



Comptroller of the Currency
Administrator of National Banks

Public Disclosure

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Community Reinvestment Act Performance Evaluation

**The New Farmers National Bank of Glasgow
Charter Number 13651**

**701 Columbia Avenue
Glasgow, Kentucky 42141-0248**

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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 CRA performance of **The New Farmers National Bank of Glasgow (NFNB)** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **February 23, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. 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".

Major Factors Supporting the Institution's Rating:

- A satisfactory responsiveness to residential real estate, consumer, small business, and small farm lending opportunities in its assessment area.
- A majority of the bank's loans are made in its assessment area.
- An adequate level of community development loan originations.
- Delivery systems that are accessible to all portions of the assessment area.

The following table indicates the performance level of **NFNB** with respect to the lending, investment, and service tests.

Performance Levels	The New Farmers National Bank of Glasgow Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory	X		
Low satisfactory		X	X
Needs to improve			
Substantial noncompliance			

* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

DESCRIPTION OF INSTITUTION

NFNB is a \$162 million bank located in Glasgow, Kentucky. The bank is 100% owned by Commonwealth Bancorp, Inc. which is 100% owned by Area Bancshares Corporation (ABC) of Owensboro, Kentucky. Total banking assets of the holding company were \$1.9 billion as of December 31, 1997. ABC affiliates are located throughout Kentucky. NFNB is the smallest national bank affiliate of the holding company.

NFNB is a full-service institution with a primary focus on agricultural, small business, and consumer lending. A secondary emphasis is placed on residential real estate lending.

There are no impediments which would hamper the bank's ability to help meet the needs of its assessment area. NFNB's capacity to serve the community's credit needs is good. Table 1 depicts several key balance sheet figures:

Table 1 NFNB's Balance Sheet as of December 31, 1997			
Net Loans	\$ 104,730,000	Total Deposits	\$ 132,420,000
Investments	45,527,000	Other Liabilities	17,237,000
Other Assets	11,958,000	Total Liabilities	149,657,000
		Total Equity Capital	12,605,000
Total Assets	\$ 162,215,000	Total Liabilities and Capital	\$ 162,215,000

Source: FFIEC Report of Condition

The loan portfolio contains: 19.0% agricultural related loans; 32.9% commercial and commercial real estate loans (of which 63.0% are to small businesses); 25.1% consumer loans; and 23.0% residential real estate loans (with 91.0% of this amount secured by 1-4 family residential loans). Return on assets as of December 31, 1997, was 1.42% or net income of \$2,307,000.

Primary competition in Barren County includes: Transfinancial Bank, which is headquartered in Bowling Green, Kentucky; South Central Bank with independent banks throughout western and central Kentucky; and Edmonton State Bank with offices in Barren County and the adjacent county of Metcalfe. Edmonton State Bank also has an affiliate bank in nearby Monroe County. Secondary competition comes from Star Bank, headquartered in Cincinnati, Ohio, which recently purchased Great Financial Bank, two smaller state banks and one credit union.

ASSESSMENT AREA DESCRIPTION

The bank has one assessment area that includes all of Barren County, Kentucky. Barren County is not in a Metropolitan Statistical Area (MSA). NFNB operates five branches and the main office. Three branches have ATMs. NFNB also provides two stand alone full-service ATMs and one cash dispensing machine.

There are no low- or moderate-income (LMI) geographies in the assessment area. The assessment area contains ten Block Numbering Areas (BNA's), eight are middle-income and two are upper- income. NFNB has four branches and four ATMs in middle-income geographies and two branches and two ATMs in upper-income geographies. NFNB has a 31% market share of the deposits in Barren County. The population of Barren County is 34,000, with 13,300 residing in the City of Glasgow.

Tables 2 and 3 detail pertinent information concerning the bank and various demographic data that was used in connection with our review of the bank's CRA performance. The information in the tables describes the characteristics of NFNB's assessment area.

Table 2 depicts the number and percentage of families within the bank's assessment area based upon income level of the family and of the BNA. The table reveals that 38% of the families have low- or moderate-incomes. The highest concentration of families is in the upper-income level, which includes 42.1% of all families. Due to the lack of low- and moderate-income (LMI) geographies, an analysis of lending patterns in the different geographic areas would not be meaningful. As a result, emphasis will be placed on the volume of lending to borrowers of different income levels.

