



PUBLIC DISCLOSURE

November 15, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Farmers National Bank
Charter Number 4271**

**136 West Main Street
Lebanon, Kentucky 40033**

Office of the Comptroller of the Currency

**Louisville Field Office
9200 Shelbyville Road, Suite 505
Louisville, Kentucky 40222**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Farmers National Bank (FNB)** prepared by **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of November 15, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated Satisfactory record of meeting community credit needs.

- % FNB's lending activity, as reflected in their average loan-to-deposit ratio since the last CRA examination, is reasonable.
- % FNB makes a substantial majority of their loans to borrowers located within their assessment area.
- % FNB's record of lending to borrowers of different income levels, including low- and moderate-income families is reasonable.

DESCRIPTION OF INSTITUTION

Farmers National Bank (FNB) had total assets of approximately \$72 million as of September 30, 1999. FNB is 100% owned by Lebanon Bancshares, Inc., a one-bank holding company. The bank's main office and only branch are located in downtown Lebanon, Kentucky. The branch does not originate loans. Both locations have drive-up facilities and automated teller machines (ATM).

FNB is a consumer oriented lender. As of September 30, 1999, net loans represented 36.69% of total assets. The composition of the loan portfolio was:

- C 39% one-to-four family residential loans;
- C 20% loans to individuals;
- C 20% agricultural loans;
- C 12% commercial real estate loans; and
- C 9% commercial and industrial loans.

There are no legal or financial constraints impeding FNB's ability to help meet the credit needs of its assessment area. FNB's prior CRA performance evaluation, dated November 14, 1996, was rated "Satisfactory record of meeting community credit needs".

DESCRIPTION OF MARION COUNTY

FNB's assessment area is Marion County, Kentucky. This assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income areas. According to the 1990 Census, the 1990 median family income for Marion County was \$22,442. Marion County is divided into eight Block Numbering Areas (BNAs) with the following designations:

Income Level of BNAs	BNA Numbers	Percentage of Total BNAs in Marion County	Percentage of Total Population in Marion County	Percentage of Owner Occupied Housing in Marion County
Low	none	0.0%	0.0%	0.0%
Moderate	9701, 9708	25.0%	10.9%	12.2%
Middle	9702, 9704, 9705, 9706, 9707	62.5%	77.8%	78.4%
Upper	9703	12.5%	11.3%	9.4%

Per 1990 Census Data, U.S. Bureau of the Census

For comparison purposes throughout this report, low-income means less than 50 percent of the weighted average median family income; moderate-income is from 50 to 80 percent; middle-income is from 80 to 120 percent; and upper-income is 120 percent and above. Also, to understand the Marion County demographics for comparative analysis, the 1990 Census data shows the following distribution of families by income levels:

Income Levels of Families	Percent of Families within each Income Level
Low	25.40%
Moderate	16.05%
Middle	18.62%
Upper	39.93%

Per 1990 Census Data, U.S. Bureau of the Census

The statewide median family income for non-metropolitan areas in 1997 was \$28,800, in 1998 was \$29,800, and in 1999 was \$32,200. This information was used to determine the income levels of the borrowers sampled as of the year their loan was originated.

Lebanon is the county seat of Marion County which is a rural county in central Kentucky with a population of approximately 17,000. The local economy has historically been based on agriculture. Manufacturing is becoming more of an employment base. The unemployment rate in Marion County as of June 1999 was approximately 6.1%, and is above state and national averages.

FNB's competitors in the assessment area include two independent banks, branches of regional banks, and finance companies. The primary credit needs identified by management are small consumer and residential loans. During the past year, FNB began offering a fixed-rate twenty-year residential loan product to help meet those needs. A community contact with an area community services organization stated the credit needs for the community includes low income housing.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

FNB's average quarterly net loan-to-deposit ratio since the last CRA examination is 42.6%. This lending activity is reasonable based on our comparison to similarly situated banks. The average loan-to-deposit ratio for a similarly situated bank in Lebanon for the same time period is 54%. The bank is similarly situated to FNB because they are similar in size and products, as well as being located in the same market area.

Lending in the Assessment Area

FNB makes a substantial majority of their loans to borrowers inside their assessment area of Marion County. To evaluate FNB's performance, we sampled 20 one-to-four family residential loans and 20 consumer loans, two primary loan products originated in 1997, 1998, and 1999. All 40 loans were originated to borrowers located within Marion County.

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

FNB's record of lending to borrowers of different income levels, including low- and moderate-income families is reasonable. This was reflected in the evaluation of the families gross income levels in our sample of the 40 loans previously described. The tables below show the reasonable loan distribution as compared to the demographics of Marion County.

Analysis of Distribution by Family Income Level of Residential Real Estate Loan Sample					
Income Level	*Percentage of Families in Marion County	Number of Loans	Percentage of Number	Dollar of Loans	Percentage of Dollar
Low	25.40%	3	15%	\$ 68,535	9%
Moderate	16.05%	5	25%	\$111,981	14%
Middle	18.62%	5	25%	\$239,078	31%
Upper	39.93%	7	35%	\$353,442	46%
Total	100.00%	20	100%	\$773,036	100%

* 1990 Census Data, U.S. Bureau of the Census

Analysis of Distribution by Family Income Level of Consumer Loan Sample					
Income Level	*Percentage of Families in Marion County	Number of Loans	Percentage of Number	Dollar of Loans	Percentage of Dollar
Low	25.40%	3	15%	\$ 6,880	6%
Moderate	16.05%	6	30%	\$ 29,499	25%
Middle	18.62%	8	40%	\$ 67,119	58%
Upper	39.93%	3	15%	\$ 13,077	11%
Total	100.00%	20	100%	\$116,575	100%

* 1990 Census Data, U.S. Bureau of the Census

Geographic Distribution of Loans

FNB's geographic distribution of loans is reasonable. The 40 loans we sampled, as previously described, were distributed throughout Marion County as reflected in the following tables.

Analysis of Distribution by BNA Levels of Residential Real Estate Loan Sample					
Income Level of BNAs	*Percentage of Owner Occupied Housing in Marion County	Number of Loans	Percentage of Number	Dollar of Loans	Percentage of Dollar
Low	0.0%	0	0%	\$ 0	0%
Moderate	12.2%	2	10%	\$ 55,000	7%
Middle	78.4%	18	90%	\$718,036	93%
Upper	9.4%	0	0%	\$ 0	0%
Total	100.00%	20	100%	\$773,036	100%

* 1990 Census Data, U.S. Bureau of the Census

Analysis of Distribution by BNA Levels of Consumer Loan Sample					
Income Level of BNAs	*Percentage of Total Population in Marion County	Number of Loans	Percentage of Number	Dollar of Loans	Percentage of Dollar
Low	0.0%	0	0%	\$ 0	0%
Moderate	10.9%	1	5%	\$ 2,800	2%
Middle	77.8%	18	90%	\$110,573	95%
Upper	11.3%	1	5%	\$ 3,202	3%
Total	100.00%	20	100%	\$116,575	100%

* 1990 Census Data, U.S. Bureau of the Census

The low percentages, as compared to the population's demographics, of originations in our sample from the two moderate and one upper income areas are due to those areas being sparsely populated, out of the city limits, and served by branches of other banks in the assessment area.

RESPONSE TO COMPLAINTS

FNB has not received any CRA related complaints since the last CRA examination.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS

We did not identify any violations of the substantive provisions of the antidiscrimination laws and regulations. We reviewed a sample of 20 auto loans to women and 20 auto loans to men originated over the past year for a comparison of rates and terms.