



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**August 10, 2009**

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

The Farmers National Bank of Lebanon  
Charter Number 4271

136 West Main Street  
Lebanon, KY 40033

Office of the Comptroller of the Currency

Louisville Field Office  
9200 Shelbyville Road, Suite 505  
Louisville, KY 40222-5134

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

- The average loan-to-deposit ratio is reasonable, considering the bank's size, financial condition, and assessment area credit needs.
- A majority of the bank's loans are originated in the assessment area.
- The distribution of loans reflects excellent penetration among individuals of different income levels.
- FNB did not receive any consumer complaints about its performance in helping meet the credit needs of the assessment area during the evaluation period.

## **SCOPE OF EXAMINATION**

The evaluation period for this examination is January 1, 2007 to June 30, 2009. We evaluated the bank's performance under the Community Reinvestment Act (CRA) using small bank procedures, which included a lending test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities.

To measure the bank's performance of meeting the credit needs of its AA, we reviewed both the dollar amount of loans and the number of loans originated during the evaluation period to determine the bank's primary lending product. We determined FNB's primary loan products are business loans and 1-4 family residential loans. These products were representative of the bank's lending strategy since the last CRA examination. Consequently, we reviewed a sample of 20 residential loans and 20 business loans originated from January 1, 2007 through June 30, 2009 to assess the bank's lending performance.

The last CRA evaluation was performed on March 1, 2004. The bank received a rating of satisfactory.

## **DESCRIPTION OF INSTITUTION**

Farmers National Bank of Lebanon (FNB) is a full-service intrastate bank 100% owned by Lebanon Bancshares, Inc., a one-bank holding company headquartered in Lebanon, Kentucky. As of June 30, 2009, the bank had \$94 million in total assets, \$78 million in deposits, \$55 million in loans, and \$11 million in Tier One Capital.

The bank offers traditional banking products and services and operates one branch. FNB's main office and branch are located in downtown Lebanon, Kentucky. Currently, the bank has two Automated Teller Machines (ATMs). One is located at the main office,

and one is located at the branch. Both ATMs are full service. FNB's main office, branch, and ATMs are accessible to all segments of the community.

As of June 30, 2009, net loans represented approximately 57% of the bank's average assets and consisted of commercial real estate (32%), 1-4 family residential (23%), commercial & industrial (10%), construction and development (9%), municipal (7%), home equity (6%), consumer (6%), farm-related real estate (3%), multifamily (2%), financial institution (1%), and agriculture (1%).

There are no legal or financial circumstances that impact the bank's ability to meet community credit needs.

## **DESCRIPTION OF ASSESSMENT AREA**

FNB's AA meets the technical requirements of the Act and does not arbitrarily exclude low- or moderate-income areas. The AA is defined as all of Marion County, which is not part of any MSA. The county is comprised of six census tracts (CTs), with four middle- and two upper-income geographies. There are no low- or moderate-income tracts within the bank's assessment area.

Marion County is a rural county located in central Kentucky with a total population of 18,212 according to the 2000 U.S. Census. That number has risen to approximately 19,228 in 2008. The 2000 population of the AA was comprised of 6,603 households, of which 2,481, or 38%, are considered to have low- or moderate-incomes, based on a median family income of \$35,884. Owner occupied housing in the county was 71%, with the median housing value at \$70,379. In addition, the percentage of households in the AA living below the poverty level is approximately 19%. Other significant factors to consider are: 5% of the households receive public assistance and 30% of the households receive social security benefits. The Department of Housing and Urban Development's (HUD) 2008 updated median family income estimate for the AA is \$41,000.

The economy of the AA is considered to be recovering after weakening over the past several months. While a portion of workers in Marion County commute to jobs in surrounding counties, the county's largest employer is the Board of Education. Other major employment opportunities in Lebanon revolve around automotive manufacturing positions. Specifically, major employers in Marion County include Angell-Demmell Manufacturing (automotive parts), Curtis-Maruyasu America (automotive supplier), TG Kentucky (automotive supplier), Kentucky Cooperage (white oak barrels), Montebello (tube manufacturing), Wilbert Plastic Services (plastic injection molding), Toyota Boshoku Manufacturing Kentucky (automotive parts manufacturing), Joy Mining Machinery (mining equipment), and Portland Forge (forging operation).

Unemployment rates increased through 2007 and 2008. According to the U.S. Department of Labor, 2007 and 2008 unemployment rates for Marion County were 5.7% and 6.4%, respectively. The unemployment rate for Marion County as of June 2009 is 13.2%; it is above both state (11.1%) and national (9.7%) unemployment rates.

Competition is considered moderate to strong and involves competition from banks, farm credit services, and finance companies.

A community contact 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 contact did not identify any credit needs in the county that were not being addressed by the banks or through other sources.

The following demographic information covering the bank's AA of Marion County is based on 2000 census data, unless otherwise indicated.

Type of Information	AA	
Total Population in AA	18,212	
Kentucky HUD Adjusted Median Family Income – 2007	\$39,100	
Kentucky HUD Adjusted Median Family Income – 2008	\$41,000	
Families in AA:		
Income Levels of Families	#	%
Low	985	21
Moderate	654	14
Middle	1,007	21
Upper	2,132	44
Total Families within AA	4,778	100
Median Home Value:	\$70,379	
Median Year Built:	1971	
1-4 Family Housing Units	97%	
Occupancy:	#	%
Owner Occupied Units	5,173	71
Renter Occupied Units	1,440	20
Vacant Units	664	9
Total Units within AA	7,277	100

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB's performance under the lending test is satisfactory. FNB's Loan-to-Deposit ratio is reasonable and a majority of the loans are in the AA. FNB was found to have excellent penetration among borrowers of different income levels and businesses of different sizes. 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. All criteria of the lending test are documented below.

### Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. FNB's average net loan-to-deposit ratio for the 22 quarters since the last CRA public evaluation is 58%. The loan-to-deposit ratio has increased from 48% since 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. FNB's average loan-to-deposit ratio is reasonable compared to the two similarly situated banks. The table below shows the average loan-to-deposit ratios of the other banks for the period under review.

<b>Institution</b>	<b>Average</b>
Farmers National Bank of Lebanon	58.49%
Bank #1	48.54%
Bank #2	81.78%

## Lending in Assessment Area

A majority of loans are in the AA. For the overall conclusion of lending in the AA, we placed more weight on the substantial dollar amount of out-of-area lending originated during the entire evaluation period. Early in the evaluation period FNB's lending strategy was centered on out-of-area lending. As a result of this lending strategy, FNB reports a significant amount of out-of-area loans. As of June 30, 2009, FNB reported \$22 million or 40% in out-of-area loans compared to total loans of \$55 million.

FNB's current lending strategy is focused on lending within the assessment area. The results from our sample are reflective of the bank's current lending strategy. Our sample of 20 residential and 20 business loans originated between January 1, 2007 and June 30, 2009 shows 90% of the number and 87% of the dollar amount of loan originations were to borrowers in the AA.

<b>Loan Originations Between January 1, 2007 and June 30, 2009</b>										
<b>Loan Type</b>	<b>Number of Loans</b>					<b>Dollars of Loans</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>\$ (000's)</b>	<b>%</b>	<b>\$ (000's)</b>	<b>%</b>	
<b>Residential</b>	19	95	1	5	20	\$ 727	96	\$ 30	4	\$ 757
<b>Business</b>	17	85	3	15	20	\$ 998	81	\$236	19	\$ 1,234
<b>Totals</b>	36	90	4	10	40	\$1,725	87	\$266	13	\$ 1,991

*\*Source: Randomly selected sample of 1-4 family residential real estate 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 and loans to businesses with gross revenues less than \$1 million reflect excellent penetration. To reach this conclusion, the OCC analyzed the bank's lending activity of loans for each of the bank's primary loan types and selected a random sample of 20 1-4 family residential mortgages and 20 business loans originated between January 1, 2007 and June 30, 2009.

Table 1 shows the distribution of FNB's loans originated to low- and moderate-income families for 1-4 family residential mortgages is excellent. Of the 1-4 family residential loans originated, FNB made 26% of these loans to low income families. The bank's lending performance exceeds the comparator demographic data, which shows 21% of the AA is considered to be low-income families. The table also shows FNB's loans to moderate-income families make up 21% of the 1-4 family residential loans originated. The bank's lending performance exceeds the comparator demographic data, which shows 14% of the AA is considered to be moderate-income families.

<b>Table 1</b>					
<b>1-4 FAMILY RESIDENTIAL LOANS</b>					
<b>Borrower Income Level</b>	<b>Loan Originations Between Jan 1, 2007 and Jun 30, 2009</b>				<b>Percentage of Families within each Income Category</b>
	<b>Number of Loans</b>	<b>Percentage of Loans</b>	<b>Dollar Amt of Loans \$ (000's)</b>	<b>Percentage of Dollars</b>	
<b>Low</b>	5	26	148	18	21
<b>Moderate</b>	5	21	197	24	14
<b>Middle</b>	4	21	102	12	21
<b>Upper</b>	6	32	375	46	44
<b>Total</b>	20	100	822	100	100

*Source: Randomly selected sample of 1-4 family residential loans originated within the bank's assessment area. Further segmentation of home mortgage lending activity by purpose was not available from the data used for this analysis.*

Table 2 shows FNB's distribution of loans to small businesses (i.e., firms with revenues of \$1 million or less) is excellent. Loans to small businesses make up 70% of the number of business-purpose loans in the sample. The bank's lending performance exceeds the comparator demographic data, which shows 45% of the area's businesses are considered to be small businesses.

<b>Table 2</b>					
<b>BUSINESS LOANS</b>					
<b>Business Income Level In Revenues</b>	<b>Loan Originations Between Jan 1, 2007 and Jun 30, 2009</b>				<b>Percenta ge of Business es in the AA</b>
	<b>Number of Loans</b>	<b>Percentage of Loans</b>	<b>Dollar Amt of Loans \$(000's)</b>	<b>Percentag e of Dollars</b>	
<b>≤ \$1 Million</b>	14	70	546	44	45
<b>&gt; \$1 Million</b>	6	30	705	56	3
<b>Not Reported</b>	0	0	0	0	52
<b>Total</b>	20	100	1,251	100	100

*Source: Randomly selected sample of commercial loans originated within the bank's assessment area.*

## **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. Due to the AA being comprised of six census tracts, (four middle-income and two upper-incomes), an analysis of the bank's loan distribution by geographies would not provide a meaningful analysis.

## **Responses to Complaints**

There have not been any complaints regarding the bank's CRA performance since our previous examination.

## **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.