



Comptroller of the Currency
Administrator of National Banks

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PUBLIC DISCLOSURE

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

October 24, 1996

**Morganfield National Bank
Charter Number - 7490
P.O. Box 390
Morganfield, Kentucky 42437**

<p>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.</p>

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Morganfield National Bank, Morganfield, Kentucky** prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency.

The evaluation represents the OCC's current assessment and rating of the institution's CRA performance based on an examination conducted as of October 24, 1996. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following sections of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating

Based on the findings presented below, this institution is rated: **"Satisfactory Record of Meeting Community Credit Needs."**

Evaluation Period

This evaluation of Morganfield National Bank covers the period of time from the last Performance Evaluation issued as of June 3, 1991 through October 24, 1996.

Community Profile

Morganfield National Bank (MNB) is located in Morganfield, Kentucky. Morganfield is a rural community located in western Kentucky approximately 35 miles southwest of Evansville, Indiana. MNB's delineated community is Union County, Kentucky, of which Morganfield is the county seat. According to the 1990 Census, Morganfield has a population of 3,776, while Union County has approximately 16,557 residents.

The median family income for Union County according to the 1990 Census data is \$23,798. There are only 3 block numbering areas in the bank's delineated community, all of which are upper income areas. There are no low- and moderate-income areas.

The local economy is stagnant. As of July, 1996, unemployment was 4.7% in Union County which is comparable to the state average. Union County is primarily dependent on agriculture and secondarily dependent on coal mining and small manufacturing. In 1992, Union County lost an estimated \$31 million in wages due to the downsizing of the coal mining industry. To offset this loss of revenue, the county receives a coal severance from the state of Kentucky to help existing companies expand and to attract new industrial manufacturing companies.

Strong banking competition is provided in the local market by Citizens Bank of Kentucky, an affiliate of CNB Bancshares in Evansville, Indiana, and First Kentucky State Bank of Kentucky, an affiliate of National City Bancshares in Evansville.

Bank Profile

Morganfield National Bank (MNB) is a \$110 million institution which leads the area in market share in both deposits and loans. MNB is a member of Old National Bancorp, a bank holding company headquartered in Evansville, IN. Old National Bancorp is the largest independently owned bank holding company in Indiana with more than \$5 billion in total assets. MNB's main office is located in downtown Morganfield. Two additional full-service branches and two limited service branches are located in and around Morganfield. The bank also has one loan production office (LPO) in Eddyville, (Lyon County), Kentucky.

As of September 30, 1996, the bank's return on average assets (ROAA) was 1.28%. This is comparable to the ROAA of the bank's national and local peers.

The bank's loan-to-deposit ratio is 89%. This level is good considering the level of competition in the area. Primary lending activities of MNB include residential real estate loans (49% of the portfolio), commercial loans (24%), consumer loans (18%), agricultural loans (8%), and other real estate loans (1%). These loan types comprise the majority of the bank's loan portfolio and totaled \$41,111,000 as of September 30, 1996.

I. **ASCERTAINMENT OF COMMUNITY CREDIT NEEDS**

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

- **Morganfield National Bank does a good job of ascertaining community credit needs and explaining bank services to the community.**

Board members, management, and bank employees participate in a variety of community organizations in an effort to remain cognizant of community needs.

Ongoing contact is maintained with local officials, leaders of city and county government, private nonprofit organizations, and governmental program coordinators for their input and ideas. From these contacts, management has determined that there are no unmet credit needs, but an ongoing need for residential housing loans and agricultural loans.

Management uses a variety of marketing tactics to communicate the availability of bank products and services. MNB is proactive in contacting individuals and community groups through surveys, advertising, and other means. The bank also utilizes a full-time marketing director to determine credit needs and develop advertising to help make the public aware of products offered.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purpose of the Community Reinvestment Act.

