



## **PUBLIC DISCLOSURE**

August 3, 2015

### **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

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**

- **Lending Test rating: Satisfactory**
- **Community Development Test rating: Outstanding**

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

- FHB's average loan-to-deposit (LTD) ratio is reasonable given FHB's size, financial condition, and the credit needs of its assessment area (AA).
- A substantial majority of FHB's loans originated during this assessment period were within its AA.
- Overall, FHB's distribution of loans reflects reasonable penetration among low- and moderate-income individuals and business entities of different sizes.
- Overall, FHB's geographic distribution of loans reflects reasonable dispersion throughout the AA.
- FHB's community development (CD) performance demonstrates excellent responsiveness to the CD needs of its AA.

## **Scope of the Examination**

FHB was evaluated under the Office of the Comptroller of the Currency's (OCC) Intermediate Small Bank Examination Procedures, which include a lending test and a CD test. The lending test evaluated the Bank's record of meeting the credit needs of its AA through its lending activities. The CD test evaluated the Bank's responsiveness to CD needs in its AA through CD lending, qualified investments, and CD services.

This evaluation covers October 3, 2011 through August 3, 2015. The scope of the lending test included an assessment of the Bank's primary loan types: residential real estate and business purpose loans. The OCC based the residential real estate lending analysis on the loans FHB reported on its Home Mortgage Disclosure Act Loan Application Register (HMDA LAR) from January 1, 2013 through March 31, 2015. In May 2015, the OCC performed a data integrity review to verify the accuracy of the Bank's HMDA LAR data. We concluded the information was reliable. The business purpose loan analysis was performed using 2010 United States Census (U.S. Census) data, 2013 and 2014 Business Geodemographic Data, and a sample of business loans originated in 2013, 2014, and 2015.<sup>1</sup>

Our analysis of the borrower and geographic distribution of loans compared those originated during the testing period to the 2010 U.S. Census demographic information. The income level designations used in the analysis of home mortgage loans are based on the Federal Financial Institutions Examination Counsel's (FFIEC) estimate of the 2013, 2014, and 2015 Kentucky Median Family Incomes for a Metropolitan Statistical Area (MSA).

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

The Office of Management and Budget's (OMB) revised Metropolitan Area (MA) and census tract (CT) geographic definitions and boundaries affected data collection requirements in February 2013. Those revisions became effective for CRA purposes on January 1, 2014. Based on 2014 OMB MA changes, FHB's borrower and geographic distributions were evaluated using 2013 and 2014 demographics.<sup>2</sup> During the evaluation period, Scott County, Indiana was added to the Louisville/Jefferson County Kentucky-Indiana MSA and Nelson County, Kentucky was removed from the MSA. This change did not have an impact on the Bank's AA delineation, HMDA and CRA reportable data geocoding, or CRA program implementation.

## Description of the Institution

FHB is a federally-chartered, stock savings financial institution that is wholly owned by First Capital, Inc. It is headquartered in Corydon, Indiana. As of March 31, 2015, FHB had \$471 million in total assets, \$412 million in deposits, \$297 million in loans, and \$50 million in tier 1 capital.

FHB offers traditional banking products and services in 12 locations within four counties in Indiana.<sup>3</sup> Five offices, including the main office, are located in Harrison County, Indiana. Five offices are located in Floyd County, Indiana. Washington and Clark Counties in Indiana each have one office. Additionally, the Bank has one off-site Automated Teller Machine located in Floyd County, Indiana. All branches have a drive-thru service with the exception of one, which is located in a Jay C Grocery store in Corydon, Indiana. The Bank has not opened any new branches since the last CRA evaluation.<sup>4</sup> The Bank closed one branch in Hardinsburg, Indiana. The Bank still serves the Hardinsburg, Indiana community through its nearby locations. FHB is accessible to all segments of its communities.

FHB's primary lending focus was residential real estate loans and business purpose loans. During the evaluation period, the volume of mortgages sold on the secondary market declined from previous years, with \$40 million sold in 2013 and \$30 million sold in 2014 as compared to the \$82 million sold on the secondary market in 2011. The Bank originated \$35 million small business loans during the review period.

