



**PUBLIC DISCLOSURE**

July 29, 2013

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

The Farmers National Bank of Danville  
Charter Number: 2409

304 West Main Street  
Danville, Kentucky 40422

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.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of The Farmers National Bank of Danville, Danville, Kentucky (FNB) prepared by the Office of the Comptroller of the Currency (OCC), the institution's primary regulator, as of June 30, 2013. The OCC rates the CRA performance of an institution consistent with the provisions set forth in appendix A to 12 CFR 25.

## **INSTITUTION'S CRA RATING: SATISFACTORY**

- The lending test was satisfactory.
- The community development test was satisfactory.

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 ratio is reasonable given FNB's size, financial condition, and the credit needs of its assessment area (AA).
- A substantial majority of FNB's loans were originated to borrowers within its AA.
- FNB's distribution of loans to small businesses with gross revenues of less than \$1 million reflects excellent penetration.
- FNB's distribution of loans to low- and moderate-income individuals reflects reasonable penetration.
- FNB's community development performance demonstrates adequate responsiveness to the community development needs of its AA.

## **SCOPE OF THE EXAMINATION**

FNB was evaluated under the OCC's Intermediate Small Bank Examination Procedures. These procedures include a lending test and a community development test. The lending test evaluated FNB's record of meeting the credit needs of its AA through its lending activities. The community development test evaluated FNB's responsiveness to its AA's needs through community development-related lending and services and qualified investments.

The CRA evaluation covers the period between August 9, 2010 and June 30, 2013. The lending test included a random sample of loans originated by FNB between January 1, 2011 and June 30, 2013. The scope of the lending test included a review of FNB's primary loan products: business loans and residential real estate mortgages. We determined the primary loan products by reviewing available lending reports for the representative timeframe and through discussions with management. To analyze the primary loan products, we selected a random sample from the portfolio, using source documents to collect the data.

Conclusions regarding FNB's community development tests were based on FNB's level of community development-related lending and services provided and qualified investments from August 9, 2010 through June 30, 2013.

## **DESCRIPTION OF THE INSTITUTION**

FNB is a full-service, intrastate institution. It is wholly owned by Boyle Bancorp, Inc., a single bank holding company located in Danville, Kentucky. As of June 30, 2013, FNB had \$443 million in assets with \$269 million in loans, \$376 million in deposits, and \$49 million in tier 1 capital. FNB offers traditional banking products and services, including a program that provides grants to low-income borrowers purchasing a home.

FNB is accessible to all segments of the community. It has 11 locations in Kentucky: a main office and three branches in Danville; two branches in Harrodsburg; and single branch locations in Burgin, Junction City, Perryville, Lancaster, and Stanford. Stanford is part of a distressed, nonmetropolitan middle-income geography. All branch locations provide drive-through facilities. FNB has 12 Automated Teller Machines (ATMs). An ATM is at each Bank location, and one is located at the site of a former branch in Danville.

As of June 30, 2013, FNB's net loans represented approximately 58 percent of its average assets. The loan portfolio mix was as follows: one-to-four family residential real estate loans (48.6 percent), business purpose loans (33.1 percent), farm or farm-related loans (8.1 percent), commercial and industrial loans (7 percent), consumer loans (1.5 percent), and municipal loans (1.7 percent). FNB's primary lending focus is business purpose loans and residential real estate mortgages.

There are no legal or financial circumstances that impact FNB's ability to meet the credit needs of its community. The last CRA evaluation was performed on August 9, 2010. FNB received a satisfactory rating.

## **DESCRIPTION OF THE ASSESSMENT AREA**

FNB's AA consists of Boyle, Garrard, Lincoln, and Mercer Counties in Central Kentucky. All counties in the AA are located in non-Metropolitan Statistical Areas. The AA is appropriate in relation to the location of FNB's offices and does not arbitrarily exclude any low- or moderate-income areas.

According to the 2000 United States (U.S.) Census, the population of Boyle County was approximately 27,697, which increased to 28,432 as of the 2010 U.S. Census. The 2000 U.S. Census divided Boyle County into seven census tracts (CTs), with five upper-income CTs, two middle-income CTs, and no low- or moderate-income CTs. The 2010 U.S. Census also divided Boyle County into seven CTs; however, it is comprised of four upper-income CTs, three middle-income CTs, and no low- or moderate-income CTs. Approximately 17 percent of the county's residents live below the poverty level.