- **The Board of Directors takes an active role in the bank's CRA process through a formal, written program. CRA is an important component of the board planning process.**

The Board of Directors reviews and formally adopts the bank's Community Reinvestment Act (CRA) statement annually, most recently as of April 17, 1996. CRA efforts are well documented and provide a means for self-assessment.

The Board of Directors remains aware of CRA activities through participation in the bank's CRA Committee, Community Involvement Committee, and Marketing Committee. Directors and senior management are also personally active in numerous local community groups. Among the groups represented are the Morganfield Chamber of Commerce, Union County Economic Development Foundation, and Habitat for Humanity. The bank's main office facilities are used by the Chamber of Commerce and Habitat for Humanity for their regular board meetings, and MNB underwrites the cost of the Chamber's newsletters.

Directors and employees receive formal training on an annual basis. Among other things, geographically coded pin maps are shown at these training sessions to demonstrate how the bank's lending practices are serving the whole community.

II. **MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED**

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

- **The bank's marketing efforts are good, penetrating all areas of the delineated community. They inform the community of the bank's presence and willingness to serve the community's needs.**

Marketing and advertising programs are aggressive and are designed to stimulate awareness of the bank's products and services. MNB also makes wide use of general name recognition advertising. Examples of media advertising used include: two weekly newspapers, the Henderson Community College school newspaper, a local radio station, billboards, and program books sponsored by civic groups and other organizations.

Bank personnel routinely provide assistance to individuals and groups applying for credit using products such as the Kentucky Housing Loan program for low- and moderate-income applicants, the first time home buyer program, and special low cost deposit products.

The bank utilizes a significant portion of its yearly marketing budget on bank defined CRA-related activities. This is illustrated by the following table:

TABLE 1

ANNUAL MARKETING BUDGET			
	<i>Budget</i>	<i>Actual</i>	<i>% Toward CRA Activ.</i>
1994	\$59,750	\$64,000	28.7%
1995	67,000	75,948	37.9%
YTD 1996	63,000	64,000	28.6%

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

- **The bank has a good record of originating loans that meet the needs of the community.**

Although the local economy continues to be stagnant, management has been successful in increasing the bank's loan portfolio every year. This further evidences management's willingness to meet community credit needs. Lending patterns in 1992 and 1993 are similar to YTD 1996. The 1994, 1995, and YTD 1996 information is the most relevant.

TABLE 2

	1994	1995	Y-T-D 1996
GROSS LOANS	\$61,509,000	\$63,312,000	\$71,261,000
% YEARLY GROWTH	29.8%	2.9% *	12.6%

* Loan demand was hindered in 1995 by rising interest rates.

As depicted in Table 3, a significant volume of the bank's outstanding loans are within its delineated community. An additional 5% are in Lyon County, Kentucky, where the LPO is

located. This data reflects that the bank is making the types of credit available that are needed by the community.

TABLE 3

LOANS WITHIN THE DELINEATED COMMUNITY AS OF 6-30-96						
	<i>Volume (000's)</i>				<i>% Inside Community</i>	
	<i>Inside Community</i>	<i>#</i>	<i>Outside Community</i>	<i>#</i>	<i>\$</i>	<i>#</i>
Real Estate Loans	\$9,061	316	\$8,048	168	53%	65%
Agricultural Loans	5,534	133	447	11	93%	92%
Small Business Loans	6,996	171	11,025	47	39%	78%
Gross Loans *	49,317	3,884	22,789	943	68%	80%

* Includes the first 3 categories plus all other loan types.

In 1995, MNB began participating in the loan program Equity Partners Investing in the Commonwealth (EPIC), which helps low- and moderate-income individuals achieve home ownership through partial financing of their down payments. Although demand has been minimal, MNB has originated 3 such loans to date totaling \$5,050. These loans are guaranteed and serviced by the Kentucky Housing Authority.

