



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 13, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Lynnville National Bank
Charter Number: 8868

215 Main Street
Lynnville, Indiana 47619

Office of the Comptroller of the Currency
Evansville Field Office
101 NW First Street, Suite 207
Evansville, Indiana 47708

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 institution is rated Satisfactory.

Lynnville National Bank's lending performance reflects a satisfactory response to community credit needs. Factors in our assessment include:

- The institution exhibits a reasonable loan-to-deposit ratio.
- The institution's record of lending to borrowers within the assessment area is more than reasonable.
- The distribution of borrowers reflects a reasonable penetration among individuals of different income levels.
- The institution's distribution of loans within its assessment area by geography is reasonable.
- There are no complaints with respect to the bank's CRA performance.

SCOPE OF EXAMINATION

This Performance Evaluation of Lynnville National Bank (LNB) assesses LNB's record of meeting the credit needs of the communities in which it operates. We evaluated LNB under the Small Bank performance criteria. The evaluation period covers loans originated or purchased from January 1, 2005 through June 15, 2007. LNB has designated Warrick County, Indiana, as its assessment area.

Conclusions regarding the bank's lending performance are based upon LNB's primary loan products which include residential mortgage and consumer loans. We conducted a data integrity review of the residential mortgage loans reported under the Home Mortgage Disclosure Act (HMDA) for the years 2005 through June 15, 2007. We compared information from the bank's loan application register to the loan files. We found the HMDA data to be accurate and reliable for use in this examination. We also reviewed a sample of 40 consumer loans originated during the same time period.

DESCRIPTION OF INSTITUTION

LNB is an intrastate bank headquartered in Lynnville, Indiana. The bank is wholly-owned by LNB Community Bancorp, a single bank holding company. The bank, established in 1907, recently celebrated its 100th anniversary. As of June 30, 2007, the bank had \$104 million in total assets, \$87 million in deposits, \$75 million in net loans, and \$8 million in Tier 1 capital. There are no subsidiaries or affiliates, and there have been no changes in the bank's corporate structure.

As of June 30, 2007, net loans of \$75 million represent 72% of total assets. The loan portfolio mix consists of 88% real estate loans, 7% consumer loans, 3% commercial loans, and 2% other loans. Agricultural production loans are also offered but do not represent a significant volume of lending for the bank. The bank's primary product focus is in 1-4 family residential real estate loans, which total \$40 million and represent 53% of net loans; and consumer loans, which total \$5 million, represent 7% of net loans, and have the highest volume regarding the number of loans.

The main office location in Lynnville, Indiana is supported by two branch locations in the towns of Chandler and Newburgh, Indiana. The Newburgh branch office was opened in August 2004. Automated teller machines (ATMs), drive-up facilities, and a night depository for deposits after hours are provided at all locations. No branch offices were closed since the last examination.

There are no legal or financial circumstances that impact the bank's ability to meet community credit needs. We assigned a "Satisfactory" rating at the previous CRA evaluation dated January 15, 2002. The current evaluation addresses CRA performance for the time frame since the previous evaluation through August 13, 2007.

DESCRIPTION OF ASSESSMENT AREA

LNB identified Warrick County, Indiana, as its assessment area (AA) for CRA purposes. The AA delineation is appropriate because the main office and the two branches are situated in Warrick County. The AA does not arbitrarily exclude any low-or moderate-income areas.

Warrick County, located in the Evansville-Henderson Metropolitan Statistical Area (MSA), consists of 10 census tracts (CTs) or geographies. The Lynnville main office (middle-income geography) is located in northern Warrick County, approximately 25 miles northeast of Evansville, Indiana. The Chandler branch (moderate-income geography) is located between Boonville and Evansville, Indiana, and the Newburgh branch (middle-income geography) is situated east of Evansville, Indiana. The total population for Warrick County is 52,383.

Income levels of geographies are based on the MSA median family income. The income categories are defined as low, moderate, middle, and upper, which are less than 50%, 50% to 79.99%, 80% to 119.99%, and over 120%, respectfully, of the MSA median family income. As of 2000, the median family income was \$48,255. Based on this figure, the Warrick County AA has one or 10% moderate-, five or 50% middle-, and four or 40% upper-income CTs. There are no low-income CTs in the AA.

The majority of the housing within the AA is owner-occupied (79%), and the median housing value is \$102,525. One-to-four family homes account for 95% of the local housing stock, with multifamily homes accounting for the remaining 5%; 9% of the units are mobile homes. Owner-occupied housing data shows that 6% of the units are in the

moderate-income CT, 50% are in the middle-income CTs, and 44% are in the upper-income CTs.

The 2006 HUD Adjusted Median Family Income was \$56,900. Based on this information, the AA has 12% low-income, 17% moderate-income, 24% middle-income, and 47% upper-income families. Based on 2000 Census data, of the 19,466 total households in the AA, 24% receive social security and 5% are below the poverty level. Eleven percent of the population is over the age of sixty-five and 23% of the population consists of civilians not in the workforce.