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<sup>2</sup> The term Metropolitan Area includes Consolidated Statistical Areas, Metropolitan Statistical Areas, Metropolitan Divisions, and Micropolitan Areas. The Office of Management and Budget revises the boundaries of those areas and the number, delineation, and income levels of census tracts within those areas as appropriate based on each decennial census.

<sup>3</sup> During the evaluation period, FHB consisted of 13 branch locations. However, the Hardinsburg branch, located in Washington County, Indiana closed in December 2014.

<sup>4</sup> In June 2015, First Capital Inc., FHB's holding company, announced it reached a definitive merger agreement with Peoples Bancorp Inc. of Bullitt County, Kentucky (PBBC) to acquire all five of PBBC's branches in early December 2015.

As of March 31, 2015, net loans represented 63.1 percent of FHB’s assets. The following table reflects the composition of FHB’s loan portfolio based on the March 31, 2015 call report data.

<b>Loan Type</b>	<b>Dollars (000’s)</b>	<b>Percentage %</b>
Residential Mortgage Loans	130,301	43
Commercial & Industrial Loans, Including Commercial Real Estate	128,784	43
Loans to Individuals	32,762	11
Municipal Loans	6,308	2
Agricultural and Agricultural Real Estate Loans	2,597	1
Other Loans	86	0
<b>TOTAL</b>	<b>300,838</b>	<b>100</b>

*Source(s): March 31, 2015 call report.*

FHB was rated “Satisfactory” at its last CRA evaluation, dated October 3, 2011. There are no legal or financial circumstances that affect the Bank’s ability to meet community credit needs.

## **Description of the Assessment Area**

FHB identified Harrison, Floyd, Washington, and Clark counties in south-central Indiana as its AA. All four counties are positioned within the Louisville/Jefferson County, Kentucky-Indiana MSA. The MSA is comprised of 13 counties, including five counties in Indiana and eight counties in Kentucky. Of the five Indiana counties, the Bank has branches in all of them, except Scott County, Indiana.<sup>5</sup> 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 low- or moderate-income areas.

According to 2015 FFIEC Census Report data, the AA contained 58 CTs, with one low-income tract, 17 moderate-income tracts, 29 middle-income tracts, and 11 upper-income tracts. This determination was based on a weighted average of the Department of Housing and Urban Development (HUD)’s 2015 Updated Median Family Income of \$65,400 for the Louisville/Jefferson County, Kentucky-Indiana MSA.

FHB’s AA is located in south-central Indiana with a total population of 252,436, according to the updated 2015 U.S. Census data. The population of the AA was comprised of 107,292 households, of which 24,253, or 31.0 percent, had low- or moderate-incomes. In addition, 11.3 percent of the AA was below the poverty line, 2.2 percent of households were on public assistance, and 28.4 percent received social security benefits.

As of June 2015, Clark, Floyd, and Harrison counties in Indiana had unemployment rates lower than the Indiana state average of 4.8 percent. Unemployment averages for those counties were

<sup>5</sup> The federal banking agencies now update decennial U.S. Census data every five years, beginning with U.S. Census Bureau’s 2015 American Community Survey (ACS). The OMB’s MA geographic boundary revisions, effective January 1, 2014, included the addition of Scott County, Indiana to the Louisville/Jefferson County, Kentucky-Indiana MSA and the removal of Nelson County, Kentucky from the MSA.

4.3, 4.1, and 4.2 percent, respectively. The unemployment rate for Washington County, Indiana was higher than the Indiana state average at 5 percent. Major employers in the AA include Tyson Foods, Inc., Humana Inc., and various medical centers. According to the Indiana Department of Workforce Development, approximately 26,840 people commute from the AA to Kentucky for work. Major employers in the Louisville/Jefferson County Kentucky-Indiana MSA area are General Electric, Ford Motor Company, Humana Inc., and United Parcel Service, Inc. Other large employers include federal, state, and local governments, as well as hospitals and schools.

Competition is strong in the AA. Seventeen financial institutions, including FHB, comprise 103 banking offices within the four Indiana counties. According to the Federal Deposit Insurance Corporation (FDIC), FHB holds 10.5 percent of the market share of deposits inside the AA, with deposits totaling \$387 million. As of June 30, 2014, the combined offices held \$3.7 billion in deposits within the AA. Competition includes six large institutions with national deposit totals ranging from \$96 billion to \$1 trillion and 10 community banks with deposits ranging from \$179 million to \$2.3 billion.

