



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 9, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Farmers National Bank of Danville
Charter Number 2409

304 West Main Street
Danville, Kentucky 40422

Office of the Comptroller of the Currency
Louisville Field Office
9200 Shelbyville Road, Suite 505
Louisville, Kentucky 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 institution is rated "Satisfactory."

The Lending Test is rated: "Satisfactory."

The Community Development Test is rated: "Satisfactory."

The Farmers National Bank of Danville (FNB) has a good record of meeting community credit needs. This conclusion is based on the following:

- The bank's loan-to-deposit ratio is more than reasonable.
- A majority of FNB's loans were originated within the bank's assessment area (AA).
- FNB's distribution of loans to low- and moderate-income individuals and businesses with gross revenues of less than \$1 million is satisfactory.
- FNB's community development performance demonstrates satisfactory responsiveness to the community development needs of its AA.

SCOPE OF EXAMINATION

Conclusions regarding the bank's lending performance are based on residential mortgage and business loans originated between January 1, 2008 and June 30, 2010. Conclusions regarding the community development test are based on community development activities between June 20, 2007 and August 9, 2010. The test includes a review of the investments, services, and loans meeting the definition of community development.

DESCRIPTION OF INSTITUTION

The Farmers National Bank of Danville (FNB) is a full-service intrastate bank wholly owned by Boyle Bancorp, Inc. and headquartered in Danville, Kentucky. As of March 31, 2010, FNB had \$495 million in total assets, \$372 million in deposits, \$334 million in loans, and \$45 million in Tier One capital. The bank offers traditional banking products and services including a program which provides grants to low-income borrowers for purchasing a home.

The bank is accessible to all segments of the community. It has 11 locations: the main office; 3 branches with drive-thru facilities in Danville; 1 branch with a drive-thru facility in Burgin; 2 branches with a drive-thru facility in Harrodsburg; 1 branch with a drive-thru facility in Junction City; 1 branch with a drive-thru facility in Perryville; 1 branch with a drive-thru facility in Lancaster; and 1 branch with a drive-thru facility in Stanford. FNB has 12 Automated Teller Machines (ATMs) with 1 located at the main office, 10 at the others branches, and 1 located at the Greenleaf Express. FNB has 1 cash-only dispenser located at RR Donnelly in Danville.

The bank's primary lending focus is home mortgage loans and business loans. FNB also makes loans to consumers and farms in the area. As of March 31, 2010, net loans represented approximately 67 percent of the bank's total assets. The loan portfolio mix is as follows: 1-4 family residential mortgages 45 percent, commercial real estate loans 35 percent, farm-related loans 10 percent, construction and development loans 7 percent, consumer loans 2 percent, and other loans 1 percent.

There are no legal or financial circumstances that affect the bank's ability to meet community credit needs. The last CRA evaluation was performed on June 19, 2007. The bank received a rating of Satisfactory.

DESCRIPTION OF ASSESSMENT AREA

FNB has identified Boyle, Garrard, Lincoln, and Mercer Counties 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.

The assessment area includes all 4 counties in their entirety, which is located in the non-metropolitan portion of the State of Kentucky. The 2000 U.S. Census divided the assessment area into 20 census tracts (CTs), with 10 middle-income tracts and 10 upper-income tracts. There are no low- or moderate-income CTs in the assessment area. This determination was based on the Kentucky 2000 Median Family Income for a non-metropolitan area of \$40,174.

Boyle, Garrard, Lincoln, and Mercer Counties are rural counties in Central Kentucky with a total population of 86,667 according to the 2000 U.S. Census. That number has risen to approximately 93,340 in 2009. The 2000 population of the AA was comprised of 34,010 households, of which 12,069, or 35 percent, are considered to have low- or moderate-incomes. In addition, approximately 16 percent of households in the AA live below the poverty level with 3 percent of households receiving public assistance.

Boyle, Garrard, Lincoln, and Mercer Counties have unemployment levels higher than the state average (11.8 percent, 11.5 percent, 12.2 percent and 11.1 percent versus 10.4 percent, as of May 2010). The assessment area is rural and experienced several company closings in recent years. Boyle County has an Industrial Park designed to attract industrial and technology-based companies to the county. The Chamber of Commerce lists 3 industrial firms employing over 250, including R.R. Donnelley & Sons Co., American Greetings, and Dana Corporation. Other major employers include federal, state, and local governments, hospitals, and schools.

Competition is heavy and many financial institutions (banks and finance companies) service the assessment area. According to the Federal Deposit Insurance Corporation (FDIC) website, fourteen banks with 46 offices operate in these counties. These offices hold a combined total of \$1.2 billion in deposits, as of June 30, 2009, and FNB has a 28 percent market share. The

competition includes 6 large regional banks with total deposits ranging from \$52 million to \$618 billion and 8 community banks with total deposits ranging from \$8 million to \$2 billion.

A review of a community contact familiar with the area's credit needs indicated all local banks are active in the community and willing to provide financing for potential projects. However, they also stated very few opportunities to participate in community development projects exist. The contact could not identify any major credit need of the community not currently being met by the area banks.

The following additional demographic information covering the bank's assessment area of Boyle, Garrard, Lincoln, and Mercer Counties is based on 2000 census data unless otherwise noted.

