



SMALL BANK

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

PUBLIC DISCLOSURE

February 18, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Russell Springs
Charter Number 11348**

**Highway 80 and 127
Russell Springs, KY 42642**

**Comptroller of the Currency
Louisville Field Office
9200 Shelbyville Road, Suite 505
Louisville, KY 40222**

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 document is an evaluation of the Community Reinvestment Act (CRA) performance of The First National Bank of Russell Springs in Russell Springs, Kentucky prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of February 18, 2004. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

This institution is rated Satisfactory.

Major Conclusions:

- A majority of loans and other lending-related activities are in the bank's assessment area.
- The distribution of loans reflects excellent penetration among individuals of different income levels.
- Geographic distribution of loans is considered excellent, given the community's credit needs and demographics in relation to the bank's location and capacity to lend. There were no conspicuous gaps in lending.
- The average loan-to-deposit ratio is reasonable, considering the bank's size, financial condition, and assessment area credit needs.

DESCRIPTION OF INSTITUTION

The First National Bank of Russell Springs (FNB) is a full-service intrastate bank 100% owned by First Bancorp, Inc, a two-bank holding company headquartered in Russell Springs, Kentucky. As of December 31, 2003, the bank had \$128 million in total assets, \$108 million in deposits, \$69 million in loans, and \$15 million in Tier One Capital. The bank offers traditional banking products and services and operates three offices. The main office is located at the junction of Highway 80 and Highway 127 and is full service. The downtown branch is also full-service while the South branch is a deposit-taking facility only. The bank has two Automated Teller Machines (ATMs). One ATM is located at the main office and one is located at the south branch. The ATM's are inquiry and withdrawal only. Both the office and the ATM's are accessible to all segments of the community.

The bank's primary lending focus is home mortgage loans and consumer loans. FNB also makes loans to small businesses and farms in the area. As of December 31, 2003, net loans represented approximately 56% of the bank's average assets. The loan portfolio mix is as follows: total commercial real estate loans 43%, 1-4 family residential mortgages 21%, farm-related real estate loans 12%, construction and development loans 9%, consumer loans 8%, agriculture loans 4%, multifamily loans 2%, and municipal loans 1%.

There are no legal or financial circumstances that impact the bank's ability to meet community credit needs. The last CRA evaluation was performed on February 9, 1998. The bank received a rating of satisfactory. This CRA evaluation will cover the time period of January 2002 to December 2003.

DESCRIPTION OF RUSSELL COUNTY

FNB has identified Russell County as its assessment area (AA) for CRA purposes. The assessment area delineation is in conformance with the regulatory requirements of CRA and appears appropriate in relation to the location of the bank's offices. The delineation of the assessment area does not arbitrarily exclude any low- or moderate-income areas. The assessment area includes the entire county and is located in the non-metropolitan portion of the State of Kentucky.

For this examination, we will be using two sets of information: the 1990 census and the 2000 census. For our analysis of borrower distribution, we will be using the 2000 census information for our review of the 2002/2003 loans. For our analysis of geographic distribution, we will be using both sets of information for a comparison of 2002's and 2003's distribution of loans among the different census tracts. The 1990 U.S. Census divided the assessment area into four census tracts (CT's), with all four being classified as middle-income geographies. There were no low-income or moderate-income CT's identified within Russell County. This determination was based on the Kentucky 1990 Median Family Income for a non-metropolitan area of \$36,300. The 2000 U.S. Census divided the assessment area into four census tracts as well, with one being moderate-income and three being middle-income geographies. There were no low-income CT's

identified within Russell County. This was based on the Kentucky 2000 Median Family Income

for a non-metropolitan area of \$38,600.

Russell County is a rural county located in central Kentucky with a total population of 16,315 according to the 2000 U.S. Census. The 2000 population of the AA was comprised of 6,957 households, of which 3,552, or 51%, are considered to have low- or moderate-incomes. In addition, the percentage of households in the AA living below the poverty level is approximately 26% and 38% of the households receive social security benefits. The median family income for the assessment area is \$27,975.

The economy of the assessment area is improving with employment typically based in light industrial companies. A significant portion of workers in Russell County commute to jobs in surrounding counties. Unemployment rates remain high for 2003 and are above both the state (6.2%) and national (6.0%) annual unemployment rates. According to the U.S. Department of Labor, the most current unemployment rate for the assessment area is 10.4% for December 2003.