A community contact familiar with the area indicated affordable housing, small dollar loans to replace payday lending, grants for financial literacy training, construction financing for affordable housing, and investors to purchase tax credits to build low-income housing are needs within the community. The contact indicated local financial institutions have provided some financial support, provided financial literacy and education training, and small business training.

The following additional demographic information regarding FHB’s AA is based on 2010 U.S. Census data unless otherwise noted.

Demographic Information for FHB’s MSA AA					
Demographic Characteristics	#	Low (% of #)	Moderate (% of #)	Middle (% of #)	Upper (% of #)
Geographies (Census Tracts/BNAs)*	58	2%	29%	50%	19%
Population by Geography	252,436	1%	22%	55%	22%
Families Distribution by Income Levels	63,789	18%	20%	25%	37%
Owner-Occupied Housing by Geography	72,588	0%	18%	57%	25%
Businesses by Geography	22,289	1%	18%	56%	25%
Farms by Geography	986	0%	5%	81%	14%
Household Distribution by Income Level	97,348	21%	17%	20%	42%
Median Family Income		Median Housing Value		\$127,697	
2015	\$65,400	Unemployment Rate		See narrative	
2014	\$64,200				
2013	\$60,400				
Households Below the Poverty Level	11.3%				

Source(s): 2010 U.S. Census and 2013-2015 FFIEC estimated Median Family Income.

## Conclusions with Respect to Performance Tests

FHB’s performance under the lending test is satisfactory. FHB’s LTD ratio is reasonable and a substantial majority of loan originations were inside the Bank’s 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 reflects reasonable dispersion among geographies.

### Loan-to-Deposit Ratio

FHB’s net LTD ratio is reasonable given the Bank’s size, financial condition, and the credit needs of the AA. The Bank’s LTD ratio averaged 74.5 percent over the last 13 quarters, with a quarter high of 78.0 percent and quarter low of 72.2 percent. All three of the comparable banks in the area averaged LTD ratios between 82 and 88 percent during the same 13 quarters.

Institution	Average LTD Ratio
First Harrison Bank	74.5%
First Savings Bank	82.3%
The New Washington State Bank	88.3%
Your Community Bank	84.1%

Our conclusions took into consideration the competitive atmosphere of the AA and the volume of secondary market activity from FHB. These ratios do not capture all home loan mortgages. Given that the Bank originates a large volume of loans for sale on the secondary market, it is acceptable that its LTD ratio was slightly lower than peer averages.

### Lending in the Assessment Area

FHB originated a substantial majority of its loans inside its AA. The following table details FHB’s lending within the AA by number and dollar amount of loans originated during the evaluation period. FHB originated 92.5 percent of residential loans, by number, in the AA. FHB also originated 90.0 percent of business loans in our sample, by number, in the AA.

Lending in the AA										
	Inside Assessment Area				Outside Assessment Area				Total	
	#	%	\$ (000's)	%	#	%	\$ (000's)	%	#	\$ (000's)
Home Purchase	379	94.04%	\$50,738	96.10%	24	5.96%	\$2,060	3.90%	403	\$52,798
Refinancing	407	91.67%	\$46,779	90.91%	37	8.33%	\$4,677	9.09%	444	\$51,456
Home Improvement	43	87.76%	\$2,408	89.12%	6	12.24%	\$294	10.88%	49	\$2,702
<b>Total Home</b>	<b>829</b>	<b>92.52%</b>	<b>\$99,925</b>	<b>93.43%</b>	<b>67</b>	<b>7.48%</b>	<b>\$7,031</b>	<b>6.57%</b>	<b>896</b>	<b>\$106,956</b>
<b>Business Purpose Loans in our Sample</b>	<b>36</b>	<b>90.00%</b>	<b>\$2,686</b>	<b>60.93%</b>	<b>4</b>	<b>10.00%</b>	<b>\$1,723</b>	<b>39.07%</b>	<b>40</b>	<b>\$4,409</b>

Source(s): All HMDA reportable residential loans originated between January 1, 2013 and March 31, 2015. A sample of business loans originated between January 1, 2013 and March 31, 2015. No 2010 U.S. Census information used in this table.

