



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**March 01, 2004**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The Farmers National Bank of Cynthiana  
Charter Number 2560**

**101 East Pike Street  
Cynthiana, KY 41031**

**Comptroller of the Currency  
Louisville Field Office  
9200 Shelbyville Road, Suite 505  
Louisville, KY 40222**

**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 document is an evaluation of the Community Reinvestment Act (CRA) performance of Farmers National Bank of Cynthiana in Cynthiana, Kentucky prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of March 1, 2004. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

**This institution is rated Satisfactory.**

Major Conclusions:

- A substantial majority of loans and other lending-related activities are in the bank's assessment area.
- The distribution of loans reflects excellent penetration among individuals of different income levels.
- The average loan-to-deposit ratio is reasonable, considering the bank's size, financial condition, and assessment area credit needs.

## **DESCRIPTION OF INSTITUTION**

Farmers National Bank of Cynthiana (FNB) is a full-service intrastate bank 100% owned by Farmers National Bancorp of Cynthiana, Inc, a two-bank holding company headquartered in Cynthiana, Kentucky. As of December 31, 2003, the bank had \$115 million in total assets, \$87 million in deposits, \$46 million in loans, and \$17 million in Tier One Capital. The bank offers traditional banking products and services and operates six offices and a stand-alone drive-up facility. FNB has its main office, the drive-up facility, and the Installment Loan office in downtown Cynthiana. In addition, FNB has a full-service branch on the east side of Cynthiana and one on the south side of Cynthiana as well as a full-service branch in Berry, KY, which is the second largest city in Harrison County. The Bourbon County branch, which was opened in mid-2003, is located in Paris, Kentucky. All of the offices are full-service with the exception of the Installment loan center and the drive-up window location. The bank has no Automated Teller Machines (ATMs) at this time. All of the offices are accessible to all segments of the community.

The bank's primary lending focus is home mortgage loans and consumer loans. FNB also makes loans to small businesses and farms in the area. As of December 31, 2003, net loans represented approximately 45% of the bank's average assets. The loan portfolio mix is as follows: commercial real estate loans 33%, 1-4 family residential mortgages 18%, non-farm non-residential loans 17%, consumer loans 15%, agriculture loans 5%, financial institution loans 4%, multifamily loans 3%, farm-related real estate loans 2%, construction and development loans 2%, and municipal loans of 1%.

There are no legal or financial circumstances that impact the bank's ability to meet community credit needs. The last CRA evaluation was performed on November 19, 1998. The bank received a rating of satisfactory. This CRA evaluation will cover the time period of January 2002 to December 2003.

## **DESCRIPTION OF HARRISON COUNTY**

FNB has identified Harrison County as its assessment area (AA) for CRA purposes. The assessment area delineation is in conformance with the regulatory requirements of CRA and appears appropriate in relation to the location of the bank's offices. The delineation of the assessment area does not arbitrarily exclude any low- or moderate-income areas.

Bourbon County was added to the assessment area in mid-2003. However, due to the change in assessment area and the addition of the 2000 Census' effect on our analysis, we have chosen to review the bank's compliance with CRA using the January 2003's delineated assessment area for this examination, which is Harrison County only.

The assessment area includes the entire county and is located in the non-metropolitan portion of the State of Kentucky. The 2000 U.S. Census divided the assessment area into five census tracts (CT's) with three being middle-income and two being upper-income geographies. There were no low-income or moderate-income CT's identified within Harrison County. This was based on the Kentucky 2000 Median Family Income for a non-metropolitan area of \$38,600.

Harrison County is a rural county located in central Kentucky with a total population of 17,983 according to the 2000 U.S. Census. The 2000 population of the AA was comprised of 7,006 households, of which 2,027, or 29%, are considered to have low- or moderate-incomes. In addition, the percentage of households in the AA living below the poverty level is approximately 12%, and 30% of the households receive social security benefits. The median family income for the assessment area is \$43,157.

The economy of the assessment area is declining with employment typically based in light industrial companies and the service industry. While a significant portion of workers in Harrison County commute to jobs in Georgetown and Lexington, Kentucky, the majority of the employment opportunities in Cynthiana revolve around factory positions with some agriculture-related jobs. Specifically, major employers in Harrison County include 3M (office supplies manufacturer), Concept Packaging Group (corrugated containers), Bullard (safety equipment manufacturer), and TI Group Automotive Systems (automotive refrigeration coil and steel tubing). Other significant employers include the local hospital and the Board of Education. As a result of the declining economy in Cynthiana, unemployment rates remain high for 2003. According to the U.S. Department of Labor, the most current unemployment rate for the assessment area is 7.3% for December 2003 and is above both the state (6.2%) and national (6.0%) annual unemployment rates. .

Competition is considered strong and involves competition from banks and finance companies.

A community contact familiar with the area's credit needs indicated all local banks are active in the community and are willing to provide financing for potential projects. The contact did not identify any credit needs in the county that were not being addressed by the banks or through other sources.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Lending in Assessment Area

A substantial majority of loans and other lending-related activities are in FNB's assessment area. The analysis shows approximately 85% of the number and 80% of the dollar amount of loan originations sampled were to borrowers inside the assessment area. To reach this conclusion, the OCC analyzed the bank's lending activity by selecting a random sample of twenty loans originated since the last CRA examination. See table below for details.

