 2A - Borrower Distribution of Loans to Businesses in Russell County</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	75.90	3.66	20.44	100%
% of Bank Loans in AA by #	90.00	10.00	0.00	100%
% of Bank Loans in AA by \$	70.47	29.53	0.00	100%

Source: Loan sample and 2013 business geo-demographic data

### Residential Real Estate Loans

The distribution of residential real estate loans reflects reasonable penetration among borrowers of different income levels. Low-income borrowers account for ten percent of the number of residential real estate loans the bank originated. This is lower than the 26 percent of low-income families in the AA. However, the level is reasonable given approximately 20 percent of the AA’s families have incomes below the poverty level. Since their limited income often prevents them from qualifying for residential loans, the large percentage of families with incomes below poverty reduces the borrowing base among low-income borrowers to whom the bank can extend residential loans in a safe and sound manner.

Residential real estate lending to moderate-income borrowers is reasonable. Sixteen percent of the families in the AA have moderate incomes. FNB originated 15 percent of the number of loans in our residential real estate sample to moderate-income borrowers.

<b>Table 2B – Borrower Distribution of Residential Real Estate Loans in Russell County</b>								
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	25.58	10.00	16.35	15.00	22.33	25.00	35.74	50.00

Source: 2010 Census data and loan sample.

### **Geographic Distribution of Loans**

The overall geographic distribution of business loans reflects reasonable dispersion throughout the moderate-income census tract.

### Business Loans

As shown in Table 3A, FNB’s business lending reflects reasonable dispersion into the moderate-income tract of the AA. Business loans in the moderate-income tract represent 20 percent of the number of business loans. This compares favorably to the 16 percent of the AA’s businesses within the moderate-income tract.

Table 3A - Geographic Distribution of Loans to Businesses in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business	N/A	N/A	16.25	20.00	83.75	80.00	N/A	N/A

Source: Loan sample and 2013 Business Geo-demographic Data

### Residential Real Estate Loans

The geographic distribution of residential real estate loans to borrowers in the moderate-income census tracts reflects reasonable dispersion. FNB originated 20 percent of their residential real estate loans by number to borrowers in the moderate-income census tracts, which is comparable to the 22 percent of owner-occupied housing in the AA.

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
Residential	N/A	N/A	21.79	20.00	78.21	80.00	N/A	N/A

Source: 2010 Census data and loan sample.

### **Responses to Complaints**

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

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

Pursuant to 12 CFR 25.28(c), in determining a national bank’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s lending performance.

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