



**PUBLIC DISCLOSURE**

August 1, 2016

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

The Farmers National Bank of Danville  
Charter Number: 2409

304 West Main Street, Danville, Kentucky 40422

Office of the Comptroller of the Currency

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: SATISFACTORY**

**The Lending Test rating: Satisfactory**

**The Community Development Test rating: Satisfactory**

The Farmers National Bank of Danville (FNB or Bank) has a satisfactory record of meeting the credit needs of its community. This conclusion is based on the following

- A substantial majority of FNB's loans were originated to borrowers within its assessment area (AA).
- The average loan-to-deposit (LTD) ratio is reasonable given FNB's size, financial condition, and the credit needs of its AA.
- FNB's distribution of loans to small businesses with gross revenues of less than \$1 million reflects reasonable penetration.
- FNB's distribution of loans to low- and moderate-income individuals reflects reasonable penetration.
- FNB's community development (CD) performance demonstrates adequate responsiveness to the community development needs of its AA.

## **Scope of Examination**

FNB was evaluated under the Office of the Comptroller of the Currency's (OCC) Intermediate Small Bank (ISB) Examination Procedures. The ISB procedures include both a lending test and a CD test. The lending test evaluated FNB's record of meeting the credit needs of its AA through its lending activities. The CD test evaluated FNB's responsiveness to its AA's needs through community development-related lending, qualified investments, and services provided.

The evaluation covers the period since the date of the previous CRA examination, July 29, 2013, through July 31, 2016. The lending test included a random sample of loans originated by FNB between January 1, 2014 and June 30, 2016. The scope of the lending test included a review of FNB's primary loan products: business loans and residential real estate mortgages. We determined the primary loan products by reviewing available lending reports for the representative timeframe and through discussions with management. To analyze the primary loan products, we selected a random sample from the portfolio, using source documents to collect the data.

Our analysis of the borrower distribution of loans compared those originated during the testing period to the 2010 United States Census (U.S. Census) demographic information. The income level designations used in the analysis of residential real estate loans are based on the Federal Financial Institutions Examination Council's (FFIEC) estimate of the 2014, 2015, and 2016 Kentucky Median Family Incomes (MFI) for a nonmetropolitan area. The business sample loans were compared to 2010 U.S. Census data and 2015 Business Geodemographic Data.

Conclusions regarding FNB's CD tests were based on information provided by the Bank detailing the level of community development-related lending, qualified investments, and

services provided from July 29, 2013 through July 30, 2016. We took into account those that met the regulatory definition for CD.

## Description of Institution

FNB is a full-service, intrastate financial institution. It is wholly owned by Boyle Bancorp, Inc., a single bank holding company located in Danville, Kentucky. As of March 31, 2016, FNB had \$462 million in total assets with \$307 million in loans, \$386 million in deposits, and \$49.5 million in tier 1 capital. FNB's business strategy includes meeting community needs by offering traditional banking products and services, including conventional, government-guaranteed, home equity, consumer, and commercial loans.

As of March 31, 2016, the Bank had 11 full-service or express locations in four Kentucky counties.<sup>1</sup> Full-service branches provide customers the opportunity to open accounts and are staffed with loan officers. Express branch services are limited to transactions related to established accounts, such as deposits, withdrawals, and check cashing.

The Bank's main office is located in downtown Danville, Boyle County, Kentucky. During the evaluation period, FNB also had

- one full-service branch in Boyle County, located in Perryville, Kentucky.
- four express branches in Boyle County; three located in Danville, Kentucky and one located in Junction City, Kentucky.
- one full-service branch in Mercer County, located in Harrodsburg, Kentucky.
- two express branches in Mercer County, located in Harrodsburg, Kentucky and Burgin, Kentucky.
- one full-service branch in Garrard County, located in Lancaster, Kentucky.
- one full-service branch in Lincoln County, located in Stanford, Kentucky. Stanford is part of a distressed, nonmetropolitan middle-income geography.

All branch locations provide drive-through facilities. Each location except the main office has a deposit-taking, automated teller machine (ATM). The main office has an express teller machine (ETM) that dispenses cash but does not accept deposits. The Bank has two additional ETMs at non-branch locations in Danville, Kentucky.

