



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

October 03, 2011

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Harrison Bank  
Charter Number: 706568

220 Federal Drive, N.W.  
Corydon, Indiana 47112-2007

Office of the Comptroller of the Currency

ADC-LOUISVILLE Field Office  
10200 Forest Green Boulevard, Suite 501  
Louisville, Kentucky 40223

**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 Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

First Harrison Bank (FHB) has a satisfactory record of meeting community credit needs. This conclusion is based on the following:

- FHB's loan-to-deposit ratio is reasonable;
- A substantial majority of FHB's loans originated during this assessment period were within the Assessment Area (AA);
- FHB's distribution of loans to low- and moderate-income individuals is reasonable;
- FHB's geographic distribution of loans reflects reasonable dispersion throughout the AA; and
- FHB's community development performance demonstrates adequate responsiveness to the community development needs of the AA.

## **Scope of Examination**

First Harrison Bank (FHB) was evaluated under the Intermediate Small Bank examination procedures, which include a lending test and a community development test. The lending test evaluates the bank's record of meeting the credit needs of its Assessment Area (AA) through its lending activities. The community development test evaluates the bank's responsiveness to community development needs in its AA through community development lending, qualified investments, and community development services.

The lending test evaluated FHB's lending performance from January 1, 2009 through June 30, 2011. The evaluation period for the community development test is from April 14, 2008 through October 17, 2011.

The scope of the lending test included an assessment of the bank's primary loan types, residential real estate loans and business purpose loans. The residential real estate lending analysis was based on the loans FHB reported on the Home Mortgage Disclosure Act Loan Application Register (HMDA LAR) from January 1, 2009 through June 30, 2011. The OCC performed a data integrity review to verify the accuracy of the bank's HMDA data and concluded the data was reliable. The business purpose loan analysis was performed on the business loan information internally collected and analyzed by the bank.<sup>1</sup>

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<sup>1</sup> FHB is not required to report business purpose loans on HMDA-LAR

## Description of Institution

First Harrison Bank (FHB) is a federally chartered, stock savings bank 100 percent owned by First Capital, Inc. and headquartered in Corydon, Indiana. As of June 30, 2011 FHB had \$446 million in total assets, \$370 million in deposits, \$292 million in loans, and \$42 million in Tier 1 capital. FHB offers traditional banking products and services and has thirteen locations. Five offices are located in Harrison County including the main office, five offices in Floyd County, 2 offices in Washington County, and 1 office in Clark County. Additionally, the bank has one off-site ATM located in Floyd County. All branches have drive-thru service with the exception of one, which is located in a grocery store. Since the last CRA examination, the bank opened a branch in Lanesville, Indiana located in Harrison County. FHB is accessible to all segments of the community.

FHB's primary lending focus was residential real estate loans and business purpose loans. FHB has increased the amount of mortgages sold on the secondary market. During the evaluation period, FHB sold \$82 million to the secondary market and are on pace to sell an additional \$23 million in 2011. FHB has also increased their lending activity to small businesses in the area. FHB originates Small Business Administration (SBA) loans, and since November 2009, the bank has originated approximately \$3 million in SBA loans. In 2010, the Indiana District of SBA awarded FHB the Fast Start award for the bank's SBA lending efforts.

As of June 30, 2011, net loans represented approximately 65 percent of FHB's assets. The loan portfolio mix is as follows: residential mortgages 56 percent, non-residential mortgages 20 percent, commercial loans 10 percent, consumer loans 9 percent, land loans 3 percent, and construction loans 2 percent.

There are no legal or financial circumstances that affect the bank's ability to meet community credit needs. The last CRA evaluation was performed April 14, 2008. FHB received a rating of Satisfactory.

## Description of Assessment Area(S)

First Harrison Bank (FHB) has identified Clark, Floyd, Harrison, and Washington counties in south-central Indiana as its Assessment Area (AA). These counties are positioned in the Louisville/Jefferson County, KY-IN Metropolitan Statistical Area (MSA). The MSA is comprised of 13 counties, four counties in Indiana and nine counties in Kentucky. The nine Kentucky counties are not included in FHB's AA and the bank has no offices within these counties. The AA delineation is in conformance with the regulatory requirements and is appropriate in relation to the location of FHB's offices. The delineation of the AA does not arbitrarily exclude any low- or moderate-income areas.

