



SMALL BANK

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

PUBLIC DISCLOSURE

January 03, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Farmers National Bank
Charter Number 12456**

**107 North Court Street
Scottsville, KY 42164**

**Comptroller of the Currency
Nashville
5200 Maryland Way Suite 104
Brentwood, TN 37027**

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.

- ◆ The average loan-to-deposit ratio at 74.73 percent is reasonable given the bank's size, financial condition, and assessment area credit needs.
- ◆ A substantial majority of both the number and dollar volume of loans originated are within the bank's assessment area.
- ◆ The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- ◆ The geographic distribution of both residential real estate and business loans is marginal, but this is mitigated by the location of the bank's branches as compared to the location of the moderate-income census tracts. Furthermore, the weaker geographic distribution of loans is also mitigated by the performance in the other rating categories.

Examiners reviewed a sample of residential mortgage and business loans originated between January 1, 2002 and December 31, 2004. Loans originated in 2002 were compared to 1990 U.S. Census data. Loans originated in 2003 and 2004 were compared to 2000 U.S. Census data.

DESCRIPTION OF INSTITUTION

Farmers National Bank of Scottsville (FNB) is a community bank with offices located in Warren County and Allen County Kentucky. In 1998, FNB opened its first branch in Bowling Green, Kentucky and designated this location its new main office, which is in Warren County. The bank has one other full service branch in Bowling Green. FNB has two full service branches in Scottsville, Kentucky, which is located approximately 20 miles southeast of Bowling Green. Scottsville is located in Allen County, Kentucky. As of September 30, 2004 the bank reported total assets of \$173 million with \$153 million in deposits and \$114 million in loans (66 percent of total assets). FNB is a wholly owned subsidiary of FNB Financial Corporation, a one-bank holding company.

The institution operates in a competitive environment including other community banks, regional bank branches, and credit unions. At June 30, 2004, FNB was the deposit market share leader in Allen County, with 73 percent, according to FDIC data. FNB ranked tenth out of fourteen financial institutions in Warren County with 3 percent market share. The bank's primary

business focus is residential real estate, commercial loans, and consumer loans. The loan portfolio composition as of September 30, 2004, is as follows:

Loan Category	\$ (000s)	Percent
Residential Mortgage Loans	\$48,508	42.3%
Commercial & Commercial Real Estate	\$43,450	38.0%
Individuals	\$8,028	7.0%
Farmland and Agriculture	\$6,859	6.0%
Construction & Land Development	\$7,612	6.7%
All Other	\$0	0%
Total	\$114,457	100.0%

* Data obtained from 9/30/2004 Call report

FNB offers convenient banking hours and a variety of loan and deposit products to meet the needs in the assessment area. There are no financial impediments that would limit the bank's ability to help meet the credit needs in its assessment area. The bank's last CRA examination was performed as of January 11, 1999 and was rated **Satisfactory**.

DESCRIPTION OF ASSESSMENT AREA

FNB's assessment area (AA) meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The AA includes all of Allen and Warren Counties. The 1990 U.S. Census data shows this assessment area contains three moderate-income geography tracts and no low-income tracts. The Bowling Green Metropolitan Statistical Area (MSA) in Warren County was created as a result of the 2000 census data changes and contains all of Warren County. Additionally, the MSA designation required the bank to comply with the Home Mortgage Disclosure Act (HMDA) beginning the year 2004. The 2000 census data shows the AA contains four moderate-income tracts and no low-income tracts. These moderate-income tracts are generally located in the western sections of Bowling Green. FNB's offices are located in the eastern section of Bowling Green and may affect management's ability to generate loans in the moderate-income tracts.