As of May 31, 2013, Boyle County's unemployment rate was 9.4 percent, which is higher than Kentucky's unemployment rate of 8.3 percent. The major industry in Boyle County is services, followed by trade, transportation, and utilities. The Kentucky Cabinet for Economic Development lists the following companies as the largest employers in the county.

- American Greetings Corporation employs approximately 715 individuals. The company operates a distribution and paper-product packaging center in Danville.
- R.R. Donnelley and Sons Company employs approximately 705 individuals at its Danville location. The Company specializes in printing and binding magazines, catalogs, and inserts for major publishers.
- Dana Corporation employs approximately 260 individuals and produces diesel and gas engine gaskets in Danville.

According to the 2000 U.S. Census, the population of Garrard County was approximately 14,792, which increased to 16,912 as of the 2010 U.S. Census. The 2000 U.S. Census divided Garrard County into four CTs, with two middle-income CTs, two upper-income CTs, and no low- or moderate-income CTs. The 2010 U.S. Census also divided Garrard County into four CTs; however, it is comprised of three middle-income CTs, one upper-income CT, and no low- or moderate-income CTs. Approximately 21 percent of the county's residents live below the poverty level.

As of May 31, 2013, Garrard County's unemployment rate was 8.4 percent, which is equal to Kentucky's unemployment rate of 8.4 percent. The major industry in Garrard County is the services industry, followed by trade, transportation, and utilities. The Kentucky Cabinet for Economic Development lists Allison Abrasives, Inc. (Allison) as the largest employer in the county. Allison employs approximately 80 individuals and manufactures abrasive cutoff wheels in Lancaster.

According to the 2000 U.S. Census, the population of Lincoln County was approximately 23,361, which increased to 24,742 as of the 2010 U.S. Census. The 2000 U.S. Census divides Lincoln County into four CTs, with four middle-income CTs, and no low-, moderate-, or upper-income CTs. The 2010 U.S. Census divided Lincoln County into six CTs, with six middle-income CTs, and no low-, moderate-, or upper-income CTs. However, approximately 23 percent of the county's residents live below the poverty level.

As of May 31, 2013, Lincoln County's unemployment rate was 10.9 percent, which is higher than Kentucky's unemployment rate of 8.4 percent. The major industry in Lincoln County is the services industry, followed by trade, transportation, and utilities. Manufacturing is another significant contributor to the local economy. The Kentucky Cabinet for Economic Development lists Brake Parts, LLC (BP, LLC) as the largest employer in the county. BP, LLC employs approximately 330 individuals and manufactures disk brakes for automobiles and trucks in Stanford.

According to the 2000 U.S. Census, the population of Mercer County was approximately 20,817, which increased to 21,331 as of the 2010 U.S. Census. The 2000 and 2010 U.S. Censuses divided Mercer County into five CTs, with two middle-income CTs, three upper-income CTs, and no low- or moderate-income CTs. However, approximately 14 percent of the county's residents live below the poverty level.

As of May 31, 2013, Mercer County's unemployment rate was 8.2 percent, which is lower than Kentucky's unemployment rate of 8.4 percent. The major industry in Mercer County is the

services industry, followed by trade, transportation, and utilities. Public administration is another significant contributor to the local economy. The Kentucky Cabinet for Economic Development lists the following companies as the largest employers in the county.

- Hitachi Automotive Systems Americas, Inc. employs approximately 930 individuals. The company manufactures a broad range of electromechanical and electronic automotive products in Harrodsburg.
- Wausau Paper employs approximately 500 individuals in Harrodsburg. The company manufactures paper towels, toilet paper, facial tissue, and sanitary paper products.
- Corning, Inc. employs approximately 420 individuals at its Harrodsburg site. The company manufactures active-matrix liquid-crystal display glass substrate, a thin, durable, scratch resistant cover glass used in handheld electronic devices.

There are 14 financial institutions in the AA, from small community banks to branches of large national banks. The total deposits (inside the AA) of these branches or banks range from \$504 thousand to \$411 million. FNB is the largest financial institution in the AA in relation to deposits, with a 33 percent deposit market share. FNB's major competition in the AA emanates from First Southern National Bank, Lancaster, Kentucky and Whitaker Bank, Lexington, Kentucky.