The 2000 U.S. Census divided the AA into fifty census tracts, with one low-income tract, eleven moderate-income tracts, thirty-one middle-income tracts, and seven upper-income tracts. This determination was based on the Department of Housing and Urban Development (HUD) 2010 estimated Median Family Income for the state of Kentucky of \$62,900 for the Louisville/Jefferson County, KY-IN MSA.

FHB's AA is located in south-central Indiana with a total population of 228,843 according to the 2000 U.S. Census. The population of the AA is comprised of 89,475 households, of which 34,314, or 38 percent, are considered to have low- or moderate-incomes. Other significant factors to consider include: 2 percent of the households receive public assistance, 9 percent are below the poverty level, and 26 percent receive social security benefits.

Clark, Floyd, Harrison, and Washington counties have unemployment rates lower than the Indiana state average (7.5 percent, 6.7 percent, 7.0 percent, and 7.9 percent, respectively, compared to 8.7 percent, as of August 2011). Major employers for the AA include Horseshoe Casino, Indiana University Southeast, Tyson Foods, and Jeffboat, Inc. Additionally, commuting patterns from the 2000 Census show over 100,000 employees working in Louisville/Jefferson County, Kentucky commute from outside the county. Large employers in Louisville/Jefferson County, Kentucky include UPS, GE, Ford Motor Company, and Humana. Other major employers include federal, state, and local governments, hospitals, and schools.

Competition is strong and numerous financial institutions service the AA. According to the Federal Deposit Insurance Corporation (FDIC), eighteen banks with 109 offices operate in the AA. These offices hold a combined total of \$3.4 billion in deposits within the AA as of June 30, 2011, and FHB has an 11 percent market share. The competition includes six large banks with total deposits ranging from \$77 billion to \$743 billion nationally and twelve community banks with total deposits ranging from \$189 million to \$3 billion.

A community contact familiar with the area indicated crisis assistance; affordable housing, particularly for seniors; and education are identified needs within the community. Additionally, the contact discussed the lack of childcare and transportation as barriers to employment. The contact indicated local financial institutions have

provided some financial support and in-kind staff support to their organization. The contact also shared that FHB is very active in the community.

The following additional demographic information regarding FHB's AA is based on 2000 census data unless otherwise noted.

<b>Demographic Information for the First Harrison Bank MSA AA</b>					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	50	2%	22%	62%	14%
Population by Geography	228,843	2%	13%	68%	17%
Owner-Occupied Housing by Geography	66,248	1%	10%	70%	19%
Businesses by Geography	22,289	1%	18%	60%	21%
Farms by Geography	986	0%	5%	81%	14%
Family Distribution by Income Level	63,789	18%	20%	25%	37%
Household Distribution by Income Level	89,475	21%	17%	21%	41%
Census MSA Median Family Income (MFI) 2009, 2010, 2011		\$49,301	Median Housing Value		\$91,769
HUD-Updated MSA Median Family Income	2011	\$62,900	Households Below the Poverty Level		9%
	2010	\$61,800			
	2009	\$61,500			

## Conclusions with Respect to Performance Tests

First Harrison Bank's (FHB) performance under the lending test is satisfactory.

FHB's loan-to-deposit ratio is reasonable and a substantial majority of loan originations were inside the bank's Assessment Area (AA). FHB's borrower distribution reflects reasonable penetration among borrowers of different income-levels and businesses of different sizes. The geographic distribution of FHB's residential and business loans reflect reasonable dispersion among geographies.

More weight and consideration was placed on FHB's borrower distribution performance because less than 25 percent of the AA includes low- and moderate-income census tracts when evaluating performance under the criteria below.

## LENDING TEST

### Loan-to-Deposit Ratio

FHB's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. The bank's net loan-to-deposit ratio averaged 87 percent over the fourteen quarters since the last CRA examination, with a quarterly low of 77 percent and a quarterly high of 99 percent. FHB's net loan-to-deposit ratio is below another community bank of similar size, location, and product offerings. The other bank had average net loan-to-deposit ratios averaging 97 percent over the fourteen quarters.