As of March 31, 2016, FNB's net loans represented approximately 58 percent of its average assets. The following table depicts the composition of the Bank's loan portfolio as derived from the Consolidated Report of Condition and Income (call report) filed by the Bank. FNB's primary lending focus was residential real estate loans and business purpose loans.

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<sup>1</sup> Subsequent to the start of this evaluation, the express branch in Harrodsburg, Mercer County, Kentucky was closed. An ATM remains available for customer use. As the branch remained open during the entire period covered by our review, its impact on meeting community needs is considered in our analysis. The closure of this branch will be considered in the next review period.

<b>Loan Portfolio Summary by Loan Type</b>		
<b>March 31, 2016</b>		
<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Residential Mortgage Loans	145,675	47.44
Commercial & Industrial Including Commercial Real Estate	105,477	34.35
Agricultural and Agricultural Real Estate	46,933	15.28
Loans to Individuals	6,199	2.02
Municipal Loans	2,286	0.74
Other Loans	536	0.17
<b>Total Loans</b>	<b>\$307,106</b>	<b>100%</b>

*Source(s): March 31, 2016 call report.*

There were no legal or financial circumstances that impacted FNB's ability to meet the credit needs of its community. The last CRA evaluation was performed on July 29, 2013. FNB received a satisfactory rating.

## **Description of Assessment Area**

FNB's AA consists of Boyle, Garrard, Lincoln, and Mercer Counties in Central Kentucky. All counties in the AA are adjacent, located in non-Metropolitan Statistical Areas, and share similar demographic and economic characteristics. In total, the AA consisted of 22 census tracts (CTs). The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

According to the 2010 U.S. Census, the population of Boyle County is approximately 28,432. Boyle County consists of four upper- and three middle-income CTs. There are no low- or moderate-income CTs in Boyle County.

As of March 31, 2016, Boyle County's unemployment rate was 5.9 percent, which is equivalent to Kentucky's unemployment rate. The major industry in Boyle County is services, followed by trade, transportation, and utilities. The Kentucky Cabinet for Economic Development lists the following companies as the largest employers in the county.

- R.R. Donnelley & Sons Company employs approximately 658 individuals at its Danville location. The Company specializes in printing and binding magazines, catalogs, and inserts for major publishers.
- American Greetings Corporation employs approximately 552 individuals. The company operates a distribution and paper-product packaging center in Danville.
- Dana Corporation employs approximately 328 individuals and produces diesel and gas engine gaskets in Danville.

According to the 2010 U.S. Census, the population of Garrard County is approximately 16,912. Garrard County consists of one upper- and three middle-income CTs. There are no low- or moderate-income CTs in Garrard County. Approximately 18 percent of the county's residents

live below the poverty level.

As of March 31, 2016, Garrard County's unemployment rate was 5.4 percent, which is lower than Kentucky's unemployment rate of 5.9 percent. The major industry in Garrard County is the services industry, followed by trade, transportation, and utilities. Manufacturing is another significant contributor to the local economy. The Kentucky Cabinet for Economic Development lists Allison Abrasives, Inc. (Allison) as the largest employer in the county. Allison employs approximately 90 individuals and manufactures abrasive cutoff wheels in Lancaster.

According to the 2010 U.S. Census, the population of Lincoln County was approximately 24,742. Lincoln County consists of six middle-income CTs. There are no low-, moderate-, or upper-income CTs in Lincoln County. All tracts in Lincoln County are designated as distressed or underserved. Approximately 28 percent of the county's residents live below the poverty level.

As of March 31, 2016, Lincoln County's unemployment rate was 7.4 percent, which is higher than Kentucky's unemployment rate of 5.9 percent. The major industry in Lincoln County is the services industry, followed by trade, transportation, and utilities. Manufacturing is another significant contributor to the local economy. The Kentucky Cabinet for Economic Development lists DecoArt Inc., as the largest employer in the county. DecoArt employs approximately 117 individuals and provides acrylic paints for arts, crafts, and home decorating. The second largest employer, Lincoln Manufacturing USA, LLC, employs 109 individuals to produce parts for the automotive industry.