Scottsville serves as the county seat of Allen County. The local employment base is diversified with principal industries being light manufacturing and agriculture. Some of the major employers in the county include Dollar General Corporation, A.O. Smith, Smuckers, and Sumitomo Electric Wiring Systems. Bowling Green serves as the county seat of Warren County. The local employment base is diversified with principal industries being manufacturing, education, and health care. Some of the major employers are General Motors, Western Kentucky University and Commonwealth Health Corporation. The unemployment rate in Allen County decreased from 9.9 percent in February 2004 to 5.4 percent in September 2004. The unemployment rate in Warren County decreased from 4.8 percent to 3.0 percent during the same period. The Kentucky statewide unemployment rate was 4.4 percent and the National rate was 5.1 percent in September 2004.

The following tables show the demographic and economic characteristics of the assessment area:

Demographic Information for Assessment Area					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs) 1990	25	0%	12%	44%	44%
Geographies (census Tracts/BNAs) 2000	25	0%	16%	60%	24%

Source: 1990 U.S. Census, 2000 U.S. Census.

Demographic Information for Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	25	0.00	16.00	60.00	24.00	0.00
Population by Geography	110,322	0.00	15.14	57.11	27.75	0.00
Owner-Occupied Housing by Geography	28,100	0.00	7.79	57.61	34.60	0.00
Businesses by Geography	6,341	0.00	22.14	56.42	21.43	0.00
Farms by Geography	382	0.00	2.88	59.70	37.42	0.00
Family Distribution by Income Level	28,871	0.00	12.33	56.33	31.34	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	28,871	19.31	16.40	20.88	43.41	0.00
Median Family Income	\$44,355	Median Housing Value 2001		\$90,534		
HUD Adjusted Median Family Income for 2001	\$47,444	Unemployment Rate 2001		2.98%		
Households Below the Poverty Level	16%					

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2000 U.S. Census, and 2004 HUD updated MFI.

We conducted a community contact with the local chamber of commerce. They stated that area financial institutions are positively perceived for their involvement through donations and employee involvement in community activities. This contact also revealed that local banks are meeting the primary credit needs in the area.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio meets the standard for satisfactory performance given the bank's size, financial condition, and considering the credit needs of the assessment area. The quarterly loan-to-deposit ratio averaged 74.73 percent since the previous CRA examination dated January 11, 1999. The ratio has ranged from a high of 89.69 percent at September 30, 1999 to a low of 64.75 percent at December 31, 2001. There were no other institutions of similar size, location, and number of branches to compare the loan-to-deposit ratio against.

Lending in Assessment Area

FNB's lending within its AA exceeds the standards for satisfactory performance. A substantial majority of both the number and dollar amount of FNB's loans were originated within their AA. Our sample was comprised of home mortgage real estate and business loans. Our sample of home mortgage loans showed that almost 97 percent of the number and dollar amount of loans made were within the bank's AA. For business loans, 95 percent of the number and 91 percent of the dollar amount of loans sampled were originated within the bank's AA. Overall, our loan sample indicated that 96 percent of the total number and 93 percent of the total dollar amount of loans were originated in the bank's AA. Refer to Table 1 for details on the bank's Lending within their AA.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total #	Inside		Outside		Total \$
	#	%	#	%		\$	%	\$	%	
Home Mortgage Loan Sample	60	96.8%	2	3.2%	62	3,947	96.8%	132	3.2%	4,079
Business Loan Sample	60	95.2%	3	4.8%	63	10,281	91%	1,014	9%	11,295
Totals	120	96%	5	4%	125	14,228	92.5%	1,146	7.5%	15,374

Source: sampled home mortgage loans and business loans from 2002, 2003 and 2004.

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

FNB's lending to borrowers of different incomes and businesses of different sizes, given the demographics of their assessment area, meets the standards for satisfactory performance. As shown in Table 2 below, the number of home mortgage loans made in the bank's AA to low-income families closely correlates with the percent of low-income families located in the AA. The bank's lending to moderate-income families exceeds that of the AA demographics.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Assessment Area								
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
Home Mortgage Loans ¹	17.5%	15.8%	12.9%	15.8%	17.4%	36.8%	52.3%	31.6%
Home Mortgage Loans ²	15.7%	15.0%	13.1%	15.0%	18.3%	45.0%	52.9%	25.0%
Home Mortgage Loans ³	19.3%	14.3%	16.4%	28.6%	20.9%	42.9%	43.4%	14.3%

¹Source: Home mortgage loan sample for 2002; U.S. 1990 Census data.