We performed a community contact interview during our evaluation. The contact indicated local banks are active in meeting the community's needs.

The following table shows demographic information covering FNB’s AA of Boyle, Garrard, Lincoln, and Mercer Counties. The information is based on 2000 and 2010 U.S. Census data.

<b>Demographic Information for Boyle, Mercer, Garrard, and Lincoln Counties.</b>										
	<b>2010 Census Data</b>					<b>2000 Census Data</b>				
	#	Low % of #	Mod % of #	Mid % of #	Upper % of #	#	Low % of #	Mod % of #	Mid % of #	Upper % of #
Census Tracts	22	0.00	0.00	<b>63.64</b>	<b>36.36</b>	20	0.00	0.00	<b>50.00</b>	<b>50.00</b>
Population by Geography	91,417	0.00	0.00	60.26	39.74	86,667	0.00	0.00	53.11	46.89
Owner-Occupied Housing by Geography	40,343	0.00	0.00	60.30	39.70	37,248	0.00	0.00	52.15	47.85
Businesses by Geography	8,317	0.00	0.00	59.61	40.39	9,172	0.00	0.00	50.36	49.64
Farms by Geography	547	0.00	0.00	53.20	46.80	553	0.00	0.00	46.65	53.35
Families by Income Level	24,793	17.87	16.11	19.08	46.94	24,559	16.37	14.82	19.09	49.72
Distribution of Low- and Moderate-Income Families throughout AA	8,425	0.00	0.00	69.15	30.85	7,672	0.00	0.00	62.90	37.10
Median Family Income	\$49,678					\$40,174				
HUD Adjusted Median Family Income	\$43,600					\$43,000				
Households Below Poverty Level	19.00%					15.68%				
Median Housing Value	\$114,652					\$79,430				

Source: 2000 and 2010 U.S. Censuses.

## CONCLUSIONS WITH RESPECT TO THE PERFORMANCE TESTS

### Lending Test

FNB's performance under the lending test is satisfactory. The average loan-to-deposit (LTD) ratio is reasonable, and a substantial majority of loans originated inside FNB's AA. FNB's borrower distribution reflects reasonable penetration among businesses of different sizes and individuals of different income levels. There were no complaints regarding FNB's performance in meeting the credit needs of its community.

### Loan-to-Deposit Ratio

The LTD ratio is reasonable given FNB's size, financial condition, and the AA's credit needs. FNB's average LTD for the 12 quarters since the last CRA evaluation was 69 percent. As of June 30, 2013, FNB's LTD ratio was 70 percent. This marks a decrease since the last CRA evaluation when the LTD ratio averaged 96 percent.

We compared FNB to three similarly situated banks. These banks are comparable to FNB in asset size, deposit size, number of offices, and major lending products. FNB's LTD was in line with the other banks. The table below shows the average LTDs of the other banks for the period under review ranged from 63 percent to 79 percent.

Institution	Average LTD Ratio
The Farmers National Bank of Danville	68.97%
Bank #1	63.09%
Bank #2	68.15%
Bank #3	79.05%

### Lending in the Assessment Area

A substantial majority of loans and other lending-related activities are inside FNB's AA. Table 1 shows 96 percent of the loans and 97 percent of the dollar amounts of loans were made to borrowers inside the AA.

Table 1 - Lending in Boyle, Garrard, Lincoln, and Mercer Counties										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	38	95.00	2	5.00	40	2,746	89.54	321	10.46	3,067
Business	39	97.50	1	2.50	40	8,065	99.78	18	0.22	8,083
Totals	77	96.25	3	3.75	80	10,811	96.96	339	3.04	11,150

Source: Random sample of 40 residential loans and 40 business loans, all originated between January 1, 2011, and June 30, 2013.

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

The distribution of loans reflects reasonable penetration among businesses of different sizes and individuals of different income levels. To reach this conclusion, the OCC analyzed FNB’s lending activity by selecting a random sample of 20 residential loans and 20 business loans originated between January 1, 2011 and December 31, 2011 and 20 residential loans and 20 business loans originated between January 1, 2012 and June 30, 2013. More weight was given to residential real estate loans as they make up a larger percentage of FNB’s loan portfolio. See tables 2A, 2B, 3A, and 3B for details.