According to the 2010 U.S. Census, the population of Mercer County was approximately 21,331. Mercer County consists of three upper- and two middle-income CTs. There are no low- or moderate-income CTs in Mercer County. However, approximately 18 percent of the county's residents live below the poverty level.

As of March 31, 2016, Mercer County's unemployment rate was 5.7 percent, which is lower than Kentucky's unemployment rate of 5.9 percent. The major industry in Mercer County is manufacturing. Services, followed by trade, transportation, and utilities, are also significant contributors to the local economy. The Kentucky Cabinet for Economic Development lists the following companies as the largest employers in the county.

- Hitachi Automotive Systems Americas, Inc. employs approximately 1,100 individuals. The company manufactures a broad range of electromechanical and electronic automotive products in Harrodsburg.
- Wausau Paper employs approximately 550 individuals in Harrodsburg. The company manufactures paper towels, toilet paper, facial tissue, and sanitary paper products.
- Corning, Inc. employs approximately 420 individuals at its Harrodsburg site. The company manufactures active-matrix liquid-crystal display glass substrate, a thin, durable, scratch resistant cover glass used in handheld electronic devices.

The Bank is one of 15 financial institutions in the AA. These institutions range from small community banks to branches of large national banks. The total deposits (inside the AA) of these branches or banks range from \$831,000 to \$356 million. FNB is the largest financial institution

in the AA in relation to deposits, with a 30 percent deposit market share. FNB’s major competitors in the AA are First Southern National Bank, Lancaster, Kentucky and Whitaker Bank, Lexington, Kentucky.

Opportunities for community reinvestment include CD lending for affordable housing projects and support of organizations that provide services for low- and moderate-income families. We performed a community contact interview during our evaluation. The contact identified quality, affordable housing as a primary need in the AA and surrounding geographies. The contact indicated local banks are active in meeting the community’s needs.

The following table shows demographic information covering FNB’s AA of Boyle, Garrard, Lincoln, and Mercer Counties. The information is based on 2010 U.S. Census data.

<b>Demographic Information for AA</b>					
	<b>2010 Census Data</b>				
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	22	0.00	0.00	63.64	36.36
Population by Geography	91,417	0.00	0.00	60.26	39.74
Owner-Occupied Housing by Geography	26,206	0.00	0.00	60.30	39.70
Businesses by Geography	5,312	0.00	0.00	59.07	40.93
Farms by Geography	525	0.00	0.00	52.95	47.05
Families by Income Level	24,793	17.98	16.17	19.14	46.71
Distribution of Low- and Moderate-Income Families throughout AA	8,467	0.00	0.00	69.15	30.85
FFIEC Estimated Median Family Income for 2014 2015 2016	\$45,900 \$46,900 \$46,400				
Households Below Poverty Level	19.00%				
Median Housing Value	\$114,652				

Source: 2010 U.S. Census and 2015 Business Geodemographic Data

## Conclusions with Respect to Performance Tests

### LENDING TEST

FNB’s performance under the lending test was satisfactory. The average Loan-to-Deposit (LTD) ratio was reasonable, and a substantial majority of the loans originated were inside the Bank’s AA. FNB’s lending reflected reasonable penetration among businesses of different sizes and individuals of different income levels. There were no complaints regarding FNB’s performance in meeting the credit needs of its community.

## Loan-to-Deposit Ratio

FNB's average LTD ratio was reasonable considering the Bank's size, financial condition, and the AA's credit needs. FNB's average LTD ratio for the 11 quarters since the last CRA evaluation was 75.47 percent, with individual quarter-end ratios ranging from 71.92 to 80.26 percent. As of March 31, 2016, FNB's LTD ratio was 78.27 percent. This is an increase since the last CRA evaluation when the LTD ratio averaged 68.97 percent.

The market is competitive, with thirteen other institutions operating within the Bank's AA. Nine of these other institutions had asset sizes at least \$300 million more than FNB. We compared FNB to three similarly sized and situated banks in FNB's AA. FNB's LTD ratio was in line with the other banks.