Table 2					
Distribution of Families by Income and BNA Income					
Income level of BNA (#of BNA's)	Family Income Level				
	Low	Moderate	Middle	Upper	
Low (0)	NA	NA	NA	NA	NA
Moderate (0)	NA	NA	NA	NA	NA
Middle (8)	2,038	1,229	1,547	2,935	7,749 78.1%
Upper (2)	248	254	435	1,245	2,182 21.9%
Total	2,286 23.1%	1,483 14.9%	1,982 19.9%	4,180 42.1%	9,931 100%

Source: Local Demographic Data

The 1998 non-MSA median family income for the state of Kentucky is \$29,800. The income categories are defined as less than 50% low, 50% to 80% moderate, 80% to 120% middle, and >120% upper, of \$29,800.

Table 3 details the number and percentage of owner occupied units that are located in the geographic areas in the bank’s assessment area. This information is used in the evaluation of the bank’s lending opportunities in its assessment area.

Table 3 Number and Percentage of Families Based Upon Income Level of Geography				
Assessment Area	Low	Moderate	Middle	Upper
Barren County	NA	NA	7,008 75.4%	2,286 24.6%

Source: Local Demographic Data

The CRA defines small business and small farms as those with annual revenues of less than \$1 million. Table 4 provides information on the number and percentage of businesses and farms in the assessment area. This table reveals that there are 826 businesses and 64 farms that have annual revenues less than \$1 million. The table also provides information on the number and percentage of companies that are located in the various income geographies. This information was used in the analysis of the bank’s lending activity to small businesses and farms.

Table 4 Number and Percentage of Businesses and Farms With Annual Revenues of Less than \$1 Million Based Upon Geographic Type											
		Low		Moderate		Middle		Upper		Total	
		Business	Farm	Business	Farm	Business	Farm	Business	Farm	Business	Farm
Total	#	NA	NA	NA	NA	722	47	104	17	826	64
	%	NA	NA	NA	NA	87.4%	73.4%	12.6%	26.6%	100%	100%

Source: Local Demographic Data

No unmet lending needs were identified during a community contact performed as a part of this evaluation and through the review of three previously performed community contacts. The primary lending needs identified through the bank’s ascertainment program include residential real estate, small farm and small business loans. NFNB offers a variety of products to help meet these needs. Products offered include fixed and variable rate mortgages, secondary market mortgage financing, 100% mortgage financing, government guaranteed farm loans, and Small Business Administration (SBA) guaranteed small business loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

NFNB's lending test is rated satisfactory. Lending activity demonstrates:

- A majority of loans are made in the bank's assessment area,
- An adequate level of residential real estate loan originations,
- An adequate distribution of loans to consumers of different income levels,
- A good level of loan originations to small farms and small businesses,
- An adequate level of community development loan originations, and
- A satisfactory use of flexible lending criteria.

Assessment area concentration:

Table 5 indicates that a majority of the bank's loans, by both number and dollar volume (70.2% and 70.0%, respectively) are made within NFNB's assessment area. The table reflects the number and dollar volume of the bank's home mortgage, consumer, small business, and small farm loan originations for 1996 and 1997 combined (hereafter referred to as 1996 and 1997 originations). Data on originations for 1996 and 1997 was combined due to a similar level of volume for both years. Although not included in the table, origination data for 1995 was substantially similar to 1996 and 1997 origination levels.

Table 5 Ratio of Loans Inside the Assessment Areas (AA)					
	Home Mortgage	Consumer	Small Business	Small Farm	Total
# of Loans Inside the AA	287	2,306	668	772	4,033
Total # of Loans	432	3,377	837	1,102	5,748
% of Loans Inside/ Total # of Loans	66.4%	68.3%	79.8%	70.0%	70.2%
\$ of Loans Inside the AA	14,756	20,893	11,449	9,811	56,909
Total \$ of Loans	21,940	33,507	13,234	12,908	81,589
% of Loans Inside/ Total \$ of Loans	67.3%	62.4%	86.5%	76.0%	70.0%

Source: 1996 and 1997 loan originations, Dollar amounts are in \$000's
1996 and 1997 Small Business/Small Farm Data Collection Register

Borrowers' Profile:

The overall distribution of the bank's home mortgage, consumer, small business, and small farm loans to borrowers of different income characteristics is satisfactory. The availability of appropriate product lines offered by the bank and efforts to market these products help meet the credit needs of LMI borrowers.

