



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 25, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank
Charter Number 10465**

**302 South Main Street
Cloverdale, IN 46120**

**Comptroller of the Currency
Central Indiana
8777 Purdue Rd
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 primary factors supporting this rating include:

- First National Bank (FNB or bank) maintained a reasonable average loan-to-deposit ratio during the evaluation period.
- A majority of FNB's primary product loans were originated inside the bank's assessment area (AA).
- Lending during the evaluation period shows a reasonable penetration of loans to borrowers of different income levels and businesses of different sizes.
- Lending during the evaluation period shows a more than reasonable distribution of loans to low- and moderate-income geographies.

Scope of Examination

Examiners utilized the Small-Bank Examination Procedures to evaluate First National Bank's record of meeting the credit needs of its community. A small bank is subject to the Lending Test, which considers the following criteria:

- Loan-to-deposit ratio, considering internal and external factors
- Percentage of primary product loans originated with the bank's assessment area
- Lending to borrowers of different income levels; primarily low- and moderate-income individuals
- Lending in low- and moderate-income geographies in the assessment area as applicable
- The bank's record of taking action to written complaints regarding its performance in helping to meet credit needs of its assessment area.

The Lending Test review period is January 1, 2010 through December 31, 2011 (2012 lending data is not included in this review due to the 2010 Census and its impact on data comparability). Based on this two year period, the bank's primary loan products are residential mortgages and commercial loans. Conclusions are based on the primary product loans originated during the review period in the assessment area and compared to the 2000 Census demographics.

The bank's assessment area is entirely within the Indianapolis-Carmel, IN MSA, consisting of Hendricks, Johnson, and Putnam counties as well as small portions of Morgan County and Marion County.

Description of Institution

First National Bank (FNB) is a \$246 million intrastate institution located approximately 45 miles southwest of Indianapolis. The institution is a wholly owned subsidiary of First National Bank Corp, a one-bank holding company. There is one investment services affiliate and one insurance service affiliate. These affiliates do not negatively impact the bank's ability to meet the credit needs of the community and were not included as part of this evaluation.

FNB is headquartered in Cloverdale, IN (Putnam County) and operates six additional branches in central Indiana as listed below:

<u>Putnam County</u>	<u>Hendricks County</u>	<u>Johnson County</u>
2 nd Cloverdale Branch	Coatesville Branch	Franklin Branch
Greencastle Branch	Belleville Branch	
	Plainfield Branch	

The bank also has nine ATMs; one located at each branch (including the main office), and two additional ATMs located in Greencastle, Indiana and Franklin, Indiana.

A branch in Greencastle, Indiana closed during the evaluation period. The closure of this branch did not negatively impact the bank's ability to serve its community.

FNB offers a full range of retail and commercial banking products normally associated with a community bank. As of December 31, 2012, net loans were \$152 million, or 61 percent of total assets; tier one capital totaled \$23 million.

The bank's loan portfolio as of December 31, 2012 is detailed below:

Loan Portfolio Summary by Loan Product	
Loan Category	% of Outstanding Dollars
Residential Real Estate	47%
Commercial Loans	34%
Agricultural Loans	11%
Consumer Loans	3%
Other	5%

Source: December 31, 2012 CALL Report data

During calendar years 2010 and 2011, the bank made 1,367 loans totaling \$105.6 million as illustrated below:

2010 – 2011 Loan Originations by Loan Product		
Loan Category	Dollar Volume	Number Originated
Residential Real Estate	\$48 million	448
Commercial Loans	\$31.4 million	194
Agricultural Loans	\$14.7 million	87
Consumer Loans	\$4.4 million	597
Other	\$7.1 million	41

Source: Internal bank report of loans originated in 2010 - 2011

There were no financial, legal, or other impediments that would hinder the bank's ability to help

meet the credit needs of its assessment area. Bank activities are consistent with the bank’s size, its financial capability, local economic conditions, and credit needs of the community. The bank was rated “Outstanding” at its last CRA examination dated November 06, 2006.

Description of FNB Assessment Area

FNB’s AA meets the requirements of the CRA and does not arbitrarily exclude low or moderate-income geographies. The AA, located in MSA #26900, includes the following Central Indiana counties: Putnam, Hendricks, and Johnson. The AA also includes the southwest corner census tract in Marion County and three census tracts in the northwest section of Morgan County.

Our review included contacting a community organization that provides programs and services to low-income individuals in the greater Indianapolis area, including Hendricks County. The organization indicated banks are generally meeting the needs of the community; however, a need exists for volunteers to teach financial literacy.

According to the 2000 Census, the AA contains three moderate-income census tracts (seven percent); 34 middle-income tracts (79 percent); and six upper-income geographies (14 percent). The following demographic information is based on these 43 census tracts:

Demographic Information for Indianapolis MSA AA	
	2000 Census Data
Population:	287,376
Housing Stock: <i>1-4 family housing units</i>	91%
Occupancy: <i>owner-occupied, renter-occupied, vacant</i>	75%, 19%, 6%
Home Values: <i>Median home value</i>	\$120,323
Age of Homes: <i>Median year of homes built</i>	1976
Family Income Levels (%): <i>Low-, moderate-, middle-, upper-income</i>	15%, 18%, 26%, 41%
2000 Weighted Average of MSA Median Family Income	\$55,425
2011 HUD Updated Weighted Average of MSA Median Family Income	\$66,000
Households Below Poverty Level	5%

The total number of businesses located in the assessment area is 32,218. Of this total, four percent are located in the moderate-income tracts, 80 percent are located in middle-income tracts, and 16 percent are located in upper-income tracts. Small businesses (gross revenues of less than \$1 million) make up 69 percent of the businesses in the assessment area.