Institution	Average LTD Ratio
The Farmers National Bank of Danville	75.47%
The Casey County Bank, Inc.	84.69%
Farmers Bank & Capital Trust Company	56.59%
First Federal Savings Bank of Kentucky	117.09%

Source(s): Calculated using call report information reported for each quarter from September 30, 2013 through March 31, 2016.

## Lending in Assessment Area

A substantial majority of the loans originated by FNB were inside the Bank's AA. The following table details the Bank's lending within the AA by number and dollar amount of loans originated during the evaluation period. FNB originated 90 percent of its primary loan products by number and 89 percent by dollar amount inside its AA.

Lending in AA 2014-2016										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate	19	95.00	1	5.00	20	1,327	96.44	49	3.56	1,376
Business	17	85.00	3	15.00	20	2,125	88.06	288	11.94	2,413
Totals	36	90.00	4	10.00	40	3,324	89.07	408	10.93	3,732

Source: Random sample of 20 residential real estate loans and 20 business loans originated between January 1, 2014, and June 30, 2016.

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

The distribution of loans reflected reasonable penetration among low- and moderate-income individuals and business entities with annual revenues of less than \$1 million. The analysis included a random sample of 20 residential real estate loans and 20 business loans originated within the Bank's AA between January 1, 2014 and June 30, 2016. More weight was given to

residential real estate loans, commensurate with the moderately larger percentage of FNB's loan portfolio they comprise. The tables included in this section provide more detail.

### Residential Real Estate Loans

The distribution of the Bank's residential real estate loans reflects reasonable penetration among individuals of different income levels, including low- and moderate-income families.

Approximately 36 percent of households in the AA receive social security benefits. These households are less likely to pursue or qualify for residential real estate loans. Other potential barriers to home ownership include poverty and a significant number of rental units in the AA. Households in the AA below the poverty level total approximately 19 percent, and 25 percent of total housing units are rental properties.

From January 1, 2014 to June 30, 2016, FNB originated 10 percent of the sampled loans to low-income families and 25 percent to moderate-income families. The OCC's random sample result is below the demographic comparator of approximately 18 percent, for low-income families. However, this represents reasonable penetration when taken in context with the barriers described. In addition, at 25 percent, the sample exceeds the demographic comparator of approximately 16 percent for moderate-income families.

<b>Borrower Distribution of Residential Real Estate Loans in AA 2014-2016</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Residential Real Estate	17.98	10.00	16.17	25.00	19.14	15.00	46.71	50.00

*Sources: 2010 U.S. Census data. Random sample of 20 residential real estate loans originated between January 1, 2014 and June 30, 2016.*

### Business Loans

The distribution of business loans reflects reasonable penetration among businesses of different sizes. The majority (approximately 81 percent) of businesses in the AA have gross revenues of less than \$1 million, with most (approximately 79 percent) having gross revenues of less than \$500,000 per year. From January 1, 2014 to June 30, 2016, FNB originated 75.00 percent of the sampled business loans to small business entities with annual revenues less than \$1 million. This level is near to the demographic comparator. This performance is reasonable given the Bank's market conditions. As previously described, a number of institutions provide strong competition within FNB's AA.

<b>Borrower Distribution of Loans to Businesses in AA</b>				
<b>2014-2016</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable / Unknown	Total
% of AA Businesses	80.97	2.65	16.38	100%
% of Bank Loans in AA by #	75.00	25.00	0.00	100%
% of Bank Loans in AA by \$	29.37	70.63	0.00	100%

*Sources: 2015 Business Geodemographic Data. Random sample of 20 business loans originated between January 1, 2014 and June 30, 2016.*

### **Geographic Distribution of Loans**

The focus of this analysis is to assess FNB's geographic distribution of lending among low-, moderate-, middle-, and upper-income geographies. Since the AA did not contain any low- or moderate income CTs in the 2010 U.S. Census, an analysis of loan distribution by geographies would not be meaningful.

### **Responses to Complaints**

FNB did not receive any CRA complaints during the evaluation period.

### **COMMUNITY DEVELOPMENT TEST**

FNB's performance under the Community Development (CD) test was satisfactory.

During the evaluation period, FNB's CD activities, as a whole, demonstrated adequate responsiveness to the needs and opportunities in the AA.