Assessment Factor J - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

- **The bank's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, and small farms is satisfactory.**

MNB participates in various federal and state government related loan programs that target first-time home buyers, farmers, and small businesses. The bank actively participates in the Kentucky Housing Authority (KHA), Veterans Administration (VA), and Federal Housing Administration (FHA) loan programs. To a lesser extent, the bank also participates in the Farm Service Agency [formerly Farmers Home Administration (FmHA)] and Small Business Administration (SBA) loan programs. Table 4 describes the bank's level of participation in these programs:

TABLE 4

<i>Type</i>	1995		YTD 1996	
	<i># of Orig.</i>	<i>\$ Volume</i>	<i># of Orig.</i>	<i>\$ Volume</i>
FHA Loans *	9	\$345,124	10	\$430,859
VA Loans *	6	296,276	6	459,060
SBA Loans	1	100,000	0	0

* Kentucky Housing Authority loans are originated as both FHA and VA loans.

Of the 31 FHA/VA loans granted in the past two years, 13 totaling \$505,874 (33%) were originated within the bank's delineated community.

The bank is an approved SBA lender, offering conventional SBA and "low documentation" SBA loans. The SBA program is designed to assist small businesses in obtaining financing for working capital loans and capital improvements.

Participation in the SBA program, as well as the Farm Service Agency program (the bank only has one Farm Service loan which originated in 1988), has been limited. This is due to a lack of demand, and also to the fact that the bank's current loan programs adequately meet the credit needs of the community.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES.

Reasonableness of Delineated Community

- **The bank's delineated community is reasonable and does not exclude any low- and moderate-income areas.**

MNB has delineated its community as all of Union County, Kentucky. This area is effectively served by the bank. This delineation is reasonable due to the majority of the bank's loans and deposits coming from within this area.

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

- **An analysis of the geographic distribution of the bank's loans shows that MNB lends reasonably to all segments of the delineated community.**

MNB performs a geographic analysis of its loan originations according to the various zip codes in Union County. Detailed pin maps are maintained to track all loan originations and denials. An analysis of demographic data and lending patterns shows that the bank's

distribution of loans is reasonable. There are no low- and moderate-income areas. A minimal number of low- and moderate-income borrowers are scattered throughout the bank's delineated community, and are adequately served.

MNB's approval rate of loans is satisfactory. An analysis of the bank's zip code data reveals a reasonable distribution, based on population levels, of approved real estate and agricultural loans within the delineated community.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

- **The bank's record of opening and closing offices and providing services is good. Offices are conveniently located, and business hours and services are designed to meet the needs of community members.**

In addition to its main office in downtown Morganfield, MNB has two full service offices and two limited service facilities. No offices have been closed since the last examination. The bank opened a loan production office in Eddyville, Kentucky in July 1995. Based on loan growth and demand in that area, the opening of this office has had a positive impact on that community.

All banking facilities are easily accessible and provide convenient hours for customers. Commonly offered business hours are 8:30 A.M. to 5:00 P.M. Monday through Thursday, 8:30 A.M. to 5:30 P.M. on Friday, and 8:30 A.M. to Noon on Saturday. These business hours provide reasonable access to banking products and services.

IV. **DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES**

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

- **The bank's lending practices do not discourage applications for the types of credit offered by the bank.**

Our analysis of loans approved and denied and our discussions with management show that the bank solicits applications from all segments of its delineated community. Management provides ongoing training to lending officers and other bank personnel on all aspects of fair lending. The bank has adequate policies and procedures in place to ensure that discriminatory practices are excluded from all aspects of the credit process.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

- **No evidence of prohibited discriminatory or other illegal credit practices were noted during this examination.**

During our examination, we tested residential loan applications to determine if all applicants had an equal chance of obtaining a loan. To accomplish this, we compared the home purchase loan applications of unsuccessful minority applicants to those of successful non-minority applicants to determine the treatment received and the level of assistance provided to each. We found that both groups were treated similarly, and each received comparable levels of assistance throughout the application process.

