



SMALL BANK

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

PUBLIC DISCLOSURE

June 5, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Brooksville
Charter Number 8830**

**105 Locust Street
Brooksville, KY 41004**

**Comptroller of the Currency
Louisville Field Office
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 Brooksville, Brooksville, Kentucky** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **June 5, 2007**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

This institution is rated Satisfactory

Major Conclusions:

- A majority of loans and other lending-related activities are in the bank's assessment area.
- The average loan-to-deposit ratio is reasonable, given the bank's size, financial condition, and assessment area credit needs.
- The distribution of loans reflects reasonable penetration among individuals of different income levels and farms of different sizes.

SCOPE OF EXAMINATION

This Performance Evaluation assesses The First National Bank of Brooksville's (FNB) record of meeting the credit needs of the communities in which it operates. We evaluated FNB under the Small Bank performance criterion.

- The evaluation period covers lending from February 6, 2003 to June 5, 2007.
- Conclusions regarding the bank's lending performance are based on our evaluation of the bank's primary loan products originated from January 1, 2005 to May 6, 2007. We determined FNB's primary product lines (residential real estate loans and farm loans) by reviewing available lending reports for a representative timeframe and through discussions with management.
- Since FNB is subject to the data collection and reporting requirements of the Home Mortgage Disclosure Act (HMDA), we utilized HMDA data to analyze FNB's home mortgage lending activity. To verify the accuracy of the bank's HMDA data collection and reporting processes, we conducted an independent review and validated the data.
- To analyze FNB's other major loan product, farm loans, we selected a random sample and used source documents to collect the data. We used the same sampling timeframe as for HMDA loans.

DESCRIPTION OF INSTITUTION

The First National Bank of Brooksville (FNB) is a full-service intrastate bank headquartered in Brooksville, Kentucky. As of March 31, 2007 the bank had \$60 million in total assets, \$52 million in deposits, \$39 million in loans, and \$7 million in Tier One capital. The bank provides traditional banking products and services from its main office and drive-thru branch located in downtown Brooksville, Kentucky. The bank has one Automated Teller Machine, which is located at the drive-thru branch. No offices have opened or closed since the last CRA public evaluation. The bank is accessible to all segments of the community.

FNB is wholly owned by FNB Bancshares Inc., a one-bank holding company with total assets of \$60 million as of March 31, 2007. Ownership in the holding company is widely held by local investors.

The bank's business strategy is to provide home mortgage loans, farm loans, and consumer loans to residents of Bracken County. The bank's primary lending products are home mortgage loans and farm loans. As of March 31, 2007 net loans represented 66% of the bank's average assets. The composition of the loan portfolio is as follows: 1-4 family residential mortgage loans (55%), farmland and other agricultural loans (27%), consumer loans (9%), business-purpose loans (8%), and other loans (1%).

Local competition consists of two branches of a community bank based outside of Bracken County and one branch of a large nationwide bank. FNB also experiences competition from banks located in surrounding counties, mortgage brokers, and Internet-based lenders.

There are no legal, financial, or other constraints that could impair the bank's ability to meet the credit needs of the community. The last CRA examination was February 5, 2003. The bank received a Satisfactory rating.

DESCRIPTION OF ASSESSMENT AREA

FNB has identified Bracken County as its assessment area (AA). The designated AA meets the requirements of the regulation. Bracken County is comprised of three census tracts (CTs). The 2000 Census categorizes all three CTs as moderate-income. The designated AA does not arbitrarily exclude low- or moderate-income geographies. The AA is part of the Cincinnati-Middletown, Ohio-Kentucky-Indiana Metropolitan Statistical Area (MSA).

The OCC's analysis of the borrower distribution of loans compares loans originated between January 1, 2005 and May 6, 2007 to the 2000 U.S. Census demographic information. The income level designations used in the analysis of home mortgage loans are based on the Department of Housing and Urban Development (HUD) estimate of the MSA's 2007 updated Median Family Income of \$64,600.

Bracken County's population is 8,279. Of the county's 3,223 households, 13% are below the poverty level and 30% receive social security benefits. Median family income is \$40,581. About 9% of the county's 2,343 families are below the poverty level. (Source: 2000 U.S. Census.)

The assessment area is rural in nature. Beef and dairy cattle, tobacco, and silage crops all contribute a significant amount of income to the local economy. The farms are all small operations with annual revenue below \$1 million. Bracken County is considered a bedroom community for the Greater Cincinnati area. Over 66% of residents commute to neighboring counties for employment.

The unemployment rate in Bracken County is moderate. According to the Kentucky Office of Employment and Training, the unemployment rate is 6.8% as of March 2007. This is slightly higher than the statewide rate of 5.4% and the MSA rate of 4.8%.

Three commercial banks maintain offices in Bracken County. FDIC information dated June 30, 2006 indicates FNB ranks first in deposit market share with 55% of the county's deposits. Within the MSA, 16 banks and savings institutions operating from 49 offices control \$1.4 billion in deposits. The top three banks in the MSA hold 42% of the MSA's deposits. FNB ranks seventh, with 6% of the MSA's deposits.