Home Mortgage Loans:

Table 6 details the number of residential real estate loans originated in 1996 and 1997 to borrowers of different income levels in the assessment area. The table depicts that the level of home mortgage loans in the bank’s assessment area to LMI borrowers is 15.6% in number and 8.2% in dollar amount of all residential real estate originations. This percentage is reasonable when the number of families in the assessment area below the poverty level is considered. LMI families represent 38.0% of the families living in the assessment area. Of this amount, 48.3% of the total LMI family population, or 79.7% of the low-income families have incomes below the poverty level. This factor could make qualification for a home loan difficult.

Table 6 Borrower Distribution of Residential Real Estate Loans					
Income Level of Borrower	Number of loans in the AA		Dollar Volume of loans in the AA		Total Families in the AA
	#	%	\$	%	%
Low-Income	13	4.5%	301	2.0%	23.1%
Moderate-Income	32	11.1%	919	6.2%	14.9%
Middle-Income	57	19.9%	2,161	14.6%	19.9%
Upper-Income	185	64.5%	11,374	77.2%	42.1%
Total	287	100%	14,755	100%	100%

Source: 1996 and 1997 loan originations
Dollar Amounts are in \$000's

Table 7 details the number of consumer purpose loans originated in 1996 and 1997 to borrowers of different income levels in the assessment area. The table depicts that the level of consumer purpose loans in the bank's assessment area to LMI borrowers is 38.9% in number and 21.8% in dollar amount of all consumer purpose loan originations. This level of originations to LMI borrowers is good when compared to the number of LMI families in the assessment area and those having incomes that would allow them to obtain credit. NFNB does not have a minimum loan requirement which helps serve the needs of LMI consumers.

Table 7 Borrower Distribution of Consumer Purpose Loans					
Income Level of Borrower	Number of loans in the AA		Dollar Volume of loans in the AA		Total Families in the AA
	#	%	\$	%	%
Low-Income	397	16.0%	1,576	6.5%	23.1%
Moderate-Income	570	22.9%	3,964	16.3%	14.9%
Middle-Income	561	22.6%	5,090	20.9%	19.9%
Upper-Income	958	38.5%	13,727	56.3%	42.1%
Total	2,486	100%	24,357	100%	100.0%

Source: 1996 and 1997 loan originations
Dollar Amounts are in \$000's

Small Business and Small Farm Lending:

The bank's overall volume of loans to small businesses is good. Table 8 reveals that in 1996 and 1997, the bank originated \$11,449,000 in loans to small business and \$9,811,000 in loans to small farms in its assessment area. Demographic data reveals that there are 826 small businesses and 64 small farms in the bank's assessment area. NFNB's lending performance represents a good penetration in small business and small farm loans, consistent with the opportunities.

Table 8 Loans to Small Businesses and Small Farms With Revenues Less than \$1 Million				
Type of Loan	Number		Dollar Amount	
	Small Business	Small Farms	Small Business	Small Farm
Total	667	772	11,449	9,811

Source: 1996 and 1997 Small Business/Small Farm Data Collection Register
Dollar amounts are in \$000's

Table 9 illustrates the bank's small business and small farm lending by differing loan amounts. The bank's record of making small loans to small businesses and small farms is good. This is evidenced by the fact that 97.9% of the small business loans and 98.5% of the small farm loans originated at amounts less than \$100,000. This supports the conclusion that the bank's penetration of loans to small businesses and small farms is good.

Table 9				
Dollar Volume of Small Business and Small Farm Loans				
By Loan Amount at Origination				
Loan Amount at Origination	Small Business		Small Farm	
	#	%	#	%
Less than \$100,000	653	97.9%	761	98.5%
Between \$100,000 - \$250,000	11	1.7%	10	1.2%
Between \$250,000 - \$1,000,000	3	0.4%	1	0.3%
Total	667	100%	772	100%

Source: 1996 and 1997 Small Business/Small Farm Data Collection Register

Community Development Lending:

NFNB participates in community development lending when opportunities are available. Community development loans are those that do not meet the definition of home mortgage, small business, or small farm loans, and directly benefit a LMI geography or LMI individuals.