Our conclusion took into consideration the competitive market within the AA and FHB's secondary market activity. FHB's average loan-to-deposit ratio does not reflect all home mortgage lending activity, as the bank routinely originates and sells mortgages to the secondary market. Since January 2009, FHB has sold approximately \$105 million in mortgage loans to the secondary market.

Institution	Average Net Loan-to-Deposit Ratio
First Harrison Bank	86.91
Bank #1	96.51

### Lending in Assessment Area

A substantial majority of loans originated by FHB are within their AA. The following table details the bank's lending within the AA by number and dollar amount of loans originated during the evaluation period. Loan originations to borrowers within the bank's AA totaled 92 percent by number and 92 percent by dollar amount.

Lending in First Harrison Bank's AA										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
HMDA-reported	1,301	93	103	7	1,404	143,785	94	8,665	6	152,450
Business Purpose	403	89	49	11	452	48,918	85	8,648	15	57,566
Totals	1,704	92	152	8	1,856	192,703	92	17,313	8	210,016

Source: HMDA data for Residential loans originated between January 1, 2009 and June 30, 2011. Bank generated reports containing Business loans originated between January 1, 2009 and June 30, 2011.

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

The distribution of loans, given the demographics of the AA, reflects reasonable penetration among low- and moderate-income individuals and business entities with annual revenue of less than \$1 million.

## Residential Real Estate Loans

The distribution of home loans to borrowers reflects reasonable penetration. The bank's performance in helping meet the overall home loan needs of low- and moderate-income families is reasonable. The following tables show the distribution of FHB's HMDA loans from January 1, 2009 through June 30, 2011 by borrower income within the AA. The bank's performance is compared to the distribution of families based on 2000 census reports. The percentage of AA families represents lending opportunities in the assessment area.

FHB's loan distribution to low-income borrowers represented 14 percent of total loan originations, which is below the demographic comparator of 18 percent of low-income families in the AA. Home loans to moderate-income borrowers were above the demographic comparator at 24 percent versus 20 percent.

The following table shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2009 through June 30, 2011 as compared to the percent of families in each income category.

Borrower Distribution of Residential Real Estate Loans in FHB's 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
Home Purchases	17.81	20.17	19.71	24.15	25.15	23.86	37.33	31.82
Home Improvement	17.81	14.28	19.71	19.05	25.15	36.51	37.33	30.16
Home Refinance	17.81	10.83	19.71	24.64	25.15	28.93	37.33	35.60
Total	17.81	13.63	19.71	24.22	25.15	27.89	37.33	34.26

Source of Data – % of Number of Loans as a percentage of loans with borrower income information available derived from HMDA reported loans. FHB reported income information on 352 Home Purchase loans, 63 Home Improvement loans, and 840 Home Refinance loans. Source of Data - % of AA Families derived from 2000 Census information.

Because FHB's is a HMDA reporter their performance was also compared to HMDA aggregate peer data within the AA. The HMDA aggregate peer data average includes only institutions that are regulated by the four banking agencies, including the OTS<sup>2</sup>. The percentage of families represents lending opportunities in the AA and the aggregate HMDA peer average represents lending opportunities realized by HMDA lenders. FHB was compared to 2009 HMDA peer data<sup>3</sup>.

The following table compares FHB's distribution of home loan products among borrowers of different income levels to 2009 HMDA peer averages. FHB's distribution

<sup>2</sup> As of July 21, 2011, as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) of 2010, OTS supervision responsibilities have been transferred to the OCC; in effect reducing the number of supervising banking agencies to three.

<sup>3</sup> HMDA peer data for 2010 and 2011 is not yet available.

of home loans to low-income borrowers is above 2009 HMDA peer average of 10 percent. Home loans to moderate-income borrowers were equal to the HMDA peer average of 23 percent.

