



## **PUBLIC DISCLOSURE**

September 30, 2014

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

The Farmers National Bank of Lebanon  
Charter Number 4271

136 West Main Street  
Lebanon, Kentucky 40033

Office of the Comptroller of the Currency

10200 Forest Green Boulevard  
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.

## **COMMUNITY REINVESTMENT ACT (CRA) RATING: Satisfactory**

The CRA rating for Farmers National Bank of Lebanon (FNB or Bank) is satisfactory based on the following:

- The average loan-to-deposit (LTD) ratio is reasonable, considering the Bank's size, financial condition, and assessment area (AA) credit needs.
- A majority of the Bank's loans (by number) was originated in the AA.
- The distribution of consumer loans and small business loans reflects excellent penetration among individuals of different income levels and satisfactory penetration among business of different sizes, respectively.
- FNB did not receive any consumer complaints about its performance in helping meet the credit needs of the AA during the evaluation period.

## **SCOPE OF THE EVALUATION**

We assessed the Bank's performance under the CRA using Small Bank Examination Procedures, which included a lending test. The lending test evaluates the Bank's record of meeting the credit needs of its AA through its lending activities. The period for this evaluation was August 11, 2009 through September 30, 2014.

To measure the Bank's performance of meeting the credit needs of its AA, we reviewed both the dollar amount and number of loans originated during the evaluation period. We also determined the Bank's primary loan products. FNB's primary loan products were business and consumer loans. As a result, we reviewed a sample of 20 business loans and 20 consumer loans originated from January 1, 2012 through December 31, 2013 to assess the Bank's lending performance.

The Bank's last CRA evaluation was in August 2009. The Bank received a satisfactory rating.

## **DESCRIPTION OF THE INSTITUTION**

FNB is a full-service, intrastate bank that is wholly owned by Lebanon Bancshares, Inc., a one-bank holding company headquartered in Lebanon, Kentucky. As of June 30, 2014, the Bank had \$102 million in total assets, \$90 million in deposits, \$50 million in loans, and \$11 million in tier 1 capital.

The Bank offers traditional banking products and services. FNB has a main office and one branch. Both are located in downtown Lebanon, Kentucky in Marion County. The

Bank has two full service automated teller machines (ATM); one at each locations. FNB's main office, branch, and ATMs are accessible to all segments of the community.

As of June 30, 2014, net loans represented approximately 49 percent of the Bank's average assets. The loan portfolio was comprised of commercial real estate (33 percent), one-to-four family residential (25 percent), commercial and industrial (11 percent), municipal (8 percent), consumer (7 percent), home equity (6 percent), farm-related real estate (3 percent), construction and development (2 percent), financial institution (2 percent), agriculture (2 percent), and multifamily (1 percent) loans.

There were no legal or financial circumstances that hindered the Bank's ability to meet the community's credit needs.

## **DESCRIPTION OF THE ASSESSMENT AREA**

The AA is defined as all of Marion County, Kentucky, which is not part of a metropolitan statistical area (MSA). The county is comprised of six complete census tracts (CTs), with three middle- and three upper-income geographies. There are no low- or moderate-income tracts within the Bank's AA. FNB's AA meets the technical requirements of the CRA and does not arbitrarily exclude low- or moderate-income areas.

Marion County is a rural county located in central Kentucky. It has a total population of 19,820 according to the 2010 United States Census (2010 Census). The population was estimated to have grown to approximately 20,045 by the end of 2013. The 2010 population of the AA was comprised of 7,135 households. Approximately 37 percent (2,648) of these households were considered to have low- or moderate-incomes, based on a median family income of \$43,600. Owner-occupied housing in the county was 71 percent, with the median housing value at \$99,757. The percentage of households in the AA living below poverty level was approximately 19 percent. Approximately 2 percent of these households received public assistance and 33 percent collected social security benefits. The Federal Financial Institutions Examination Council (FFIEC) Estimated Median Family Income for 2013 for the AA was \$44,700.

Community contacts indicate the level of unemployment returned to pre-2009 levels. The contacts report Marion County had at least 250 unfilled jobs, primarily in the production industry, as of our evaluation date. The 2013 annual unemployment rate for Kentucky was 8.3 percent, a drop of two percentage points from the 2009 annual rate of 10.3 percent. Marion County was positioned better with an unemployment rate of 7.3 percent, just under the 2013 national annual unemployment rate of 7.4 percent. Businesses with international and local ties are expanding. Major employers in the area include TG Kentucky, LLC; Curtis-Maruyasu, Inc.; and Wilbert Plastic Services (all related to the automotive industry); Kentucky Cooperage, Inc.; American Wood Fibers Inc.; and Canton Wood Products, LLC (wood products); and Maker's Mark Distillery, Inc. (bourbon).

Competition for banking services is strong and involves competition from banks, farm credit services, and finance companies. The Bank ranks second in deposit market share at 29 percent according to the June 30, 2013 Federal Deposit Insurance Corporation (FDIC) Market Share Report.

Community contacts 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 contacts did not identify any credit needs in the county that were not being met by banks or other financial institutions. The contacts deemed the presence of many banks with branches located throughout the AA beneficial to customers in terms of competitive pricing and accessibility.

The following demographic information covering the Bank’s AA of Marion County is based on 2010 Census data, unless otherwise indicated.