The bank originated three participation loans totaling \$2,232,000 during 1996 and 1997. NFNB also purchased a \$600,000 participation in a \$1,600,000 loan. These loans were all made to the Glasgow/Barren County Industrial Development Economic Authority (IDEA) to purchase property and buildings for lease to new companies locating in the area and providing job opportunities to Barren County residents. Below is a description of these projects:

- (1) Originated an \$850,000 loan for the purchase of 200 acres of land for the development of an industrial park in Glasgow. The purpose of this loan was to assist in the development of a new industrial park to bring more businesses and jobs to the community.
- (2) Originated a \$544,380 loan for the purchase of a building for Felker Brothers, which manufactures stainless steel pipe and tubing. This company will provide jobs for approximately 50 employees.
- (3) Originated a loan for \$1,244,762 for the purchase of a building for North American Capacitor, which manufactures capacitors for electric motor starters. This company will provide jobs for approximately 66 employees.

- (4) Purchased a \$600,000 participation in a \$1,600,000 loan to acquire a manufacturing plant and eleven acres in Glasgow for lease to Nelson Metals. Nelson Metals manufactures automotive oil pans and will provide jobs for approximately 215 employees.

Innovative or Flexible Lending Practices:

NFNB uses flexible lending programs to address the credit needs of LMI individuals and geographies. Below is a listing of the programs that are available and the extent of lending volume during 1996 and 1997 is also provided. Examples of these programs are as follows:

Kentucky Housing Corporation (KHC) - NFNB has originated 22 loans totaling \$1,150,700 to LMI borrowers. The program provides financing with a 3% down payment. The rates charged for these loans average $\frac{3}{4}$ to 1% below market rates. This program has less stringent debt to income ratios than those required for conventional mortgage loans.

Kentucky Housing Corporation Rural Housing Program - NFNB has originated two loans totaling \$119,200. This program is a joint effort with the Farm Service Agency and KHC to provide residential real estate loans with 100% financing at rates $\frac{3}{4}$ to 1% below market rates to LMI borrowers.

Rural Housing 100% Financing - NFNB has originated five loans totaling \$235,900 through this government guaranteed housing program for less creditworthy borrowers. There is no downpayment requirement. Rates are slightly above that of a conventional mortgage loan.

Discover 100% Financing - NFNB has originated ten loans totaling \$523,000 through this in-house adjustable rate mortgage program. Rates and fees are consistent with conventional mortgage products.

Farm Service Agency (FSA) - NFNB originated 34 loans totaling \$2,421,600 through this government guaranteed lending program for small farmers. The loans may be for any agricultural related purpose, including the purchase of land, equipment, or livestock. These loans are made to less creditworthy borrowers and are government guaranteed up to 90%.

INVESTMENT TEST

NFNB's investment activity is rated Low Satisfactory. Investment activity demonstrates:

- An adequate level of qualified community development investments and grants consistent with the opportunities in the bank's assessment area, and
- An adequate responsiveness to credit and community economic development needs.

Investment and grant activity:

NFNB has an adequate level of qualified investments, but few opportunities exist that are not routinely provided by private investors. The bank has made a total of \$20,900 in contributions to various charities and organizations throughout its assessment area during 1996 and 1997. The majority of these contributions were to organizations to benefit LMI individuals.

NFNB applied for and received \$690,000 in Affordable Housing Subsidy funds from the Federal Home Loan Bank to finance the construction of ten homes for LMI individuals in the assessment area. Borrowers purchasing the homes will receive a 20 year fixed rate loan at the below market rate of 6.5%. The program is in conjunction with the City of Glasgow and the Barren River Area Development District to develop a subdivision for LMI individuals and families.

Responsiveness to credit and community development needs:

NFNB displays an adequate responsiveness to credit and community economic development needs. Management stated that opportunities in these areas are very limited. This was substantiated by community contacts made in the bank's assessment area. The bank has helped meet credit needs in the form of lending relationships which are detailed in the Lending Test section of this evaluation.

SERVICE TEST

The service test is rated low satisfactory. NFNB's service activities demonstrate:

- The retail delivery system is accessible to all portions of the bank's assessment area through the branch and ATM network.
- Alternative delivery systems support the branch network through banking by telephone and banking through a personal computer.
- The bank's level of community development services provided is satisfactory, given the limited opportunities in the assessment area.
- The bank's hours and services are structured to allow convenience to customers in the assessment area.