<b>Borrower Distribution of Residential Real Estate Loans in FHB's AA- Compared to Peer</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of # Peer Loans	% of # FHB Loans	% of # Peer Loans	% of # FHB Loans	% of # Peer Loans	% of # FHB Loans	% of # Peer Loans	% of # FHB Loans
Total Originated Loans	10.22	13.14	23.07	23.37	22.33	26.90	27.70	33.05

*\*% of # Peer Loans is based upon 2009 HMDA peer averages data. \*\*Income not available for 16.68% of applicants for peer loan data and 3.54% of FNB loan data.*

FHB made 75 percent of their business loans to small business entities with annual revenues of less than \$1 million. FHB's lending performance is considered reasonable when compared to the percentage of small businesses within the AA.

<b>Borrower Distribution of Loans to Businesses in FHB's AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	74.86	3.45	21.69	100%
% of Bank Loans in AA by #	74.94	14.39	10.67	100%
% of Bank Loans in AA by \$	50.53	36.29	13.18	100%

*Source of Data - % of AA Businesses derived from 2000 Census information. Bank generated reports containing Business loans originated between January 1, 2009 and June 30, 2011.*

**Geographic Distribution of Loans**

The overall geographic distribution of loans reflects reasonable dispersion into the low- and moderate-income census tracts. This conclusion is based on additional weight given to only 25 percent of the AA containing low- and moderate-income census tracts. While we did note there were no home loans originated in the low-income tract, the bank's lending activity does include originating loans to borrowers within the moderate-income census tracts. We did not note any conspicuous gaps in lending.

**Residential Real Estate Loans**

The bank's geographic distribution of home loan products in the AA reflects a reasonable dispersion into the low- and moderate-income census tracts. The bank's performance in penetrating the moderate-income census tract is reasonable. The following tables show the distribution of FHB's HMDA loans from January 1, 2009 through June 30, 2011 by the income level of the census tracts in the AA. The bank's

performance is compared to the percent of owner-occupied housing units identified by the 2000 census and the 2009 HMDA aggregate peer data within the AA. FHB did not originate any home loans to borrowers in low-income tracts and originated only 2 percent to borrowers in the moderate-income tracts. The following table details the bank's performance as compared to the percentage of owner-occupied housing units in each census tract income level.

<b>Geographic Distribution of Residential Real Estate Loans in FHB's AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchases	0.66	0	10.34	3.04	69.93	82.32	19.07	14.64
Home Improvement	0.66	0	10.34	0	69.93	93.65	19.07	6.35
Home Refinance	0.66	0	10.34	1.94	69.93	85.16	19.07	12.90
Total	0.66	0	10.34	1.66	69.93	87.04	19.07	11.30

\* Source: HMDA data for Residential loans originated between January 1, 2009 and June 30, 2011.

HMDA aggregate peer data show FHB's performance compares reasonably to other institutions reporting HMDA loans. Less than one percent of home loan products were originated to borrowers in low-income tracts and 6 percent were originated to borrowers in moderate-income tracts.

The following table details the bank's performance as compared to HMDA aggregate peer.

<b>Geographic Distribution of Residential Real Estate Loans in FHB's AA- Compared to Peer</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of # Peer Loans	% of # FHB Loans	% of # Peer Loans	% of # FHB Loans	% of # Peer Loans	% of # FHB Loans	% of # Peer Loans	% of # FHB Loans
Total	0.46	0.00	6.25	1.66	67.56	87.04	25.73	11.30

\*% of Loans Originated- Peer: Percentage is based upon 2009 HMDA Reported Loan Data

FHB's distribution of business loans in the AA reflects a reasonable dispersion into the low- and moderate-income census tracts. FHB originated approximately one percent of their business loans to entities located in a low-income tract and 10 percent to entities located in a moderate-income tract. FHB's lending performance in the low-income and moderate-income tracts is reasonable when compared to the demographic comparator of 1 percent and 18 percent, respectively.

The following table details the bank's performance as compared to the percentage of businesses in each census tract income level.

Geographic Distribution of Loans to Businesses in FHB's AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Business Entities	% of # FHB Loans	% of AA Business Entities	% of # FHB Loans	% of AA Business Entities	% of # FHB Loans	% of AA Business Entities	% of # FHB Loans
Total	0.81	0.5	17.94	10.42	61.28	74.94	19.97	14.14

Source of Data - % of AA Business Entities derived from 2000 Census information.

### Responses to Complaints

FHB has not received any written complaints regarding its CRA performance during the evaluation period.