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

The distribution of loans, given FHB’s performance context, 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 OCC analyzed the Bank’s HMDA LAR data between January 1, 2013 and March 31, 2015. We compared this data to peer mortgage data, which consisted of all HMDA reportable loans extended within the Bank’s AA. See the table below for details.

The distribution of loans, given the peer mortgage data, reflects reasonable penetration among individuals of different income levels, including low- and moderate-income families. The Bank originated 12.8 percent of residential loans to low-income families and 23.2 percent to moderate-income families. This performance exceeded the peer lending comparator of 9.6 percent for low-income families and 23 percent for moderate-income families.

<b>Borrower Distribution of Residential Real Estate Loans in the AA January 1, 2013 – March 31, 2015</b>			
Borrower Income Level	# of Loans	% of Loans	% Peer Mortgage Data
Low	106	12.79%	9.64%
Moderate	192	23.16%	22.95%
Middle	205	24.73%	24.13%
Upper	283	34.14%	36.00%
NA*	43	5.18%	7.28%
Total	829	100.00%	100.00%

*(\*) The NA category consists of originations where income information was not available.  
Sources: 2013-March 31, 2015 HMDA LAR and 2013 Peer Mortgage Data.*

Business Loans

The OCC reviewed a sample of business loans originated between January 1, 2013 and December 31, 2013, as well as a sample of business loans originated between January 1, 2014 and March 31, 2015. The results of the sample were compared to 2013 and 2014 Business Geodemographic data.

The distribution of loans, given the Business Geodemographic data, reflects reasonable penetration among businesses with annual revenue less than \$1 million. FNB originated 70 percent of its business loans, within each sample, to entities with annual revenues of less than \$1 million. This is comparable to the 72.7 percent and 71.85 percent of business with revenues less than \$1 million inside the AA in 2013 and 2014, respectively.

2013 Borrower Distribution of Loans to Businesses in the AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Not Reported/ Unknown	Total
% of AA Businesses	72.67%	4.06%	23.27%	100%
% of Bank Loans in AA by #	70.00%	30.00%	0.00%	100%
% of Bank Loans in AA by \$	57.98%	42.02%	0.00%	100%

Source(s): 2013 Business Geodemographic Data and a sample of business loans originated in 2013.

2014-2015 Borrower Distribution of Loans to Businesses in the AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Not Reported/ Unknown	Total
% of AA Businesses	71.75%	4.62%	23.63%	100%
% of Bank Loans in AA by #	70.00%	30.00%	0.00%	100%
% of Bank Loans in AA by \$	65.43%	34.57%	0.00%	100%

Source(s): 2014 Business Geodemographic Data and a sample of business loans originated in 2014 and 2015.

### Geographic Distribution of Loans

Overall, lending to geographies of different income levels for residential real estate and business loans in the AA reflects reasonable dispersion.

#### Residential Real Estate Loans

The geographic distribution of loans reflects reasonable dispersion into low- and moderate-income CTs. The analysis reflects lending in all tracts. The Bank originated 0.4 percent of its residential real estate loans to borrowers living in low-income CTs and 8.7 percent in moderate-income CTs. The Bank’s lending performance in low-income CTs met the peer group comparator, while its lending in moderate-income CTs was slightly below the peer group’s 12.9 percent.

The lower level of dispersion within the AA’s moderate-income CTs was due to strong competition in the market area. In addition to FHB, there are 16 other financial institutions in the AA. These include branches of six large banks and 10 community banks. FHB had reasonable dispersion given the high level of competition in the AA.

Geographic Distribution of Residential Real Estate Loans in the AA January 1, 2013 – March 31, 2015			
Census Tract Income Level	Number of Loans	% of Loans	% Peer Mortgage Data
Low	3	0.36%	0.36%
Moderate	72	8.69%	12.87%
Middle	616	74.30%	55.02%
Upper	138	16.65%	31.74%
Total	829	100%	100%

Sources: 2013-2015 HMDA LAR and 2013 Peer Mortgage Data

Business Loans

FHBs distribution of loans in the AA reflects reasonable dispersion. In 2014 and 2015, there were no loans in our sample originated to businesses in a low-income CT. However, FHB originated 20 percent of business loans in our sample to businesses within moderate-income CTs. This distribution was less than the demographic comparator of 0.7 percent for low-income CTs, and the demographic comparator of 26.9 percent for moderate-income CTs. In 2013, there were no loans in our sample originated to businesses in a low-income CT while 15 percent of business loans in our sample were originated to businesses within the moderate income CTs. This distribution was also below the demographic comparator of 0.7 percent for low-income CTs, and the 26.2 percent for moderate-income CTs.