The majority of the employment opportunities revolve mainly around factory positions with some agriculture-related jobs. Specifically, major employers in Russell County include Fruit of the Loom (garment manufacturer), Bruss (automotive), Hitachi (automotive), Ferco Tech (airplane engines), Stephens Pipe & Steel (pipe/steel), and Superior Batteries (battery manufacturer). Other employers include the local hospital and the Board of Education.

Competition is considered moderate and involves competition from banks 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.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending in Assessment Area

A majority of loans and other lending-related activities are in FNB's assessment area. The analysis shows approximately 55% of the number and 51% of the dollar amount of loan originations sampled were to borrowers inside the assessment area. To reach this conclusion, the OCC analyzed the bank's lending activity by selecting a random sample of twenty loans originated since the last CRA examination. See table below for details.

SAMPLE OF LOAN ORIGINATIONS FROM JAN 2002 THROUGH DEC 2003				
	Number of Loans	Percentage of loans	Dollar Amt of Loans \$(000's)	Percentage of Loans
Within the Assessment Area	11	55.00%	\$181	50.99%
Outside the Assessment Area	9	45.00%	\$174	49.01%
Totals	20	100.00%	\$355	100.00%

* Source: Randomly selected sample of loans originated between Jan 2002 and December 2003.

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

The distribution of loans, given the demographics of the assessment area, reflects excellent penetration among individuals of different income levels (including low- and moderate-income). To reach this conclusion, the OCC analyzed the bank's lending activity by selecting a random sample of twenty loans from each of the bank's primary loan types. Primary loan types were determined by reviewing the number and dollar amount of loans outstanding. The primary loan types identified for this analysis included 1-4 family residential mortgages and consumer loans. See the tables below for details.

"Table INC-1 Home Mortgage Loans" shows the percentage of FNB's home mortgage loans to low- and moderate-income borrowers to be comparable overall to the percentage of families in the assessment area with low- and moderate-income. Low-income borrowers received 25% of the number of home mortgage loans, while moderate-income borrowers received 30% of the number of home mortgage loans. FNB's mortgage lending is reasonable considering the identified home mortgage credit needs in the community.

Table INC-1 Home Mortgage Loans

1-4 FAMILY MORTGAGES					
Borrower Income Level	Sampled Between January 1, 2002 and December 31, 2003				% of Families within each Income Category
	# of Loans	%	\$ (000's)	%	
Low	5	25.00%	\$ 93	10.58%	29.07%
Moderate	6	30.00%	\$241	27.42%	20.18%
Middle	5	25.00%	\$ 66	7.51%	22.58%
Upper	4	20.00%	\$479	54.49%	28.17%
Total	20	100.00%	\$879	100.00%	100.00%

* Source: Randomly selected sample of 1-4 family residential mortgages (home purchase loans) originated between January 2002 and December 2003 from within the bank's assessment area.

** Note: This information is based upon the 2000 U. S. Census.

“Table INC-2 Consumer Loans” shows the overall percentage of FNB’s consumer loans to low- and moderate-income borrowers to exceed the percentage of households in the assessment area with low- and moderate-income. Low-income borrowers received 40% of the number of consumer loans. Moderate-income borrowers received 25% of the number of consumer loans.

Table INC-2 Consumer Loans

CONSUMER LOANS					
Borrower Income Level	Sampled Between January 1, 2002 and December 31, 2003				% of Households within each Income Category
	# of Loans	%	\$ (000's)	%	
Low	8	40.00%	\$21	23.33%	34.10%
Moderate	5	25.00%	\$29	32.22%	16.90%
Middle	5	25.00%	\$32	35.56%	18.30%
Upper	2	10.00%	\$ 8	8.89%	30.70%
Total	20	100.00%	\$90	100.00%	100.00%

* Source: Randomly selected sample of consumer loans originated between January 2002 and December 2003 from within the bank's assessment area.

** Note: This information is based upon the 2000 U. S. Census.

We did not review farm and business loans as agricultural and commercial lending are not considered to be primary loan types for this bank and an analysis would not be meaningful.