Unemployment rates for Hendricks, Johnson, and Putnam counties were 6.8 percent, 7.0 percent, and 8.6 percent, respectively as of December 2012. These ratios are similar to the Indiana state and national averages of 8.5 percent, and 7.8 percent, respectively during the same period.

As of June 30, 2012, 28 financial institutions, including First National Bank, operated 125 branches in Hendricks, Johnson, and Putnam counties with deposits totaling approximately \$4.0 billion. FNB's seven branches represent \$227.1 million, or 5.7 percent of the market share (ranks 9th of the 28 institutions). Competition is moderate consisting of small community, regional, and large banks.

Conclusions about Performance Criteria

Loan-To-Deposit

The bank's loan-to-deposit ratio is reasonable based on the institution's size, financial condition, and the assessment area's credit needs. During the past 26 quarters, FNB's loan-to-deposit ratio averaged 80 percent. This average ratio is slightly above the peer bank's average of 78 percent. The peer banks' ratios ranged from a high of 113 percent to a low of 59 percent. Peer banks consist of those headquartered in Hendricks, Johnson, Morgan, and Putnam counties, with total assets ranging from \$161 million to \$375 million.

Lending in the Assessment Area

First National Bank originated a majority of primary product loans inside the bank's assessment area. Based on 543 residential loans, and a sample of 20 commercial loans originated during the review period, 75 percent of the combined number of loans and 67 percent of the dollar volume are to borrowers located in the AAs.

Lending in AA										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	80	59.26%	55	40.74%	135	\$8,209	50.12%	\$8,170	49.88%	\$16,379
Home Refinance	325	79.66%	83	20.34%	408	\$38,068	71.78%	\$14,968	28.22%	\$53,036
Commercial Loans	18	90.00%	2	10.00%	20	\$1,507	97.41%	\$40	2.59%	\$1,547
Total	423	75.13%	140	24.87%	563	\$47,784	67.34%	\$23,178	32.66%	\$70,962

Source: Residential lending data from 2010 and 2011 HMDA LARs; Commercial data based on sample of 20 loans originated in 2010 or 2011.

Distribution of Loans by Income Level of the Borrower

The borrower distribution of FNB’s home mortgage loans and commercial loans reflected a reasonable dispersion among borrowers of different income levels throughout the bank’s AA.

Home Mortgage Loans

The overall borrower distribution of home mortgage loans by income levels is reasonable. The following table shows that the bank is making home loans to low- and moderate-income families at rates proportionate to the number of low- and moderate-income families in the AA.

Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Type of Loan	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number
Home Purchase	14.67%	18.75%	18.00%	17.50%	26.59%	18.75%	40.74%	45.98%
Home Refinance	14.67%	12.92%	18.00%	19.69%	26.59%	19.08%	40.74%	38.56%
Total	14.67%	14.07%	18.00%	19.26%	26.59%	19.01%	40.74%	43.46%

Source: HMDA LAR information for 2010-2011

Commercial Loans

The borrower distribution of small business loans is reasonable. Sixty-nine percent of businesses in the AA have less than \$1 million in annual gross revenues and are considered small businesses. We found that 65 percent of FNB’s commercial loans are extended to small businesses. While this represents only 45 percent of the commercial lending dollars, we recognize that small businesses typically require smaller loans than large businesses.

Borrower Distribution to Businesses in AA				
Business Revenues	<=\$1,000,000	>\$1,000,000	Unavailable	Total
% of AA Businesses	69.39%	2.31%	28.30%	100.00%
% of Bank Loans in AA by #	65.00%	35.00%	0%	100.00%
% of Bank Loans in AA by \$	44.57%	55.43%	0.00%	100.00%

Source: Sample of 20 commercial loans originated during 2010 or 2011

Distribution of Loans by Income Level of the Geography

The geographic distribution of both home mortgages and commercial loans is excellent.

Home Mortgage Loans

The geographic distribution of home mortgage loans is more than reasonable. Since there are no low-income geographies in the assessment area, our analysis focused on lending in moderate-income geographies. The bank’s level of home purchase and home refinance lending significantly exceeds the percentage of owner-occupied housing units in the moderate-income geographies.

Geographic Distribution of Home Mortgage Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Type of Loan	% 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 Loans	% of Number of Loans
Home Purchase	NA	NA	4.64%	15.00%	78.51%	83.75%	16.85%	1.25%
Home Refinance	NA	NA	4.64%	22.15%	78.51%	76.00%	16.85%	1.85%

Source: 2010 and 2011 HMDA LAR

Commercial Lending

The bank’s proportion of loans to businesses in moderate-income geographies significantly exceeds the proportion of businesses located in moderate-income geographies. This indicates a more than reasonable geographic distribution of commercial loans.

Geographic Distribution of Commercial Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Type of Loan	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial	NA	NA	3.50%	25.00%	80.34%	70.00%	16.16%	5.00%

Source: Sample of 20 commercial loans originated during 2010 or 2011

Lending Gap Analysis

Based on our review of the geographic distribution of loans, we found no conspicuous lending gaps.

Responses to Complaints

FNB did not receive any complaints regarding its performance in helping to meet assessment area needs during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank’s (bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.