### **Number and Amount of Community Development Loans**

FNB's level of CD loans demonstrates adequate responsiveness to the CD needs of its AA. FNB originated two CD loans within its AA during the evaluation period, totaling approximately \$932,000. These loans were made to fund the construction of low-income housing properties that were eligible for low-income housing tax credits. These projects, when completed, will provide 32 units of affordable housing for families in Danville (Boyle County) Kentucky, and 32 units of affordable housing targeted to senior citizens in Harrodsburg (Mercer County) Kentucky. The purpose of these loans specifically addresses the need for quality, affordable housing identified by a community contact from a community action agency located inside the AA.

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

The Bank's level of qualified investments demonstrates adequate responsiveness to the CD needs of its AA. FNB is invested in two series B bonds issued by the Kentucky Housing Corporation (KHC) with a total book value of \$800 thousand. The KHC is a State housing agency created to provide affordable housing opportunities and is active in FNB's AA. During the evaluation period, FNB invested in certificates of deposit totaling approximately \$236,244. These deposits

are from a minority-owned certified Community Development Financial Institution (CDFI) in Kentucky.

FNB made approximately \$114,500 in qualified donations to organizations within the AA. All funds are specifically targeted to benefit low- and moderate-income persons within the AA or support organizations whose major purpose is to provide economic development, revitalize central business districts, and offer assistance to attract, expand, and retain small business entities, payrolls, and job levels throughout the AA.

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

FNB's level of qualified community services demonstrates adequate responsiveness to the CD needs of its AA. In evaluating FNB's services, consideration was given to the fact the Bank's AA does not include any low- or moderate-income CTs. During the evaluation period, in addition to FNB's main office, the Bank had 10 branch locations, 10 full-service ATMs, and three non-deposit taking ETMs, accessible to all geographies and individuals of different income levels. All locations

FNB offers a full range of consumer and commercial banking products and services at all of its full-service branches. FNB offers secondary market loans through the Rural Housing Service, the U.S. Department of Veterans Affairs, the U.S. Small Business Administration, and the Farm Service Agency. FNB also offers loans specifically targeted to low- and moderate-income persons who meet certain income qualifications.

The Affordable Home Loan Program is an adjustable-rate loan for owner-occupied properties within FNB's market area. This program has applicant income limits for each county in the AA, making only low- and moderate-income individuals eligible for these loans. Borrowers must put three percent down and pay \$500 in closing costs. Part of the money may be gifted, but customers must contribute at least \$500 of their own funds. This program is run in conjunction with the Federal Home Loan Bank (FHLB) of Cincinnati's Welcome Home Loan Grant Program (Welcome Home). Welcome Home grants may be used to cover down payment and closing costs up to a qualified amount for qualifying loans to low- and moderate-income households. During the evaluation period, FNB made 30 loans totaling approximately \$1.8 million using \$64 thousand in grant funds.

FNB offers online and mobile banking, providing customers access to consumer and business accounts. FNB customers can access accounts, check balances, view statements, transfer funds between accounts, and pay bills. Also offered are various checking and deposit products for all FNB customers. Finally, FNB provides a 24-hour, toll-free telephone banking service, Telebank, which allows customers to transfer funds and obtain account information.

FNB's officers and employees are involved in a variety of CD services. Many employees are involved in non-profit organizations that provide services for low- and moderate-income individuals or economic development for small businesses. Bank management is actively involved in several economic development organizations and community groups such as:

- **Harrodsburg Housing Authority** - A senior bank officer has served as a board member of this organization since 2008. The officer provides financial expertise to the organization regarding financing needs of low-to-moderate income (LMI) families. The mission of the housing authority is to provide rental assistance for affordable housing to LMI families.
- **Heart of Kentucky United Way, Inc. (HKUW)** - FNB employees participate by donating their time and working in a variety of fundraisers. HKUW is a nonprofit organization that provides donations to other community organizations. One of HKUW's goals is to help families obtain adequate income and assets to meet their families' needs.

Bank officers and employees also serve as board members or provide financial expertise to other organizations such as the New Hope Food Pantry, Family Services Association, Ephraim McDowell Healthcare Foundation, and Habitat for Humanity.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA 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.