Geographic Distribution of Loans

The overall geographic distribution of loans reflects excellent dispersion throughout the assessment area. FNB's lending activity extends throughout the assessment area. There were no conspicuous gaps in lending. To reach this conclusion, the OCC analyzed the bank's lending activity by selecting a random sample of twenty loans of each of the bank's primary loan types for both 2002 and 2003 and comparing the results to both the 1990 census and the 2000 census (see tables below). The geographic distribution of loans made in 2002 were compared to geographies identified during the 1990 U. S. Census and the geographic distribution of loans made in 2003 were compared to geographies identified during the 2000 U. S. Census. The primary loan types include 1-4 family home purchase loans and consumer loans.

Analysis of Geographic Distribution of 2002 loans:

We determined a geographic distribution analysis would not be appropriate as there were no low- or moderate-income CT's identified within the 1990 U. S. Census.

Analysis of Geographic Distribution of 2003 loans:

"Table GEO-1 Home Mortgage Loans Made in 2003" shows FNB has excellent penetration in making mortgage loans in the moderate-income census tract. For FNB, there is only one moderate-income census tract out of the four census tracts identified within the assessment area (as designated by the 2000 U. S. Census). This one census tract contains approximately 46% of all owner-occupied housing in the assessment area and the sample selected for FNB showed 55% of the number and 71% of the dollar amount of their 1-4 Family mortgages were made to borrowers located in this moderate-income census tract.

Table GEO-1 Home Mortgage Loans Made in 2003

Geographic Distribution of 1-4 Family Mortgage Loans By Geography Income Designation Originated Between January 1, 2003 – December 31, 2003					
Income Level of Census Tract Areas	1-4 Family Loan Originations				Distribution of Owner Occupied Housing
	# of Loans	%	\$ (000's)	%	
Moderate	11	55.00%	\$636	71.46%	46.30%
Middle	9	45.00%	\$254	28.54%	53.70%
Total	20	100.00%	\$890	100.00%	100.00%

Source: Randomly selected sample of 1-4 family residential mortgages (home purchase loans) originated between January 1, 2003 and December 31, 2003 from within the bank's assessment area.

** Note: The assessment area has no low-income geographies and only one moderate-income geography.

“Table GEO-2 Consumer Loans Made in 2003” shows FNB has excellent penetration in making consumer loans in the moderate-income census tract. For FNB, there is only one moderate-income census tract out of the four census tracts within the assessment area (as designated by the 2000 U. S. Census). This one census tract contains approximately 48% of all households in the assessment area and the sample selected for FNB showed 60% of the number and 63% of the dollar amount of their consumer loans were made to borrowers located in the moderate-income census tract.

Table GEO-2 Consumer Loans Made in 2003

Geographic Distribution of Consumer Loans By Geography Income Designation Originated Between January 1, 2003 – December 31, 2003					
Income Level of Census Tract Areas	Consumer Loans Originations				Distribution of Households
	# of Loans	%	\$ (000's)	%	
Moderate	12	60.00%	\$55	62.50%	48.27%
Middle & Upper	8	40.00%	\$33	37.50%	51.73%
Total	20	100.00%	\$88	100.00%	100.00%

* Source: Randomly selected sample of consumer loans originated between January 1, 2003 and December 31, 2003 from within the bank’s assessment area.

** Note: The assessment area has no low-income geographies and only one moderate-income geography.

Analysis of Geographic Distribution of Farm/Business Loans:

We did not review farm and business loans as agricultural and commercial lending are not considered to be primary loan types for this bank and an analysis would not be meaningful.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and assessment area credit needs.

FNB’s average net loan-to-deposit ratio for the twenty-one quarters since the last CRA evaluation is 64.62%. The loan-to-deposit ratio has increased since the last CRA evaluation and as of December 31, 2003 is 62.50%.

The OCC identified a few local competitors as well as four similarly situated financial institutions operating in markets similar to FNB's market. The similarly situated banks are comparable to FNB in asset and deposit size and major lending products. For these identified banks, the loan-to-deposit ratios ranged from 62% to 88% with an average ratio of approximately 72%.

Institution	Average
FNB of Russell Springs	64.62%
Bank #1 (local competitor)	69.26%
Bank #2 (local competitor)	86.23%
Bank #3	87.83%
Bank #4	65.53%
Bank #5	61.64%
Bank #6	69.11%

Responses to Complaints

FNB has not received any complaints about its performance in helping to meet assessment area needs during this evaluation period.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.