



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**October 17, 2011**

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

First National Bank of Odon  
Charter Number 7260

501 W. Main Street  
Odon, IN 47562

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 major factors supporting this rating include:

- A substantial majority of the primary product loans originated by First National Bank of Odon (FNB or bank) are within the assessment area (AA). Do we normally use periods here?
- The distribution of loans to low- and moderate-income borrowers and small businesses is reasonable and in line with AA demographics.

**SCOPE OF EXAMINATION**

Examiners utilized the Small Bank examination procedures to evaluate the bank's record of meeting the credit needs in its AA. We assessed the following performance standards during this examination:

- Loan-to-deposit ratio;
- Percentage of lending activity within the bank's AA;
- Lending to borrowers and businesses of different income and revenue levels;
- Geographic distribution of lending within the AA; and,
- The bank's response to written complaints regarding its CRA performance.

The evaluation period for this review is from May 23, 2006 to June 30, 2011. To evaluate the bank's lending performance, we reviewed FNB's loans originated from January 1, 2009 to June 30, 2011. Based on both number and dollar volume of loans originated, we determined FNB's primary loan products are residential real estate mortgages and business loans. The bank is not a HMDA reporter; examiners selected and reviewed a sample of each primary product (23 residential and 22 commercial) originated during the two and a half year period to determine FNB's lending performance. Unless otherwise noted, demographic data is from the 2000 Census.

**DESCRIPTION OF INSTITUTION**

First National Bank of Odon is a nationally chartered bank founded in 1890 that operates in Southwestern Indiana via its headquarters and three branch offices. The main office is located in the rural town of Odon, in Daviess County; branch locations within the same county include Montgomery and Elnora. The bank's fourth branch is located within the Naval Surface Warfare Center in Martin, County.

FNB is owned by Dearmin Bancorp, Inc., a one-bank holding company. The bank offers retail and commercial products normally associated with a community bank. As of June 30, 2011, the bank reported assets totaling \$71.6 million; net loans were \$25.2 million while Tier 1 Capital was \$5.2 million. The following represents the institution's loan and lease portfolio mix as of

June 30, 2011:

<b>Loan Portfolio Summary by Loan Product</b>	
<b>Loan Category</b>	<b>% of Outstanding Dollars</b>
Business Loans	28.86%
Home Loans	46.74%
Farm Loans	12.00%
Consumer Loans	11.35%
Other Loans	1.05%

Source: June 30, 2011 CALL Report data

There have been no acquisitions or mergers during the evaluation period and no branches have opened or closed.

There are no financial, legal, or other impediments hindering the bank’s ability to meet the credit needs of its AA. Bank activities are consistent with its size, local economic conditions, and credit needs of its community. The bank was rated Satisfactory at the May 23, 2006 CRA examination.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

FNB has one combined assessment area made up of Daviess County and Martin County. The adjacent counties combine for ten census tracts, seven in Daviess and three in Martin. Two geographies in Daviess County are moderate-income tracts while the remaining eight tracts in the AA are middle-income. All geographies are in non-metropolitan areas within the state of Indiana. The AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income areas.

The population of the AA is 40,189. Eighty-one percent of the housing stock is 1-4 family units and 72 percent of the housing stock is owner occupied housing. The following demographic information for the AA is based on 2000 census data:

<b>Demographic Information for the AA</b>					
	<b>#</b>	<b>% Low</b>	<b>% Moderate</b>	<b>% Middle</b>	<b>% Upper</b>
Geographies (Census Tracts)	10	0.00	20.00	80.00	0.00
Owner-Occupied Housing by Geography	11,962	0.00	15.97	84.03	0.00
Businesses by Geography	2,827	0.00	20.41	79.59	0.00
Family Distribution by Income Level	10,821	20.82	20.73	26.34	32.11
Households below poverty level	12.24%				
2011 Median Family Income (MFI)	\$52,900				
2010 Median Family Income (MFI)	\$55,300				
2009 Median Family Income (MFI)	\$55,500				

Source: 2000 U.S. Census Data and 2009-2011 HUD data

The local economy is stable and driven by agriculture and small businesses. Small businesses, those with annual gross revenues of \$1 million or less, make up 79 percent of businesses in the AA.

Within the AA, the largest employment opportunities are evenly distributed. Major employers in the area are Crane Naval Surface Warfare Center (Crane) in northwestern Martin County and Perdue Farms located in Washington, IN. Local governments and public school systems also comprise a significant portion of local employers. Additionally, some residents from the AA commute to Bloomington, IN for employment. August 2011 unemployment rates were 6.1 percent for Daviess County and 7 percent for Martin County. The state of Indiana had an August 2011 unemployment rate of 8.7 percent, compared to the national rate of 9.1 percent.

Despite the current stable local economy, there are indications that the local poverty rate has been increasing over the last decade. 2009 poverty estimates from the U.S. Census bureau indicate that both Daviess (15.6 percent) and Martin counties (13.5 percent) have over ten percent of their population living below the poverty level.

FNB faces average competition from community banks and larger regional banks within the AA. There are seven financial institutions with offices located within the AA. FNB has the fourth largest deposit market share, 11.99 percent, in Daviess and Martin counties.

