



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

September 27, 2010

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

The Home National Bank of Thorntown  
Charter Number 5842

117 East Main Street  
Thorntown, IN 46071

Office of the Comptroller of the Currency

Indianapolis Field Office  
8777 Purdue Road, Suite 105  
Indianapolis, IN 46268

**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 Home National Bank of Thorntown (HNBT) has satisfactory performance in meeting the credit needs of its community.

- HNBT's loan-to-deposit ratio is more than reasonable based on its size, financial condition, assessment area credit needs, and local competition. Innovative lending practices enabled them to continue meeting community credit needs under adverse economic conditions.
- A majority of the loans originated during the sampling period were within the bank's assessment area.
- The distribution of loans originated in the assessment area during the loan sampling period reflects reasonable penetration among borrowers of different incomes and business of different sizes.
- There has been no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

**SCOPE OF EXAMINATION**

HNBT was evaluated under the small bank examination procedures, which evaluates the bank's record of meeting the credits needs of its assessment area through lending activities. The evaluation period is from March 22, 2005 through September 27, 2010.

To evaluate the bank's lending performance, we utilized loans originated from January 1, 2008 through July 31, 2010. The past two years of lending is representative of the evaluation period. During this period, HNBT originated 627 loans totaling over \$39 million. Their primary lending products are commercial and home loans based on both number and dollar volume of loans originated. Home loan originations are reported under the requirements of the Home Mortgage Disclosure Act (HMDA). The HMDA data was tested and deemed reliable for use during this examination. To evaluate the bank's lending performance, we used the bank's 2008, 2009, and year-to-date 2010 HMDA data and selected a sample of commercial loans originated during the sampling period.

**DESCRIPTION OF INSTITUTION**

HNBT is an \$84 million intrastate institution headquartered in Thorntown, Indiana, which is approximately 30 miles northwest of Indianapolis, Indiana. The institution is solely owned by Home National Corporation, a one-bank holding company also located in Thorntown. In late 2008, HNBT opened a branch location in Lebanon, Indiana, the county seat for Boone County. The institution now has a main office, one branch, and two ATM locations.

The bank offers a full range of services including deposit and loan products, in addition to trust services. As of June 30, 2010, net loans and leases were \$52 million, or 62% of total assets. The following table provides information on the current portfolio mix:

| <b>Loan Portfolio Mix as of June 30, 2010</b> |                          |
|---|--------------------------|
| Loan Category                                 | % of Outstanding Dollars |
| Home Loans                                    | 39%                      |
| Commercial Loans                              | 34%                      |
| Agricultural Loans                            | 22%                      |
| Consumer Loans                                | 5%                       |

*Source: June 30, 2010 Uniform Bank Performance Report (UBPR)*

There are currently no legal or financial impediments to HNBT’s ability to meet the credit needs of its assessment area. The bank was rated Satisfactory at its last CRA examination dated March 21, 2005.

**DESCRIPTION OF ASSESSMENT AREA(S)**

HNBT’s assessment area (AA) includes five census tracts in Boone County, which is located in the Indianapolis Metropolitan Statistical Area (MSA). According to 2000 US Census data, all tracts in the bank’s AA are middle-income tracts. The AA conforms to the regulation and does not arbitrarily exclude any low- or moderate-income areas. The AA does not include all census tracts in Boone County; however, adjustments were reasonable as the AA would be too large for the institution to reasonably serve given their size, office locations, and local competition. The following demographic information for the AA is based on census data:

| <b>Demographic Information for Assessment Area (AA)</b>                    |                    |
|--|--------------------|
|  | 2000 Census Data   |
| Population:  | 24,293             |
| Housing Stock: <i>1-4 family housing units</i>                             | 90%                |
| Occupancy: <i>owner-occupied, renter-occupied, vacant</i>                  | 70%, 24%, 6%       |
| Home Values: <i>Median home value</i>                                      | \$105,931          |
| Age of Homes: <i>Median year of homes built</i>                            | 1963               |
| Family Income Levels (%): <i>Low-, moderate-, middle-, upper-income</i>    | 19%, 21%, 29%, 31% |
| Household Income Levels (%): <i>Low-, moderate-, middle-, upper-income</i> | 23%, 19%, 22%, 36% |

The local economy is reasonably stable, though unemployment increased consistent with the deterioration in the national economy. Currently the unemployment rate is 7.6% compared to 10.1% for the state of Indiana. Boone County has three major industry sectors: government, construction, and manufacturing. The Western Boone County Community School Corporation remains one of the area’s largest employers.

The AA makes up less than half of the county, including the cities of Thorntown and Lebanon, Indiana. Competition from other financial institution is present, primarily in the Lebanon area. The competition consists of six institutions, three of which are

significantly larger national banks and one credit union. These institutions have a combined total of nine locations within the AA.

In conducting the assessment of the bank's performance, we contacted a community organization that services local communities, including Boone County. The organization provides services and assistance to residents that are low-income, disabled, or elderly. According to the contact, institutions can meet community needs by supporting service organizations, investing in housing projects, and providing funding to small businesses.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

HNBT's performance of meeting its community credit needs is satisfactory. This review concentrated on the bank's primary loan products, which include home loans and commercial loans. The bank has a more than reasonable loan-to-deposit ratio, and a majority of the loans sampled were originated within the bank's AA. Borrower distribution among families of different income levels and businesses of different sizes was reasonable. All criteria of the lending test are documented below. The AA does not contain any low- or moderate-income census tracts; therefore, a geographical distribution review was not performed.