The economy in Warrick County is growing. This is supported by the county's unemployment rate of 3.7% (May 2007) which is favorable compared to the State's unemployment rate of 4.3% and the United States unemployment rate of 4.3%. LNB's deposits in the Warrick County AA total approximately \$77 million. Based on FDIC deposit market share data as of June 30, 2006, this equates to a 15% deposit market share that ranks LNB as the third largest deposit taking institution in the AA. Primary competition includes Old National Bank, Fifth Third Bank, Peoples Trust & Savings Bank, and small, independent financial institutions.

The area's employment base is comprised mainly of manufacturing, service, and retail jobs. Warrick County's major employer is ALCOA Warrick Operations, which employs over 2,400 employees. Other major employers for the county include government offices and the school corporation. Additionally, there are numerous other major area employers providing adequate job opportunities for county residents in contiguous counties.

We conducted one community contact in the AA. The contact indicated the primary credit needs of the community are residential real estate and consumer loans, and these needs are being adequately met by the local financial institutions. The contact stated all local banks are active in the community and responsive to community credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank is considered a small bank under the CRA regulation; therefore, the small bank CRA evaluation procedures were used for this evaluation. The criteria used to evaluate a bank's performance include: the level of lending as indicated by the loan-to-deposit ratio for the time frame since the previous evaluation; the assessment area concentration of lending; the geographic distribution of lending; the distribution of lending among borrowers of various income levels; and the response to consumer complaints concerning a bank's CRA performance.

Loan-to-Deposit Ratio

The Bank's loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance. The quarterly average loan-to-deposit ratio since the last CRA examination is 92%, as compared to 70% for the two small, independent, similarly situated banks with locations in the AA.

Lending in Assessment Area

A majority of loans originated by LNB are to customers within the AA. We performed an analysis of mortgage loans originated from January 1, 2005 to June 15, 2007 based on Home Mortgage Disclosure Act (HMDA) data and a sample of 20 consumer loans originated during the same time period. The analysis indicated that 333 out of 403 loans (83%) were originated within the bank's AA. This level of lending represented 81% of the dollar amount of loans made within the bank's AA.

LNB's Lending in Warrick County										
Loan Type	Number of Loans				Dollars of Loans				Total	
	Inside		Outside		Total	Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Residential (1)	316	83%	67	17%	383	\$25,882	81%	\$6,187	19%	\$32,069
Consumer (2)	17	85%	3	15%	20	\$122	75%	\$42	25%	\$164
Totals	333	83%	70	17%	403	\$26,004	81%	\$6,229	19%	\$32,233

Source: OCC's review of bank reports and HMDA data for loans originated in 2005, in 2006, and through June 15, 2007.

(1) Represents loans collected and reported under the Home Mortgage Disclosure Act (HMDA).

(2) Represents sample of 20 consumer loans.

Lending to Borrowers of Different Incomes

The distribution of loans reflects reasonable penetration among individuals of different income levels (including low- and moderate-income borrowers). To reach this conclusion, the OCC analyzed loan data submitted under HMDA for calendar years 2005 and 2006, and data collected through June 15, 2007. The OCC also analyzed a random sample of forty consumer loans originated during the same time period.

LNB's Borrower Distribution of Residential Real Estate Loans in Warrick County								
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	11.90	10.44	16.64	18.99	24.15	27.85	47.31	38.61

Source: Data reported under HMDA – January 1, 2005 to June 15, 2007; U.S. Census data.

4.11% did not report income.

LNB's Borrower Distribution of Consumer Loans in Warrick County								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	15.32	7.5	13.25	30.0	20.43	17.5	51.00	45.0

Source: OCC's review of 40 consumer loans originated in the AA from January 1, 2005 to June 15, 2007; U.S. Census data.

Geographic Distribution of Loans

The bank's geographic distribution of loans throughout the AA is reasonable and meets the standards for satisfactory performance. The following tables and analysis illustrate the lending distribution of the HMDA residential real estate loans and the consumer loans sampled that were made within the AA.

LNB's Geographic Distribution of Residential Real Estate Loans in Warrick County								
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	0.00	0.00	6.00	10.28	50.35	70.63	43.66	19.09

Source: Data reported under HMDA – January 1, 2005 to June 15, 2007; U. S. Census data.

LNB's Geographic Distribution of Consumer Loans in Warrick County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	0.00	0.00	5.98	7.50	49.68	87.50	44.34	5.00

Source: Sample of 40 consumer loans originated January 1, 2005 to June 15, 2007; U.S. Census data.

Responses to Complaints

The bank has not received any complaints about its performance in helping to meet community credit needs.

Fair Lending or Other Illegal Credit Practices Review

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