



SMALL BANK

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

PUBLIC DISCLOSURE

April 2, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Lincoln National Bank of Hodgenville
Charter Number 13479**

**41 Public Square
Hodgenville, KY 42748**

**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 Lincoln National Bank of Hodgenville, Kentucky prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of April 2, 2007. 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 majority of loans and other lending-related activities are in the bank's assessment area.
- The average loan-to-deposit ratio is more than reasonable, given the bank's size, financial condition, and assessment area credit needs.
- The distribution of loans reflects excellent penetration among individuals of different income levels and farms of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

SCOPE OF EXAMINATION

This Performance Evaluation assesses Lincoln National Bank of Hodgenville's record of meeting the credit needs of the communities in which it operates. We evaluated LNB under the Small Bank performance criterion.

- The evaluation period covers lending from March 12, 2002 to April 2, 2007.
- Conclusions regarding the bank's lending performance are based on our evaluation of the bank's primary loan products originated from January 1, 2005 to March 13, 2007. We determined LNB's primary product lines (residential real estate loans, consumer loans, and farm loans) by reviewing available lending reports for a representative timeframe and through discussions with management.
- Since LNB is subject to the data collection and reporting requirements of the Home Mortgage Disclosure Act (HMDA), we utilized HMDA data to analyze LNB's home mortgage lending activity. To verify the accuracy of the bank's HMDA data collection and reporting processes, we conducted an independent review and validated the data.
- To analyze the other two major loan products, we selected random samples from each

portfolio (consumer loans and farm loans), using source documents to collect the data. We used the same sampling timeframe as for HMDA loans.

DESCRIPTION OF INSTITUTION

Lincoln National Bank (LNB) is a full service intrastate institution located in Hodgenville, Kentucky, approximately 50 miles south of Louisville and 15 miles southeast of Elizabethtown. LNB is wholly owned by Hambac, Inc, a locally-controlled one-bank holding company. As of December 31, 2006 the bank had \$129 million in total assets, \$91 million in deposits, \$87 million in loans, and \$22 million in Tier One Capital. The bank offers traditional banking products and services from three offices located in the town of Hodgenville, the county seat of LaRue County. The bank's business strategy is to provide home mortgage loans, consumer loans, and farm loans to local borrowers. LNB's customers may apply for loans at the main office and Parkway branch locations. All three facilities accept deposits and have ATM machines. No offices have opened or closed since the last CRA public evaluation.

As of December 31, 2006 net loans represented 69% of the bank's average assets. The loan portfolio mix is as follows: 1-4 family residential loans (53%), farm loans (20%), consumer loans (16%), and business-purpose loans (11%).

LNB provides credit to local borrowers seeking long term fixed rate home mortgage loans by originating loans for sale on the secondary market. Under this program, the bank provides conventional mortgages with terms up to thirty years. Since March 2002 the bank has served 20 homeowners under this program with loans totaling \$2,486,000.

There are no legal, financial, or other constraints that could impair the bank's ability to meet the credit needs of the community. The last CRA examination was March 11, 2002. The bank received a Satisfactory rating.

DESCRIPTION OF ASSESSMENT AREA

LNB has identified LaRue County as its assessment area (AA). The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The AA is part of the Elizabethtown, KY Metropolitan Statistical Area (MSA). The AA is comprised of three census tracts (CTs); two moderate- and one middle-income tract. LNB's offices are all located in the middle-income census tract, in Hodgenville, the county seat of LaRue County.

Lincoln National Bank of Hodgenville's Assessment Area				
County	Census Tract number	Geography Income Category	Major Towns	Contains Bank Office
LaRue	9601	Middle-income	Hodgenville	Yes
LaRue	9602	Moderate-income	Buffalo	No
LaRue	9603	Moderate-income	Magnolia	No

Our analysis of the geographic and borrower distribution of loans compares loans originated between January 1, 2005 and March 13, 2007 to the 2000 U.S. Census demographic information. The income level designations used in the analysis of home mortgage loans are based on the Department of Housing and Urban Development (HUD) estimate of the Elizabethtown, KY MSA's 2006 updated Median Family Income of \$51,300. Income level designations for the consumer loan analysis are based on the median household income of \$32,679.

LaRue County's population is 13,373. Of the county's 5,289 households, 17% are below the poverty level and 31% receive social security benefits. Median family income is \$37,208. About 9% of the county's 3,874 families are below the poverty level. (2000 U.S. Census.)

The two moderate-income census tracts have 5,905 residents. Each census tract is served by a local bank. This contributes to LNB having less penetration in these areas.

The community is predominantly rural in nature. Tobacco, beef, dairy, and grain crops all contribute a significant amount of income to the local economy. Dun and Bradstreet identified 160 farms in LaRue County, with 82 located in the middle-income census tract and 78 in the two moderate-income census tracts. The farms are all small operations. None reported annual revenue in excess of \$1 million. LaRue County is considered a bedroom community for the Elizabethtown and Hardin County areas, approximately 15 miles away. Over 58% of residents commute to neighboring counties for employment.