²Source: Home mortgage loan sample for 2003; US 2000 Census data.

³Source: Home mortgage loan sample for 2004; U.S. 2000 Census data.

The distribution of loans made to small businesses is good compared to the number of small businesses in the AA. Table 2A indicates, based on our sample, that 73 percent of the number and 83 percent of the dollar volume of loans in the AA were made to small businesses (businesses with \$1 million or less in gross annual revenues). This reflects favorably to the 74 percent of businesses with reported revenues less than \$1 million.

Table 2A - Borrower Distribution of Loans to Businesses in Assessment Area			
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Not reported
% of AA Businesses*	74.1%	5.6%	20.3%
% of Bank Loans in AA by #	73.3%	23.3%	3.4%
% of Bank Loans in AA by \$	82.8%	15.9%	1.3%

Source: Business loan sample for 2002, 2003 and 2004.

*Dunn & Bradstreet data, 20.3% of AA businesses did not report revenue data

Geographic Distribution of Loans

The geographic distribution of residential real estate loans and loans to businesses within the bank's AA does not meet the standard for satisfactory performance. Please refer to Table 3 and 3A for more specifics. However, given there are no low-income census tracts and limited moderate-income census tracts within their AA and these moderate-income census tracts are not all convenient to the bank's branch locations, FNB is attempting to lend throughout its AA. Efforts could be enhanced to focus on the geographic distribution of their future lending.

Table 3 shows, the geographic distribution of residential real estate loans does not show favorable performance in our sample years 2002 and 2004. Based on the loans sampled, no loans were made in moderate-income census tracts for owner occupied housing. The 2003 loan sample shows favorable performance in that five percent of the loans sampled were made in moderate-income census tracts for owner occupied housing. However, as mentioned earlier in this evaluation, FNB's two offices in Bowling Green are located in the eastern part of Warren

County and the moderate-income census tracts are located in the western section and are not geographically convenient to the bank's offices.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of Owner Occupied Housing	% of Number of Loans	% of Owner Occupied Housing	% of Number of Loans	% of Owner Occupied Housing	% of Number of Loans	% of Owner Occupied Housing	% of Number of Loans
2002 Sample ¹	0%	0%	5.4%	0%	41.9%	73.7%	52.7%	26.3%
2003 Sample ²	0%	0%	3.8%	5.0%	35.2%	70.0%	61.1%	25.0%
2004 Sample ³	0%	0%	7.8%	0%	57.6%	76.2%	34.6%	23.8%

¹Demographic data source: U.S. 1990 Census data.

²Demographic data source: U.S. 2000 Census data.

³Demographic data source: U.S. 2000 Census data

Table 3A indicates acceptable performance in 2002 where 11 percent of the loans sampled were located in moderate-income census tracts compared to the 18 percent of businesses located in those moderate-income tracts. Less than favorable performance was evidenced in our 2003 and 2004 sample. However, given the fact that the bank is trying to lend to business in moderate-income census tracts, but the geography of their office locations is not fully conducive to that.

Table 3A - Geographic Distribution of Loans to Businesses in Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
2002 Sample ¹	0%	0%	18.3%	11.1%	29.3%	50.0%	52.4%	38.9%
2003 Sample ²	0%	0%	19.6%	4.8%	29.2%	66.7%	51.3%	28.6%
2004 Sample ³	0%	0%	22.1%	9.5%	56.4%	71.4%	21.4%	19.1%

^{1,2,3}Data source: Dunn & Bradstreet data.

Responses to Complaints

FNB has not received any CRA-related complaints since the previous CRA examination and therefore, no weight was given to this category.

Fair Lending or Other Illegal Credit Practices Review

An analysis of public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was

performed in 1998.