### **Loan-to-Deposit Ratio**

HNBT's loan-to-deposit ratio is more than reasonable based on its size, financial condition, AA credit needs, and local competition. The bank's net loan-to-deposit ratio averaged 80.12% over the past twenty-two quarters since last examination. This average ratio is higher than the average loan-to-deposit ratio of five of the six institutions in the comparison. The one institution that has a higher ratio is more than five times the size of HNBT. HNBT is the smallest and has the fewest branches of any of the institutions compared. Also, it is the only one that does not have branches outside of the AA.

Despite the downturn in the economy, HNBT continues to meet community credit needs through its lending practices. They began actively selling loans into the secondary market in early 2009 and have originated over \$1 million in loans sold since that time. Most recently, the bank has agreed to service loans to small businesses on behalf of the Boone County Economic Development Corporation.

### **Lending in Assessment Area**

A majority of the loans originated during the sampling period were within the bank's AA. The new branch in Lebanon has enhanced the institution's presence in the AA. We reviewed the HMDA data reported for home loans, and a sample of twenty loan files for commercial loans to determine the percentage of loans originated within and outside of the AA. We found that 67% of loans based on number, and 60% of loans based on dollar volume were made in the AA.

| <b>Lending in Assessment Area (AA)</b> |                 |        |         |        |       |                          |        |         |        |          |
|--|-----------------|--------|---------|--------|-------|--------------------------|--------|---------|--------|----------|
| Loan Type                              | Number of Loans |        |         |        |       | Dollars of Loans (000's) |        |         |        |          |
|  | Inside          |        | Outside |        | Total | Inside                   |        | Outside |        | Total    |
|  | #               | %      | #       | %      |       | \$                       | %      | \$      | %      |          |
| Home Purchase                          | 27              | 71.05% | 11      | 28.95% | 38    | \$3,266                  | 81.98% | \$718   | 18.02% | \$3,984  |
| Home Refinance                         | 29              | 59.18% | 20      | 40.82% | 49    | \$3,099                  | 42.19% | \$4,246 | 57.81% | \$7,345  |
| Commercial                             | 16              | 80.00% | 4       | 20.00% | 20    | \$3,230                  | 70.48% | \$1,353 | 29.52% | \$4,583  |
| Totals                                 | 72              | 67.29% | 35      | 32.71% | 107   | \$9,595                  | 60.30% | \$6,317 | 39.70% | \$15,912 |

Source: Data shown is based on loans originated by the bank between January 1, 2008 and July 31, 2010.

Home loan information is from data reported under the Home Mortgage Disclosure Act (HMDA).

Commercial loan information is from a sample of 20 loans within each loan product.

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

The distribution of loans originated in the AA during the loan sampling period reflects reasonable penetration among borrowers of different incomes and business of different sizes.

#### Home Loans

The distribution of home loans reflects reasonable penetration among borrowers of different income levels. The bank's performance in each loan type does not compare favorably to demographic data of all low- and moderate-income families; however, distribution is deemed reasonable based on their performance context. The most significant disparity is evidenced in residential refinance loans to low-income families in the AA. In the AA, 6.32% of households are below the poverty level, which would bring the comparators to a more commensurate level for low-income families. In addition, fees associated with loan refinances have additional costs that may be cost prohibitive for low- and moderate-income families. The following table shows the distribution of home purchase and home refinance loan originations among borrowers of different income levels within the assessment area. Nearly 10% of home loan originations had no income information available for the borrowers.

| <b>Borrower Distribution of Home Loans in AA</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 |
| Home Purchase                                    | 19.38%           | 29.63%               | 21.30%           | 18.52%               | 28.65%           | 14.81%               | 30.67%           | 29.63%               |
| Home Refinance                                   | 19.38%           | 10.34%               | 21.30%           | 17.24%               | 28.65%           | 17.24%               | 30.67%           | 44.83%               |
| Total Home Loans                                 | 19.38%           | 19.64%               | 21.30%           | 17.86%               | 28.65%           | 16.07%               | 30.67%           | 37.50%               |

Source: Data shown is from data reported under the Home Mortgage Disclosure Act (HMDA).

**Business Loans**

The distribution of loans to businesses reflects excellent penetration among businesses of different sizes. Based on business loans sampled, 71.43% of the number of loans and 68.42% of the dollars of loans originated to small businesses. A small business is defined as a business with gross revenues of one million dollars or less. Less reliance is placed on the comparison of loan data to AA demographics due to nearly 40% of businesses having unknown revenues. The following table shows the distribution of loans to businesses of different sizes.

| <b>Borrower Distribution of Loans to Businesses in AA</b> |              |              |                         |       |
|---|--------------|--------------|-------------------------|-------|
| Business Revenues (or Sales)                              | ≤\$1,000,000 | >\$1,000,000 | Unavailable/<br>Unknown | Total |
| % of AA Businesses  | 55.27%       | 5.10%        | 39.63%                  | 100%  |
| % of Bank Loans in AA by #                                | 71.43%       | 28.57%       | 0.00%                   | 100%  |
| % of Bank Loans in AA by \$                               | 68.42%       | 31.58%       | 0.00%                   | 100%  |

*Source: % of AA Businesses is derived from the 2000 US Census data. % of Bank Loans is derived from a sample of 20 commercial loans originated within the AA between January 1, 2008 and July 31, 2010.*

**Geographic Distribution of Loans**

A geographic distribution analysis was not performed. The analysis would not be meaningful for this examination because the bank’s AA does not include any low- or moderate-income census tracts.

**Responses to Complaints**

HNBT has not received any complaints about its performance in helping to meet AA 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.