<b>Type of Information</b>	<b>AA</b>	
Total Population in AA	19,820	
Kentucky FFIEC Adjusted Median Family Income – 2012	\$43,600	
Kentucky FFIEC Adjusted Median Family Income – 2013	\$44,700	
Families in AA		
Income Levels of Families	#	%
Low	777	17
Moderate	669	14
Middle	1,041	22
Upper	2,191	47
Total Families within AA	4,678	100
Median Home Value	\$99,757	
Median Year Built	1975	
1-4 Family Housing Units	86%	
Occupancy	#	%
Owner Occupied Units	5,697	71
Renter Occupied Units	1,438	18
Vacant Units	916	11
Total Units within AA	8,051	100

## CONCLUSIONS WITH RESPECT TO THE PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The LTD ratio is reasonable given the Bank's size, financial condition, and AA credit needs. FNB's average net LTD ratio for the 20 quarters since the last CRA public evaluation was 62 percent. The average LTD ratio increased from 58 percent at the last CRA evaluation.

We compared FNB to two similarly situated banks. These banks are comparable to FNB in asset size, deposit size, number of offices, and major lending products. The table below shows the average LTD ratios of the banks for the period under review.

Institution	Average
The Farmers National Bank of Lebanon	62.06%
The Citizens National Bank of Lebanon	37.00%
Peoples Bank	68.52%

### Lending in the Assessment Area

A majority of loans by number were made in the AA. FNB has readily met the needs of its consumer base. Approximately 90 percent of the total number of consumer loans (or 91 percent of total dollars) were made within FNB's AA. Due to low loan demand in Marion County, the Bank's strategy is to purchase some commercial loan participations and market to surrounding counties. This strategy has resulted in a significant amount of out-of-area business loans. However, it has not negatively impacted FNB's consumer lending within the AA. During the evaluation period, approximately 45 percent of the total number of business loans (19 percent of total dollars) originated by FNB were for commercial enterprises within the AA. Although not counted in the statistics above, the Bank has several commercial borrowers situated just outside of its legally defined AA. Several of these entities have deposit relationships with the Bank. Many of these entities also provide services for the citizens of Marion County.

<b>Lending in the Assessment Area</b>										
<b>Loan Type</b>	<b>Number of Loans</b>					<b>Dollars of Loans in 000s</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>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
<b>Consumer</b>	18	90	2	10	20	\$ 151	91	\$ 14	9	\$ 165
<b>Business</b>	9	45	11	55	20	\$ 808	19	\$3,522	81	\$ 4,330
<b>Totals</b>	27	67.5	13	32.5	40	\$ 959	21	\$3,536	79	\$ 4,495

Source: Randomly selected sample of consumer and business loans.

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

FNB's distribution of loans to low- and moderate-income individuals reflects excellent penetration. Of the consumer loans originated, FNB's lending performance exceeds the demographic data for both low- and moderate-income borrowers.

<b>Borrower Distribution of Consumer Loans</b>					
<b>Borrower Income Level</b>	<b>Sample of Loan Originations Between January 1, 2012 and December 31, 2013</b>				<b>Percentage of Households within each Income Category</b>
	<b>Number of Loans</b>	<b>Percentage of Loans</b>	<b>Dollar Amount of Loans \$ (000's)</b>	<b>Percentage of Dollars</b>	
<b>Low</b>	7	35	104	47	24
<b>Moderate</b>	8	40	76	35	13
<b>Middle</b>	3	15	16	7	18
<b>Upper</b>	2	10	24	11	45
<b>Total</b>	20	100	220	100	100

Source: Randomly selected sample of consumer loans originated within the Bank's AA and 2010 Census demographics.

FNB's distribution of loans to small businesses (i.e., businesses with gross revenues of less than \$1 million) is satisfactory. Loans to small businesses exceed the demographic data for those businesses reporting revenues. However, there was no revenue information reported for 25 percent of AA businesses. The available demographic information for the AA suggests the majority of these businesses would have gross revenues of less than \$1 million, thereby rendering the percentage of small businesses in the AA closer to 97 percent.

<b>Borrower Distribution of Loans to Business in the Assessment Area</b>					
<b>Business Income Level In Gross Revenues</b>	<b>Sample of Loan Originations Between January 1, 2012 and December 31, 2013</b>				<b>Percentage of Businesses in the AA</b>
	<b>Number of Loans</b>	<b>Percentage of Loans</b>	<b>Dollar Amount of Loans \$(000's)</b>	<b>Percentage of Dollars</b>	
<b>≤ \$1 Million</b>	16	80	1,270	87	72
<b>&gt; \$1 Million</b>	4	20	197	13	3
<b>Not Reported</b>	0	0	0	0	25
<b>Total</b>	20	100	1,467	100	100

*Source: Randomly selected sample of commercial loans originated within the Bank's AA, 2013 Business Geodemographic Data.*

### **Geographic Distribution of Loans**

The primary focus of this test is to analyze the Bank's geographic distribution of lending among low-, moderate-, middle-, and upper-income geographies. A geographical distribution of loans was not performed because the Bank's AA does not contain low- or moderate-income geographies to measure dispersion performance. The analysis would not have provided any meaningful information.

### **Responses to Complaints**

There have been no complaints regarding the Bank's CRA performance since our previous evaluation.

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

Pursuant to 12 C.F.R. 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 AA 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.