Accessibility of Delivery Systems:

Table 10 indicates that NFNB branches provide banking products and services throughout the assessment while serving the needs of LMI families. The table indicates that 42.1% of the families residing in middle income geographies have LMI incomes and access to 66.7% of the bank's branches. The table also reveals that 23.1% of the families living in upper-income geographies have LMI incomes and have access to 33.3% of the bank's branches. Based upon the distribution of the NFNB's branch network in relation to the residence of LMI families in the bank's assessment area, these families have satisfactory access to the bank's products and services.

Table 10 Distribution of Branches						
Geographic Type and (#) of BNA's	#	% of Total Branches	Total Families in AA		% of total Families LMI #	
			%	#		
Low-Income (0)	NA	NA	NA	NA	NA	NA
Moderate-Income (0)	NA	NA	NA	NA	NA	NA
Middle-Income (8)	4	66.7%	78.1%	7,749	3,266	42.1%
Upper-Income (2)	2	33.3%	21.9%	2,182	502	23.1%
Total (10)	6	100%	100%	9,931	NA	NA

Source: Bank Internal Records
Local Demographic Data

Alternative Delivery Systems:

NFNB provides adequate alternative delivery systems. Three of the branches have full-service ATMs. The branch network is supplemented by two free standing full-service ATMs and one cash dispenser. The bank is a member of the MAC ATM network, which permits customers to access their accounts through numerous ATMs at other financial institutions both in and outside of the assessment area.

Additional alternative delivery systems are:

- DirectPC - This service allows customers to conduct banking transactions and pay bills through the use of a personal computer.
- DirectNet - This system provides customers the same capabilities as DirectPC through the Internet.
- QuickLine - This system provides customers the same capabilities as DirectPC by using a touch tone telephone.
- Electronic Funds Transfer Payment System - EFTPS lets individual and business customers make their federal tax deposits electronically.

Reasonableness of Services:

NFNB has six branch locations located throughout the assessment area. Four of the branches offer a full array of banking products and services, while two branches offer deposit services only. The bank's deposit only facilities are located within one mile of full-service branches. No segment of the assessment area is excluded from NFNB products and services. Two of the full-service branches and one of the deposit only branches have ATMs.

Branch services and business hours are similar throughout NFNB's assessment area. Business hours provide convenient access to bank products and services in all portions of the assessment area. The primary business hours are 9:00 a.m. - 3:00 p.m. lobby, and 8:00 a.m. - 5:00 p.m. drive-up hours Monday - Thursday. Friday hours are 9:00 a.m. - 6:00 p.m. lobby, and 8:00 a.m. - 6:00 p.m. drive-up. One full-service branch is open on Saturday from 8:00 a.m. - 12:00 Noon.

Community Development Services:

NFNB's level of community development services is satisfactory, given the limited opportunities in the assessment area. The bank provides technical assistance to a local community development authority, is involved in the education of local children through the establishment of a student bank at each local high school, and offers a deposit product designed to benefit LMI consumers. A description of the services follows:

- A bank officer serves on the board of Glasgow/Barren County Industrial Development Economic Authority (IDEA) with two other area bankers. The purpose of this board membership is to promote economic development and to be available to provide technical assistance for IDEA to obtain financing for local economic development projects.

- NFNB has established a student bank at both local high schools. The bank provided start-up capital of \$500 and signage for each bank. Technical assistance is provided to the student banks by ten bank employees, each working with different operational aspects of banking. The purpose of the student bank is to educate students about the general operations of a bank.
- The bank offers a deposit product which targets the LMI consumer. “Thrift Checking” offers ten checks per month with a \$2.00 service charge that is less than a conventional checking account, an opening balance requirement of \$100, and no minimum balance thereafter. NFNB has 181 active accounts of this type.
- NFNB recently began offering a “Direct Checking” account that waives the monthly service charge, if a direct deposit of payroll, retirement, or government benefits is credited during each statement period. The bank has 68 active accounts of this type.

Changes in Branch Locations:

The bank has not opened, closed, or relocated any branches since the last evaluation. NFNB installed three new ATMs in the assessment area since the last evaluation to augment the branch network.

Fair Lending Review:

No violations of the substantive provisions of the anti-discrimination laws and regulations (ECOA, FHA, or HMDA) were identified. The institution’s fair lending policies, procedures, training programs and internal assessment efforts have been effective in assisting lenders in these issues.