V. **COMMUNITY DEVELOPMENT**

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

- **The bank's participation in community development and redevelopment projects is satisfactory.**

The Board and management are committed to ongoing involvement with community development projects within the local community. Board members and bank management take a leadership role in community development and redevelopment initiatives. In addition to the time and services that bank officers and directors provide to these initiatives, MNB also provides financial support. Examples of how the bank supports these programs are as follows:

- MNB is responsible for bringing Habitat for Humanity (Habitat) to Union County. Habitat is an organization which seeks to provide low-income families acceptable housing and the opportunity to become homeowners. The bank donated \$1,000 per year from 1994-96 to Habitat, and was also instrumental in receiving \$5,000 in federal grant money toward the buy down of the first Habitat home in Morganfield. MNB also hosts weekly Habitat meetings at its main office. The bank's Marketing Director Kim Humphrey co-chairs the fund-raising efforts and attends training sessions as necessary.
- Several of the bank's directors are involved in the Union County Economic Development Foundation, a nonprofit organization that focuses on improving the economic environment of the community. The foundation works on a regional level with ten surrounding counties to improve economic conditions, and is also responsible for promoting county tourism. The foundation has developed two industrial parks in Union County, one in Morganfield and one in Sturgis, Kentucky. These parks have been in existence for several years and contain a total of five industries. The Morganfield industrial park has additional land available for expansion and growth. Locally displaced coal mining workers are offered first priority on jobs that become available with new industrial companies.

- MNB participates in both the purchase and servicing of local bond issuances. In 1996 the bank purchased a \$110,000 Union County Public Improvement Revenue Bond, and a \$250,000 Union County School Bond. The bank services six other local bond issuances totaling \$14,040,000.

The above programs demonstrate MNB's willingness to take an active role in providing assistance in helping to revitalize the community. The bank supports community development and redevelopment efforts, through its personnel and financial resources.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

- **The bank's efforts to meet the community's credit needs are satisfactory considering its size and financial condition. No legal impediments exist which inhibit the bank's efforts to meet community credit needs.**

There are no constraints on CRA performance posed by local economic conditions, the bank's financial condition, size, or legal impediments. Profiles of the local community and of the bank are detailed at the front of this public evaluation.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

- **MNB is satisfactorily involved in a variety of community activities that help the bank in meeting the credit needs of the community. The bank also provides other services that help meet community credit needs.**

MNB participates in the government-guaranteed student loan program. As of September 1996, the bank was servicing 327 student loans totaling \$510,701.

MNB is responsible for starting a Student Bank at Union County High School, an accredited honors class run by 16 senior students. The bank's Marketing Director is the coordinator for this program. The program, which is run by the students themselves under bank supervision, teaches participants about all aspects of banking by offering loan and savings accounts to the student body and faculty. MNB provides all equipment, including calculators, filing cabinets, desks and chairs. The bank frequently hires some of the student bankers on a part-time basis, and provides a \$500 scholarship to one member of the student bank at the end of each school year.

The bank participates in most school-related activities, including special classes that involve children from low- and moderate-income households and those with special needs. The bank is involved in the Head Start program through donations of money and employee time.

MNB is involved in the School-to-Work program, which takes into consideration the needs of the local labor market with the training students need to receive in schools.

The bank participates in local career fairs and resource fairs when they are available:

- MNB representatives participated in the “LINKS” resource fair in 1995-96, a conference which showcases different resources available to community members.
- The bank provides employee time on a volunteer basis for the APPLES (A Place People Link with Existing Services) elementary school program. This state government program offers after school care and is also a resource center for those in need. The bank’s participation began in 1993 and continues.
- MNB employees participated in an exhibit called Senior Celebration 1996 sponsored by the Green River Area Development District. MNB employees were asked to participate because of the special banking products they offer to seniors.

The bank has had 100% employee participation in the United Way since the program began locally four years ago. A President’s Award plaque was given to the bank in recognition for its commitment to this program. MNB’s president serves on the United Way’s allocation committee.

MNB has made numerous donations to local charitable and not-for-profit organizations.