The economy of the local and regional area remains stable. LaRue County's largest employers include Nationwide Uniform Corporation (manufacturer of military, postal service, and law enforcement uniforms), Clayton Homes (manufacturer of double wide mobile homes), LaRue County Board of Education, and NSU Corporation (manufacturer of auto parts).

The unemployment rate in LaRue County is moderate. According to the Kentucky Office of Employment and Training, the unemployment rate is 6.8% as of February 2007, slightly higher than the statewide rate of 6.6% and the Elizabethtown, KY MSA rate of 6.3%.

Four commercial banks operate in LaRue County. As of June 30, 2006, LNB ranks first in deposit market share with 43% of the area deposits. In the Elizabethtown, KY MSA, 16 banks and savings institutions operating from 49 offices control \$1.4 billion in deposits. Several large credit unions and nontraditional financing sources also serve the MSA. The top three banks hold 42% of the MSA's deposits. LNB ranks seventh with 6% of the MSA's deposits.

Examiners contacted a local realtor and a regional community development official to learn more about the primary credit needs of LaRue County. They indicated demand exists for home mortgage loans, consumer purpose loans, agricultural production loans, and loans for farm real estate. They indicated all local banks are active in the community and actively provide financing for these types of loans. The contacts did not identify any credit needs not being addressed by the banks or through other sources.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs. LNB's average net loan-to-deposit ratio for the 20 quarters since the last CRA public evaluation is 99.09%. The ratio has ranged from a low of 88.15% on March 31, 2003 to a high of 110.17% on September 30, 2005.

We compared LNB to five similarly situated banks operating in LaRue County and neighboring Hardin County. These banks are comparable to LNB in asset size, deposit size, and major lending products. LNB's average loan-to-deposit ratio exceeds all five of the similarly situated banks. Table 2 shows the average loan-to-deposit ratios of the other banks for the period under review range from 65% to 96%.

Institution	Average
Lincoln National Bank	99.09%
Bank #1	96.32%
Bank #2	88.58%
Bank #3	80.15%
Bank #4	79.61%
Bank #5	64.70%

Lending in Assessment Area

A majority of loans and other lending-related activities are in LNB's assessment area. Table 1 shows borrowers inside the assessment area received 75% of the number and 72% of the dollar amount of sampled loan originations and HMDA-reported loans. To reach this conclusion, the OCC analyzed the bank's lending activity by selecting a random sample of twenty consumer loans and twenty farm loans originated between January 1, 2005 and March 13, 2007, as well as all home mortgage loan data collected and reported under HMDA for the same time period.

Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase (1)	84	67.74%	40	32.26%	124	\$ 5,796	64.50%	\$3,190	35.50%	\$ 8,986
Home Improvement (1)	68	81.93%	15	18.07%	83	\$ 2,612	85.75%	\$ 434	14.25%	\$ 3,046
Refinancing (1)	81	75.70%	26	24.30%	107	\$ 6,827	75.97%	\$2,159	24.03%	\$ 8,986
Consumer (2)	18	90.00%	2	10.00%	20	\$ 199	96.60%	\$ 7	3.40%	\$ 206
Farm loans (3)	14	70.00%	6	30.00%	20	\$ 654	52.91%	\$ 582	47.09%	\$ 1,236
Total	265	74.86%	89	25.14%	354	\$16,088	71.63%	\$6,372	28.37%	\$22,460

Source: Bank records of loans originated between January 1, 2005 and March 13, 2007 (verified by examiners).

(1) Represents loans collected and reported under the Home Mortgage Disclosure Act (HMDA).

(2) Represents sample of 20 consumer loans. (3) Represents sample of 20 farm loans.

Lending to Borrowers of Different Incomes and to Farms of Different Sizes

The distribution of loans reflects more than reasonable penetration among individuals of different income levels (including low- and moderate-income) and farms of different sizes. To reach this conclusion, the OCC analyzed loan data submitted under HMDA for calendar years 2005 and 2006, and data collected through March 13, 2007. The OCC also analyzed random samples of twenty loans each from the other two primary loan types, consumer loans and farm loans, for the same time period.

Residential Real Estate Loans

The distribution of residential real estate loans reflects more than reasonable penetration for originating home mortgage loans to individuals of different income levels (including low- and moderate-income). Table 3 shows the percentage of most types of LNB's residential real estate loans to low- and moderate-income borrowers meet or exceed the percentage of families in the assessment area with low- and moderate-income.

