



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

Washington, DC 20219

PUBLIC DISCLOSURE

As of November 19, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Farmers National Bank of Cynthiana
Charter No. 2560**

**P.O. Box 188
Cynthiana, Ky 41031**

Office of the Comptroller of the Currency

**9200 Shelbyville Road, Suite 505
Louisville, Kentucky 40222**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Farmers National Bank of Cynthiana** prepared by **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of November 19, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory record of meeting community credit needs".

- o The average loan-to-deposit ratio meets the standards for satisfactory performance.
- o The bank is making a majority of their loans within its assessment area - approximately 74%.
- o The bank lends to borrowers of different income levels.
- o Management has a very good record of lending to small businesses and farmers.

DESCRIPTION OF INSTITUTION

Farmers National Bank of Cynthiana is a community bank with total assets of approximately \$75 million as of June 30, 1998. The bank is wholly owned by Farmers National Bancorp of Cynthiana, Inc. Besides the main office, FNB has three branches, one installment center, and one drive-thru facility. The Farmers National Bank of Cynthiana is the largest bank in Cynthiana.

The bank offers traditional banking services and lending products. Management focuses lending efforts on commercial loans and consumer loans with a majority of loans being commercial & industrial loans. FNB's loan portfolio consists of the following: 49% commercial and industrial; 22% consumer; 13% one-four family residential; 10% agricultural; 2.53% non-farm non-residential; 1.12% farmland; and the remaining loans consist of multifamily and municipal loans. As of June 30, 1998, the loan portfolio represented approximately 49.15% of the bank's total assets.

There are no constraints on the bank's ability to meet local credit needs. Considering the bank's financial condition and size, the local economy, and additional related factors, management has adequately serviced legitimate community credit needs. Our last examination of this bank was October 1995 at which time they were rated Outstanding.

DESCRIPTION OF HARRISON COUNTY

The bank's assessment area is Harrison County. There are five block numbering areas (BNA's) in the assessment area. Three are designated middle income and two are upper income. Harrison County does not have any low- or moderate-income BNA's. The 1990 Census median family income for Harrison County is \$26,241. The 1998 statewide median family income for non-metropolitan areas is \$29,800.

Harrison County is a rural county in northeastern Kentucky with a population of 16,540. Cynthiana is the largest city in the county and serves as the county seat of government. The unemployment rate is comparable to state and national averages. Major area employers include: 3M (post-its), Bullard (hard hats), Grady (heavy metal parts), Ladish (valves), and Bundy (refrigerator parts). A large portion of Harrison County residents work outside the county in Georgetown and Lexington.

Competition from other financial institutions in the county is intense. The bank's primary competitors include a state bank, a national bank, a savings and loan, and a loan production office. Management has identified residential real estate loans to consumers and commercial real estate loans to small businesses as the major credit needs of the community.

In understanding the Harrison County loan market, consideration must be given to the demographics of the assessment area population. Based on 1990 census data, 19% of the households are below the poverty level, 32% live on social security, and 8% receive public assistance. In addition, 12% of the population is retired. It is likewise important to note that 31% of the housing is for rental purposes and 10% of the housing is mobile homes.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LENDING IN THE ASSESSMENT AREA

Management internally codes all loans to track lending in the assessment area. We verified the accuracy of the bank's coding system during our examination. The distribution of loans inside and outside Harrison County is shown in the table below:

TOTAL LOAN DISTRIBUTION AMONG THE ASSESSMENT AREA OF HARRISON COUNTY				
	No. Of loans	Percent	Amount	Percent
Inside AA:	1800	74%	\$20,294,549	52%
Outside AA	619	26%	\$18,730,496	48%
Totals loans	2419	100%	\$39,025,045	100%

A majority of the bank's loans are inside their assessment area. Bank generated reports indicate approximately 74% of the total number of these loans and 52% of the dollar amount of loans are within the assessment area of Harrison County. (The dollar volume is lower due to the high number of large-dollar participations bought by Farmers National Bank from outside of Harrison County. Farmers is buying the participations due to the low loan demand from within Harrison County.)

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The distribution of lending within the assessment area reflects satisfactory penetration among the different income levels, including low- and moderate-income levels. Please refer to the table on the next page outlining the bank's level of lending to borrowers of different income. Consumer lending to borrowers of different incomes is reasonable. FNB's mortgage lending to low- and moderate-income borrowers falls below the proportion of the low- and moderate-income segment in the assessment area. However, considering the demographic and financial context of the assessment area, FNB's level of mortgage lending is reasonable.

The following factors contribute to the reduced demand for mortgage loans:

- o Lending levels of comparable local, long-established institutions are similar.
- o 19% of the population is below the poverty level.
- o 8% of the population is on public assistance.
- o 32% of the population receives social security, and 12% are retired.
- o Harrison County has a high percentage of rental homes (31%) and 10% of the population lives in mobile homes.

Income Level	Percentage of Families Within Harrison County*	Number of Residential Mortgage Loans Made	Percent	Number of Consumer Loans Made	Percent	Total Number of Loans	Percent
Low and Moderate	32.02%	23	13%	467	43%	592	33%
Middle and Upper	67.98%	157	87%	620	57%	1208	67%
Total	100%	180	100%	1087	100%	1800	100%

* According to the 1990 Census Data, U.S. Bureau of Census.

The majority of the bank's commercial loans and agricultural loans are to small businesses, defined by the Equal Credit Opportunity Act as businesses with annual sales of less than \$1 million. Management supports local farmers by offering a variety of agricultural loans.

LOAN-TO-DEPOSIT RATIO

The bank's average loan to deposit ratio since their last examination is 63% and is reasonable. As of June 30, 1998, the loan-to-deposit ratio was 65.82%. Overall, this ratio has increased since the previous CRA examination in 1995. Farmer's ratio is lower than its national peer group which is 73.68%. However, the bank's ratio is slightly higher than local competitors whose average loan-to-deposit ratio is 61%.

GEOGRAPHIC DISTRIBUTION OF LOANS

An analysis of the geographic distribution of loans within Harrison County was not performed. Harrison County consists of three middle-income block numbering areas and two upper-income block numbering areas and an analysis of the bank's loan distribution by geographies would not be meaningful.

RESPONSE TO COMPLAINTS

No consumer complaints have been received since the last examination.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS

We did not identify any violations of the substantive provisions of the antidiscrimination laws and regulations.