<b>SAMPLE OF LOAN ORIGINATIONS FROM JAN 2002 THROUGH DEC 2003</b>				
	<b>Number of Loans</b>	<b>Percentage of loans</b>	<b>Dollar Amt of Loans \$(000's)</b>	<b>Percentage of Loans</b>
<b>Within the Assessment Area</b>	17	85.00%	\$433	80.48%
<b>Outside the Assessment Area</b>	3	15.00%	\$105	19.52%
<b>Totals</b>	20	100.00%	\$538	100.00%

\* Source: Randomly selected sample of loans originated between Jan 2002 and December 2003.

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

The distribution of loans, given the demographics of the assessment area, reflects excellent penetration among individuals of different income levels (including low- and moderate-income). To reach this conclusion, the OCC analyzed the bank's lending activity by selecting a random sample of twenty loans from each of the bank's primary loan types. Primary loan types were determined by reviewing the number and dollar amount of loans outstanding. The primary loan types identified for this analysis included 1-4 family residential mortgages and consumer loans. See the tables below for details.

"Table INC-1 Home Mortgage Loans" shows the percentage of FNB's home mortgage loans to low- and moderate-income borrowers exceeded the percentage of families in the assessment area with low- and moderate-income. Low-income borrowers received 25% of the number of home mortgage loans and moderate-income borrowers received 25% of the number of home mortgage loans. FNB's mortgage lending is excellent considering the identified home mortgage credit needs in the community.

**Table INC-1 Home Mortgage Loans**

<b>1-4 FAMILY MORTGAGES</b>					
<b>Borrower Income Level</b>	<b>Sampled Between January 1, 2002 and December 31, 2003</b>				<b>% of Families within each Income Category</b>
	<b># of Loans</b>	<b>%</b>	<b>\$ (000's)</b>	<b>%</b>	
<b>Low</b>	5	25.00%	\$ 168	13.31%	12.87%
<b>Moderate</b>	5	25.00%	\$ 207	16.40%	14.09%
<b>Middle</b>	3	15.00%	\$ 92	7.29%	21.84%
<b>Upper</b>	7	35.00%	\$ 795	63.00%	51.20%
<b>Total</b>	20	100.00%	\$1,262	100.00%	100.00%

\* Source: Randomly selected sample of 1-4 family residential mortgages (home purchase loans) originated between January 2002 and December 2003 from within the bank's assessment area.

“Table INC-2 Consumer Loans” shows the overall percentage of FNB’s consumer loans to low- and moderate-income borrowers exceeded the percentage of households in the assessment area with low- and moderate-income. Low-income borrowers received 30% of the number of consumer loans. Moderate-income borrowers received 45% of the number of consumer loans.

**Table INC-2 Consumer Loans**

<b>CONSUMER LOANS</b>					
<b>Borrower Income Level</b>	<b>Sampled Between January 1, 2002 and December 31, 2003</b>				<b>% of Households within each Income Category</b>
	<b># of Loans</b>	<b>%</b>	<b>\$ (000's)</b>	<b>%</b>	
<b>Low</b>	6	30.00%	\$ 19	11.95%	17.26%
<b>Moderate</b>	9	45.00%	\$ 62	38.99%	11.68%
<b>Middle</b>	4	20.00%	\$ 69	43.40%	17.56%
<b>Upper</b>	1	5.00%	\$ 9	5.66%	53.50%
<b>Total</b>	20	100.00%	\$159	100.00%	100.00%

\* Source: Randomly selected sample of consumer loans originated between January 2002 and December 2003 from within the bank's assessment area.

We did not review farm and business loans as agricultural and commercial lending are not considered to be primary loan types for this bank and an analysis would not be meaningful.

### **Geographic Distribution of Loans**

A review of the bank's geographic distribution of loans was not performed as the analysis would not be appropriate since there were no low- or moderate-income CT's identified within the 1990 or the 2000 U. S. Census.

### **Loan-to-Deposit Ratio**

The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.

FNB's average net loan-to-deposit ratio for the twenty-one quarters since the last CRA evaluation is 69.11%. The loan-to-deposit ratio has decreased since the last CRA evaluation and as of December 31, 2003 is 52.82%.

The OCC identified one local competitor as well as four similarly situated financial institutions operating in markets similar to FNB's market. The similarly situated banks are comparable to FNB in asset and deposit size and major lending products. For these identified banks, the loan-to-deposit ratios ranged from 62% to 88% with an average ratio of approximately 69%.

<b>Institution</b>	<b>Average</b>
FNB of Cynthiana	69.11%
Bank #1 (local competitor)	66.82%
Bank #2	87.83%
Bank #3	65.53%
Bank #4	61.64%
Bank #5	64.26%

### **Responses to Complaints**

FNB has not received any complaints about its performance in helping to meet assessment area credit needs during this evaluation period.

### **Fair Lending Review**

We found no evidence of illegal discrimination or other illegal credit practices.