### COMMUNITY DEVELOPMENT TEST

The bank's performance under the Community Development Test is rated Satisfactory.

First Harrison Bank's (FHB) community development performance through its record of retail services, community development loans, and qualified investments demonstrate adequate responsiveness to community development needs in its Assessment Area (AA).

### Number and Amount of Community Development Loans

FHB's Community Development lending reflects adequate responsiveness to community development needs within the AA. FHB originated 27 community development loans totaling \$5.1 million during the evaluation period. These loans were distributed among various projects including economic development initiatives, revitalization, and stabilization efforts towards low- or moderate-income communities, and affordable housing project financing.

Six of the community development loans were originated through the Small Business Association's (SBA) 7(a) Loan Program. The SBA 7(a) program provides federally guaranteed loans to small businesses in need of flexible underwriting terms, extended loan terms, and low down payments. These loans promoted economic development by creating or retaining jobs for six small businesses in the AA. In addition, FHB received positive consideration for six loans originated through the SBA's America's Recovery Capital, or ARC Loan Program. The ARC Loan Program is designed to give viable small businesses facing immediate financial hardship temporary financial relief.

FHB also received positive consideration for two community development loans with the

purpose of revitalizing low- or moderate-income geographies through rehabilitating community facilities.

The remaining loans comply with the community development definition and were responsive to the needs of the local community.

### **Number and Amount of Qualified Investments**

FHB does not have any investments meeting the community development definition. However, FHB has provided \$66 thousand in the form of donations to local community organizations whose mission is to provide assistance to low- and moderate-income individuals. These organizations include affordable housing, transitional housing for victims of domestic violence, health care services, and food pantries. In addition, donations were made to organizations who promote economic development by providing job creation or retention and improvement for individuals who are currently low- and moderate-income.

### **Extent to Which the Bank Provides Community Development Services**

The bank shows excellent responsiveness to meeting community needs through qualified community services. In evaluating FHB's services, we considered the bank's size in relation to the size of the AA and the needs within the community.

FHB offers on-line banking to provide customers with additional access to their consumer and business accounts. Through online-banking, customers can check account balances, view statements, transfer funds between accounts, make loan payments, and initiate stop payments. FHB also offers free online bill pay to all customers.

FHB participates in the Federal Home Loan Bank of Indianapolis' (FHLBI) Homeownership Opportunities Program (HOP). HOP helps first-time homebuyers who are low- and moderate-income individuals with their down payment and closing costs and to improve the borrower's eligibility for mortgage financing. For every \$1 of buyer savings or other assistance, FHLBI can provide up to \$3 in grant assistance through member banks, based on need. Up to \$7,500 per household may be requested if the member bank originates the first mortgage.

To further meet the housing needs of low- and moderate-income individuals within the AA, FHB offers a full array of secondary market loans. During the evaluation period, FHB sold \$82 million to the secondary market and are on pace to sell an additional \$23 million in 2011.

Through the bank's officers and employees, FHB is involved in a variety of community development services in the AA. One officer serves as a board member for Blue River Services, Inc. This organization provides affordable housing options to low income and developmentally disabled individuals. During 2010, this organization served over 18,000 individuals in 20 southern Indiana counties. One officer is currently serving as the chairman for the Harrison County Chamber of Commerce. This organization's

mission is to support the business environment by fostering economic and community development initiatives to improve the quality of life in Harrison County. Another officer provides financial expertise to Metro United Way by analyzing the financial information on applications received from organizations in the community who need additional funding to serve low- and moderate-income individuals.

In addition, several bank employees either serve as board members or provide financial expertise to the following organizations: Washington County Community Foundation (WCCF), Floyd and Harrison County Habitat for Humanity, Brandon's House Counseling Center, Awareness Washington County (AWC), and Harrison County Community Services.

### **Responsiveness to Community Development Needs**

FHB's community development activities, as a whole, demonstrate adequate responsiveness to the needs and opportunities in this AA. Several of the bank's community development loans promote economic development and provide community services to low- and moderate-income individuals. FHB employees provide numerous community services to organizations offering services to low- and moderate-income individuals or organizations assisting small businesses. Donations were also made to local organizations which provide community development services.

### **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.