Expansion of Interstate 69 is currently in progress throughout Daviess County. The expansion has brought more cash to landowners as the government buys up needed land. The interstate may bring more commercial and residential lending opportunities in the future.

We performed one community contact with the Daviess County Chamber of Commerce. Overall the contact indicated that real estate and commercial credit needs are being met by local financial institutions and that the community's perception of these institutions is positive.

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

FNB's performance of meeting the community credit needs is satisfactory. This review concentrated on the bank's primary loan products, which include business and residential real estate loans. A substantial majority of loans originated were within the AA.

The borrower distribution portion of the lending test is significant in determining a bank's performance. Forty-two percent of AA families are low- or moderate-income. Also, a majority of the businesses in the AA are small businesses. FNB has reasonable distribution among businesses of different sizes and borrowers of different income levels.

All criteria of the lending test are documented below:

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

FNB's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, AA's credit needs, customer base, and local competition.

The bank's net loan-to-deposit ratio averaged just 48 percent over the 20 quarters since the last CRA examination. This ratio ranged from a quarterly low of 38 percent to a quarterly high of 51 percent during the time period.

The 48 percent average is low compared to three peer institutions with assets below \$250 million, which averaged 85 percent during the same period. Nonetheless, examiners discussed the data with management and determined the ratio is reasonable as deposits increased 30 percent from January 1, 2009 to June 30, 2011 for various reasons as follows:

- Public concern over another local bank’s stability, and eventual failure;
- Land acquisitions by the government for the I-69 expansion project resulting in surplus cash for farmers and landowners; and,
- Customers employed at Crane generally maintain deposit accounts only.

FNB’s lending portfolio also increased 9.3 percent during the same period. Management would like to increase lending volume as opportunities arise. Anticipated growth is primarily a result from the ongoing Interstate 69 construction.

**Lending in Assessment Area**

A substantial majority of FNB’s primary loan products are originated within the bank’s assessment area. The levels illustrated below exceed the standard for satisfactory performance.

Lending in the AA										
Type of Loans	Number of Loans					Dollar of Loans (000’s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate	17	85.00%	3	15.00%	20	\$904	88.64%	\$151	11.36%	\$1,055
Commercial	18	90.00%	2	10.00%	20	\$3,472	91.01%	\$343	8.99%	\$3,815
Totals	35	87.50%	5	12.50%	40	\$4,376	89.86%	\$494	10.14%	\$4,870

Source: Sample of 20 business and 20 real estate loans originated between 1/1/2009 and 6/30/2011.

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

FNB’s distribution of loans to borrowers of different incomes and businesses of different sizes is reasonable.

Residential Real Estate Loans

The distribution of residential real estate loans reflects reasonable penetration among borrowers of different income levels. Fifteen percent of the loans sampled were originated to low-income borrowers. This penetration is similar to the 21.8 percent of low income families residing within the AA. It should also be noted that many low-income families, particularly those with income below the poverty level, may find it difficult to afford even a modestly priced home. This further exemplifies the bank’s reasonable penetration to this group.

FNB’s distribution to moderate-income borrowers is reasonable, with 25 percent of the bank’s residential real estate loans originated to moderate-income borrowers. This is in line with demographic data which indicates 21 percent of families in the AA are moderate-income.

Borrower Distribution for Residential Real Estate Loans within AA								
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
% of Total	20.82%	15.00	20.73%	25.00%	26.34%	20.00%	32.11%	40.00%

Sources: Sample of 23 residential real estate loans originated between 1/1/2009 and 6/30/2011 made within the AA and 2000 US Census data.

**Business Loans**

The distribution of commercial loans reflects reasonable penetration among businesses of different sizes. Seventy percent of the business loans sampled were made to small businesses; slightly less than the 79 percent these small businesses represent in the demographic data.

Borrower Distribution for Business Loans within AA				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA businesses	79.34%	3.57%	17.09%	100.00%
% of bank loans in AA by #	70.00%	20.00%	10.00%	100.00%
% of bank loans in AA by \$	48.73%	48.00%	3.27%	100.00%

Sources: Sample of 20 business loans originated between 1/1/2009 and 6/30/2011 made within the AA and 2000 Dun & Bradstreet data.

**Geographic Distribution of Loans**

As previously mentioned, the AA contains two moderate-income geographies and eight middle-income geographies. Our sample contained no residential real estate loans or commercial loans originated in either of the two adjacent moderate-income geographies. Both geographies are located on the western side of Washington, Indiana; FNB’s closest branch is approximately eight miles to the east in Montgomery, IN with headquarters and the other two branches located more than 20 miles from either of these moderate-income geographies.

The Washington area has six different banks with a total of 11 offices and overall strong competition. Many area residents remain loyal to their local bank(s); this being the case, it is reasonable FNB would not have many customers travel to their distant branches to obtain a loan. Examiners noted the bank does have nine real estate mortgages and one commercial loan outstanding within these two tracts which were not captured in our sample. Also, owner-occupied units represent only 58 percent of all housing units in the combined moderate-income tracts compared to 75 percent of the remaining AA.

Given these circumstances, we determined FNB’s lending to moderate-income geographies within the AA is reasonable.

### **Responses to Complaints**

FNB did not receive any complaints about its performance in helping to meet the assessment area needs during the 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.