The lack of penetration within the AA’s low income CTs was because the AA only contains one low-income CT. Additionally, there is strong competition in the market area.

The following tables detail the Bank’s performance as compared to the percentage of businesses in each CT income level.

2013 Geographic Distribution of Loans to Businesses								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Business Loans	% 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
Total	0.73%	0.00%	26.20%	15.00%	50.38%	40.00%	22.69%	45.00%

Source(s): 2010 U.S. Census data, 2013 Business Geodemographic Data, and a sample of business loans originated in 2013.

2014 Geographic Distribution of Loans to Businesses								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Business Loans	% 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
Total	0.65%	0.00%	26.94%	20.00%	49.09%	60.00%	23.32%	20.00%

Source(s): 2010 U.S. Census data, 2014 Business Geodemographic Data, and a sample of business loans originated in 2014 and 2015.

**Responses to Complaints**

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

**COMMUNITY DEVELOPMENT TEST**

The bank’s performance under the CD Test is Outstanding.

FHB’s CD performance, through its record of retail services, CD loans, and qualified investments demonstrate excellent responsiveness to CD needs in its AA. To evaluate FHB’s CD performance, we considered the Bank’s size in relation to the size of the AA and the needs within the community.

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

FHB's CD lending reflects excellent responsiveness to CD needs within its AA.

FHB originated 17 CD loans totaling approximately \$7 million during the evaluation period. These loans were distributed among various projects including affordable housing project financing, community service, and revitalization and stabilization efforts towards low- and moderate-income communities. The loans originated provided needed funds to build affordable housing, provide childcare, and health care services to low- and moderate-income individuals and families. FHB also originated several loans to small businesses that created jobs and revitalized low- and moderate-income CTs.

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

FHB's CD investing demonstrates adequate responsiveness to the needs in the Bank's AA.

FHB does not have any investments meeting the CD definition. However, during the assessment period, FHB provided \$52,000 in the form of 43 separate donations to local community organizations whose mission is to provide assistance to low- and moderate-income individuals. These organizations provide affordable housing, educational opportunities, health care services, and food to low- and moderate-income individuals and families. 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**

FHB's CD services reflected excellent responsiveness to meeting community needs within its AA.

FHB offers online banking to provide customers with additional access to its 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.

To 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 \$146 million in loans to the secondary market.

The Bank's Hardinsburg, Indiana branch was located in a moderate-income census tract in Washington County. This branch was in operation for most of the assessment period.

Through the Bank's officers and employees, FHB is involved in a variety of CD services in the AA. One officer serves as the treasurer for the Harrison County Habitat for Humanity and another employee provides financial expertise to the same organization. A Bank employee helps the Metro United Way perform financial analysis of non-profit organizations targeting low- and middle-income individuals and families. The Metro United Way then provides funds to these entities to assist them in meeting their goals. Two employees participated in the Junior

Achievement of Kentuckiana program at three elementary schools where a majority of children are from low- or moderate-income families. This program focuses on teaching basic business and economic principles to children. In addition, several Bank employees either serve as board members or provide financial expertise to the following organizations: Washington County Economic Growth Partnership, Repair Affair of Harrison County, Salem Redevelopment Commission, the City of Salem's Revolving Loan Committee, the Southeast Indiana Small Business Development Center Advisory Board, and Harrison County Community Services.

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

FHB's CD activities, as a whole, demonstrate excellent responsiveness to the needs and opportunities in the AAs. Several Bank CD loans promoted economic development for low- and moderate-income individuals. FHB made multiple donations to organizations whose goal it is to provide needed housing and other services to low- and moderate-income individuals and families. Further, FHB employees provided numerous community services to organizations offering services to low- and moderate-income individuals.

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

Pursuant to 12 CFR 195.28(c), in determining a federal savings association's (FSA) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the FSA, or in any AA by an affiliate whose loans have been considered as part of the FSA's lending performance.

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