- Low-income borrowers received 19% of LNB's home purchase loans, 24% of its home improvement loans, and 33% of its home refinance loans. This degree of penetration is reasonable, considering 9% of families in the AA have income below the poverty level. Applicants at income levels below \$25,650 are often unable to qualify for home mortgage loans.
- Moderate-income borrowers received 32% of LNB's home purchase loans, 24% of its home improvement loans, and 18% of its home refinance loans. This degree of penetration is more than reasonable considering alternative sources of financing such as mortgage brokers available to borrowers in this income level.

LNB helps to address LaRue County's home purchase credit needs by participating in a government-sponsored program targeted toward low- and moderate-income borrowers. Through the "Welcome Home Program" of the Federal Home Loan Bank of Cincinnati (FHLB), LNB provides down payment assistance specifically for low- and moderate-income homebuyers. The grants under this program range from \$5,000 to \$7,500 per applicant. Since February 2004 the bank has served 18 homebuyers under this program and originated loans totaling \$1,211,000.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Home Purchase	24.14%	18.52%	21.81%	32.10%	21.40%	28.39%	32.65%	20.99%
Home Improvement	24.14%	24.24%	21.81%	24.24%	21.40%	27.28%	32.65%	24.24%
Refinancing	24.14%	33.33%	21.81%	17.95%	21.40%	24.36%	32.65%	24.36%

Source: Data reported under HMDA – January 1, 2005 to March 13, 2007; 2000 U.S. Census.

Consumer Loans

The distribution of consumer loans reflects more than reasonable penetration for originating consumer loans to individuals of different income levels (including low- and moderate-income). Consideration was given to the identified consumer credit needs in the community and the distant location of LNB's offices in relation to the geographies where many of LaRue County's low- and moderate-income households are located.

- Low-income borrowers received 15% of LNB's consumer loans (See Table 4). This level of penetration is slightly below the percentage of households in LaRue County identified as low-income (21%), but is reasonable considering 17% of LaRue households are below the poverty level and 4% receive public assistance. Many individuals within these income levels do not have the financial capacity to qualify for bank loans.
- Moderate-income borrowers received 35% of LNB's consumer loans. This level of penetration significantly exceeds the percentage of households in LaRue County identified as moderate-income (14%).

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	21.02%	15.00%	13.73%	35.00%	17.38%	40.00%	47.87%	10.00%

Source: Sample of 20 consumer loan originations – January 1, 2005 to March 13, 2007; 2000 U.S. Census.

Farm Loans

The bank's performance of lending to farms of different sizes is more than reasonable. Loan size was used as a proxy to evaluate the distribution of LNB's loans to farms of different sizes, because farm revenue was not distinguished from non-farm revenue in most of the loan files. The rationale for segmenting loan activity into four categories was to differentiate the credit needs of small farming operations. In the sample of LNB's farm loans, 19 had original amounts under \$100,000 and one had an original amount between \$100,001 and \$250,000. Considering the identified agricultural credit needs in the community, LNB's record of farm lending is more than reasonable.

Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans (000's)	Percent of Dollar Volume
\$1 - \$100,000	19	95%	\$582	70.29%
\$100,001 - \$250,000	1	5%	\$246	29.71%
\$250,001 - \$500,000	0			
Over \$500,000	0			

Source: Sample of 20 farm loan originations – January 1, 2005 to March 13, 2007.

Geographic Distribution of Loans

The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area. There is lending in all census tracts. No conspicuous gaps were noted.

Residential Real Estate Loans

The geographic distribution of residential real estate loans is reasonable. Table 6 shows the percentage of the bank's home purchase loans to borrowers in the moderate-income census tracts (39%) is slightly below the percentage of owner-occupied housing in these census tracts (47%). The distribution of home improvement loans (47%) and refinancing loans (46%) equals the percentage of owner-occupied housing in the moderate-income census tracts.

Census Tract (CT) Income Level	Low		Moderate		Middle		Upper	
Loan type	% 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 Housing	% of Number of Loans
Home Purchase	NA	---	46.85%	39.29%	53.15%	60.71%	NA	---
Home Improvement	NA	---	46.85%	47.06%	53.15%	52.94%	NA	---
Refinancing	NA	---	46.85%	45.68%	53.15%	54.32%	NA	---

Source: Data reported under HMDA – January 1, 2005 to March 13, 2007; 2000 U.S. Census.

Consumer Loans

The geographic distribution of consumer loans is reasonable. Table 7 shows the geographic distribution of LNB's consumer loans meets the distribution of households in LaRue County.

Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	NA	---	45.04%	45.00%	54.96%	55.00%	NA	---

Source: Loan sample; 2000 U.S. Census.

Farm Loans

The geographic distribution of farm loans is reasonable. Table 8 shows 50% of LNB's farm loans were made to borrowers in the moderate-income census tracts, which slightly exceeds the percentage of farm operations located in this area (49%).

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farm Loans	NA	---	48.75%	50.00%	51.25%	50.00%	NA	---

Source: Loan sample; 2006 Business Geodemographic Data.

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

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