Business Loans

The distribution of business loans, given the demographics of the AA, reflects excellent penetration among businesses of different sizes. From January 1, 2011 to December 31, 2011, FNB originated 90 percent of the sampled business loans to small business entities with annual revenues less than \$1 million. This level exceeds the demographic comparator of 73 percent.

<b>Table 2A – 2011 Borrower Distribution of Loans to Businesses in Boyle, Garrard, Lincoln, and Mercer Counties</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	72.84	1.44	25.72	100%
% of Bank Loans in AA by #	90	10	0	100%
% of Bank Loans in AA by \$	84.76	15.24	0	100%

*Source: Percent of AA Businesses derived from 2000 U.S. Census data. Random sample of business loans originated between January 1, 2011, and December 31, 2011.*

From January 1, 2012 to June 30, 2013, FNB originated 100 percent of the sampled business loans to small business entities with annual revenues less than \$1 million. This level also exceeds the demographic comparator of 76 percent.

<b>Table 2B – 2012-2013 Borrower Distribution of Loans to Businesses in Boyle, Garrard, Lincoln, and Mercer Counties</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	76.28	1.92	21.80	100%
% of Bank Loans in AA by #	100	0	0	100%
% of Bank Loans in AA by \$	100	0	0	100%

*Source: Percent of AA Businesses derived from 2010 U.S. Census data. Random sample of business loans originated between January 1, 2012, and June 30, 2013.*

Residential Real Estate Loans

The distribution of residential real estate loans, given the demographics of the AA, reflects reasonable penetration among individuals of different income levels, including low- and moderate-income families. Approximately 36 percent of households in the AA receive social security benefits. These households are less likely to pursue or qualify for residential real estate loans. We also identified two other potential barriers to homeownership. Households in the AA



below the poverty level total approximately 19 percent, and a large percentage (25 percent) of total housing units are rental properties.

From January 1, 2011 to December 31, 2011, FNB originated 10 percent of the sampled loans to low-income families and 13 percent to moderate-income families. The random sample selected by the OCC is below the demographic comparators of 16 percent for low-income families or 15 percent for moderate-income families. However, the level of penetration is reasonable given the barriers detailed above.

<b>Table 3A – 2011 Borrower Distribution of Residential Real Estate Loans in Boyle, Garrard, Lincoln, and Mercer Counties</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 Real Estate	16.37	9.87	14.82	13.21	19.09	15.08	49.72	61.84

Source: Percent of AA families derived from 2000 U.S. Census data. Random sample of residential real estate loans originated between January 1, 2011, and December 31, 2011.

From January 1, 2012 to June 30, 2013, FNB originated 10 percent of the sampled loans to low-income families and 19 percent to moderate-income families. Although the random sample selected is below the demographic comparator of 18 percent for low-income families, the sample results exceed the demographic comparator of 16 percent for moderate-income families. The level of penetration is reasonable given the barriers detailed above.

<b>Table 3B – 2012-2013 Borrower Distribution of Residential Real Estate Loans in Boyle, Garrard, Lincoln, and Mercer Counties</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 Real Estate	17.87	9.52	16.11	19.05	19.08	14.29	46.94	57.14

Source: Percent of AA families derived from 2010 U.S. Census data. Random sample of residential real estate loans originated between January 1, 2012, and June 30, 2013.

**Geographic Distribution of Loans**

The focus of this analysis is to assess FNB’s geographic distribution of lending among low-, moderate-, middle-, and upper-income geographies. Since the AA did not contain any low- or moderate income CTs in either the 2000 or 2010 U.S. Census, an analysis of loan distribution by geographies would not provide a meaningful analysis.

**Responses to Complaints**

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

**Community Development Test**

FNB's performance under the community development test is satisfactory. FNB demonstrated adequate responsiveness to community development needs in its AA through retail services, community development-related loans and services, and qualified investments.

**Number and Amount of Community Development Loans**

FNB's level of community development loans demonstrates adequate responsiveness to the community development needs of its AA. FNB originated three community development loans during the evaluation period, totaling approximately \$4 million. These loans were made to fund the construction of low-income housing properties eligible for low-income housing tax credits. While these loans were made outside of FNB's AA, the loans benefited the local area and FNB's AA. Two million dollars of these loans were made to a distressed nonmetropolitan middle-income geography.