The OCC contacted two local individuals with extensive knowledge about the primary credit needs of Bracken County residents. Both community contacts stated FNB is doing an excellent job of meeting the primary credit needs of the assessment area. They indicated significant demand exists for home mortgage loans, consumer purpose loans, agricultural production loans, and loans for farm real estate, particularly from the households supplementing their incomes with farming. They indicated all local banks are active in the community and provide financing for Bracken County residents' credit needs. The contacts did not identify any credit needs not being addressed either by the local banks or through other sources.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. FNB's average net loan-to-deposit ratio for the 17 quarters since the last CRA public evaluation is 78.96%. The ratio has ranged from a low of 74.16% on March 31, 2005 to a high of 86.15% on June 30, 2003.

We compared FNB to three similarly situated banks operating in neighboring counties or the same MSA. These banks are comparable to FNB in asset size, deposit size, and major lending products. Table 2 shows FNB's average loan-to-deposit ratio in relation to the other banks' ratios.

Table 2 – Loan-to-Deposit Ratios	
Institution	Average
First National Bank	78.96%
Bank #1	61.61%
Bank #2	65.28%
Bank #3	71.39%

Lending in Assessment Area

A majority of loans and other lending-related activities are in FNB's assessment area. Table 1 shows borrowers inside the assessment area received 83% of the number and 84% of the dollar amount of sampled loan originations and HMDA-reported loans. To reach this conclusion, the OCC analyzed the bank's lending activity by selecting a random sample of twenty-three farm loans originated between January 1, 2005 and May 6, 2007, as well as all home mortgage loan data collected and reported under HMDA for the same time period.

Loan Type	Number of Loans				Dollars of Loans (000's)					
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase (1)	130	82.80%	27	17.20%	157	\$ 9,386	84.41%	\$1,733	15.59%	\$11,119
Home Improvement (1)	169	81.64%	38	18.36%	207	\$ 2,278	84.94%	\$ 404	15.06%	\$ 2,682
Refinancing (1)	123	84.25%	23	15.75%	146	\$ 7,183	83.66%	\$1,403	16.34%	\$ 8,586
Farm loans (2)	20	86.96%	3	13.04%	23	\$ 613	86.70%	\$ 94	13.30%	\$ 707
Total	442	82.93%	91	17.07%	533	\$19,460	84.26%	\$3,634	15.74%	\$23,094

Source: Bank records of loans originated between January 1, 2005 and May 6, 2007 (verified by examiners).

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

(2) Represents a sample of 23 farm loans.

Lending to Borrowers of Different Incomes and to Farms of Different Sizes

The distribution of loans reflects reasonable penetration among individuals of different income levels (including low- and moderate-income) and farms of different sizes. To reach this conclusion, the OCC analyzed loan data submitted under HMDA for calendar years 2005 and 2006 and HMDA data collected through May 6, 2007. The OCC also analyzed a random sample of twenty farm loans made during the same time period.

Residential Real Estate Loans

The distribution of residential real estate loans reflects reasonable penetration for originating home mortgage loans to individuals of different income levels (including low- and moderate-income). Table 3 shows the percentage of most types of FNB's residential real estate loans to low- and moderate-income borrowers meet or exceed the percentage of families in the assessment area with low- and moderate-income.

- Low-income borrowers received 21% of FNB's home purchase loans, 37% of its home improvement loans, and 24% of its home refinance loans. This degree of penetration is reasonable, considering 8% of families in the AA have income below the poverty level and are often unable to qualify for home mortgage loans.
- Moderate-income borrowers received 30% of FNB's home purchase loans, 32% of its home improvement loans, and 29% of its home refinance loans. This degree of penetration exceeds the percentage of moderate-income families in the assessment area (27%).

Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Home Purchase	28.59%	20.77%	27.06%	30.00%	23.22%	25.38%	21.13%	23.85%
Home Improvement	28.59%	36.69%	27.06%	31.95%	23.22%	23.08%	21.13%	8.28%
Refinancing	28.59%	23.97%	27.06%	28.92%	23.22%	23.14%	21.13%	23.97%

Source: Data collected and reported under HMDA – January 1, 2005 to May 6, 2007; 2000 U.S. Census.

Farm Loans

The bank’s performance of lending to farms of different sizes is excellent. All twenty of the sampled farm loans were to borrowers with farm revenue under \$1 million. Dun and Bradstreet’s latest survey identified 71 farms in Bracken County; all respondents reported annual revenue under \$1 million.

Geographic Distribution of Loans

The main focus of this analysis is to analyze the bank’s geographic distribution of lending among low-, moderate-, middle-, and upper-income geographies. Since FNB’s assessment area consists entirely of moderate-income census tracts and its geographies are not otherwise distinguishable, an analysis of the bank’s loan distribution by geographies would not provide a meaningful analysis.

Responses to Complaints

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

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.