**Number and Amount of Qualified Investments**

FNB's level of qualified investments also demonstrates adequate responsiveness to the community development needs of its AA. During the evaluation period, FNB invested in three certificates of deposit (CDs) totaling approximately \$337 thousand. These CDs are from a certified Community Development Financial Institution (CDFI). FNB is also invested in two series B bonds issued by the Kentucky Housing Corporation (KHC) with a total book value of \$800 thousand. The KHC is a State housing agency created to provide affordable housing opportunities and is active in FNB's AA.

FNB also made approximately \$97 thousand in qualified donations to organizations within the AA. Approximately \$13 thousand was donated to organizations located in counties designated as distressed nonmetropolitan middle-income geographies. All funds are specifically targeted to benefit low- and moderate-income persons within the AA or support organizations whose major purpose is to provide economic development, revitalize central business districts, and offer assistance to attract, expand, and retain small business entities, payrolls, and job levels throughout the AA.

**Extent to Which the Bank Provides Community Development Services**

FNB's level of qualified community services demonstrates adequate responsiveness to the community development needs of its AA. In evaluating FNB's services, consideration was given to the fact FNB's AA does not contain any low- or moderate-income CTs. FNB has 11 branch locations and 12 ATMs, which are accessible to all geographies and individuals of different income levels.

FNB offers a full range of consumer and commercial banking products and services at all of its full-service branches. FNB offers secondary market loans through the Rural Housing Service, the U.S. Department of Veterans Affairs, the U.S. Small Business Administration, and the Farm Service Agency. FNB also offers loans specifically targeted to low- and moderate-income persons who meet certain income qualifications.

The Affordable Home Loan Program is an adjustable-rate loan for owner-occupied properties within FNB's market area. This program has applicant income limits for each county in the AA, making only low- and moderate-income individuals eligible for these loans. Borrowers must put three percent down and pay \$500 in closing costs. Part of the money may be gifted, but customers must contribute at least \$500 of their own funds. This program is run in conjunction with the Federal Home Loan Bank (FHLB) of Cincinnati's Welcome Home Loan Grant Program (Welcome Home). Welcome Home grants may be used to cover down payment and closing costs up to a qualified amount for qualifying loans to low- and moderate-income households. During the evaluation period, FNB made eight loans totaling approximately \$458 thousand using \$40 thousand in grant funds.

FNB also offers online banking, providing customers access to consumer and business accounts. FNB customers can access accounts, check balances, view statements, transfer funds between accounts, and pay bills. Also offered are various checking and deposit products for all FNB customers. Finally, FNB provides a 24-hour, toll-free telephone banking service, Telebank, which allows customers to transfer funds and obtain account information.

FNB's officers and employees are involved in a variety of community development services. Many employees are involved in non-profit organizations that provide services for low-and moderate-income individuals or economic development for small businesses. Senior management is actively involved in several economic development organizations and community groups such as:

- **Boyle County Industrial Foundation, Inc.** A senior bank officer has served as a board member of this organization since 2003. The officer provides financial expertise to the organization regarding financing needs of businesses. The mission of the industrial foundation is to recruit businesses and industries to Boyle County.
- **Heart of Kentucky United Way, Inc. (HKUW).** FNB employees participate by donating their time and working in a variety of fundraisers. HKUW is a nonprofit organization that provides donations to other community organizations. One of HKUW's goals is to help families obtain adequate income and assets to meet their families' needs.

Bank officers and employees also serve as board members or provide financial expertise to other organizations such as the Heritage Hospice, Inc.; Pioneer Vocational Industrial Services, Inc.; Lancaster-Garrard County Industrial Development Authority, Inc.; and the Lincoln County United Way, Inc.

**Responsiveness to Community Development Needs**

**FNB's performance under the community development test is satisfactory.** FNB demonstrated adequate responsiveness to community development needs in its AA through retail services, community development loans, qualified investments, and community development services.

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

Pursuant to 12 CFR 25.28(c), the OCC must consider in its CRA ratings evidence of discriminatory or other illegal credit practices in any geography by FNB or in any AA by an affiliate whose loans have been considered as part of FNB's lending performance.

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