Type of Information	AA	
Total Population in AA	86,667	
Kentucky HUD Adjusted Median Family Income – 2010	\$40,174	
Families in AA:		
Income Levels of Families	#	%
Low	4,027	16
Moderate	3,645	15
Middle	4,696	19
Upper	12,231	50
Total Families within AA	24,599	100
Median Home Value:	\$79,430	
Median Year Built:	1973	
Businesses in AA:	#	%
Under \$1 Million Revenue	6,455	81
Over \$1 Million Revenue	189	2
Revenue Not Reported	1,404	17
Total	8,048	100

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending Test

The bank’s performance under the Lending Test is rated **“Satisfactory.”**

Because residential real estate lending is the bank’s primary business line, more weight was given to residential lending when evaluating performance under the criteria detailed below.

Loan-to-Deposit Ratio

The Farmers National Bank’s loan-to-deposit ratio is more than reasonable and exceeds the standard for outstanding performance given FNB’s size, financial condition, and assessment area credit needs. The bank’s average quarterly loan-to-deposit ratio for the 13 quarters since the last CRA evaluation was 96.47 percent. This average was compared to the average of three other banks in the assessment area considered similarly situated and comparable to FNB in asset size and major lending products. FNB’s loan-to-deposit ratio has increased since the last CRA evaluation and as of March 31, 2010 was 87.73 percent. Refer to the table below for comparative data:

Loan-to-Deposit Ratio		
Institution	Total Assets \$ (000's) (As of 3/31/2010)	Average Loan -to-Deposit Ratio
The Farmers National Bank of Danville	494,617	96.47%
Bank #1		73.86%
Bank #2		77.51%
Bank #3		65.76%

Source: Institution Reports of Condition from June 30, 2007 to March 31, 2010.

Lending in Assessment Area

FNB’s lending in its AA meets the standard for satisfactory performance. A majority of the number and dollar amount of the home mortgage and small business loans originated within the bank’s AA. As depicted in the table below, 90 percent of the number and 89 percent of the dollar amount of residential loans originated in FNB’s AA. For business loans, 90 percent of the number and 84 percent of the dollar amount originated in FNB's AA.

Lending in FNB's AA										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	36	90	4	10	40	3,770	89	474	11	4,244
Business	36	90	4	10	40	2,167	84	400	16	2,567
Totals	72	90	8	10	80	5,937	87	874	13	6,811

Source: Random sample of residential 1-4 family mortgages and commercial loans originating between January 1, 2008 and June 30, 2010.

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

The distribution of loans, given the demographics of the assessment area, reflects reasonable penetration among individuals of different income levels (including low- and moderate-income borrowers) and businesses of different sizes. To reach this conclusion, the OCC analyzed the bank's lending activity of loans for each of the bank's primary loan types and selected a random sample of 40 1-4 family residential mortgages and a random sample of 40 business loans originating between January 1, 2008 and June 30, 2010. See the following tables for details.

FNB's borrower distribution of residential loans is satisfactory. Residential loans to low-income borrowers represented 7 percent of sampled loans, which does not meet the demographic comparator. However, loans to moderate-income borrowers represented 40 percent of sampled loans, which is more than double the demographic comparator for moderate-income borrowers. FNB's residential mortgage lending performance is reasonable given the credit needs of the AA.

1-4 Family Residential Loans					
Borrower Income Level	Loan Originations Between Jan 1, 2008 and June 30, 2010				Percentage of Families within each Income Category
	Number of Loans	Percentage of Loans	Dollar Amt of Loans \$ (000's)	Percentage of Dollars	
Low	3	7	219	7	16
Moderate	17	40	1,184	38	15
Middle	10	24	714	23	19
Upper	12	29	992	32	50
Total	42	100	3,109	100	100

Source: Random sample of 1-4 family residential loans originated within the bank's assessment area.

Further segmentation of home mortgage lending activity by purpose was not available from the data used for this analysis.

FNB's borrower distribution of small business loans is satisfactory. Loans to businesses with revenues of \$1 million or less represented 94 percent of sampled business loans, which exceeds the 56 percent of area businesses that reported revenues of less than \$1 million. However, in this AA, the percentage of businesses with unreported revenue is high at 41 percent. Information shows the majority of businesses with unreported revenues to be small businesses (revenues of \$1 million or less) representing a higher level than shown by the comparator. FNB's business lending performance is reasonable considering the demographic comparator.

Business Loans					
Business Income Level in Revenues	Loan Originations Between Jan 1, 2008 and June 30, 2010				Percentage of Businesses in the AA
	Number of Loans	Percentage of Loans	Dollar Amt of Loans \$(000's)	Percentage of Dollars	
≤ \$1 Million	33	94	1,547	84	57
> \$1 Million	2	6	300	16	2
Not Reported	0	0	0	0	41
Total	35	100	1,847	100	100

Source: Random sample of commercial loans originating within the bank's assessment area.

Geographic Distribution of Loans

The focus of this analysis is to analyze the bank's geographic distribution of lending among low-, moderate-, middle-, and upper-income geographies. Because the census tracts in Boyle, Garrard, Lincoln, and Mercer Counties are all designated middle- or upper-income, an analysis of the bank's loan distribution by geographies would not be meaningful.

Community Development Test

The bank's performance under the Community Development Test is rated **"Satisfactory."**

FNB's community development performance through its record of retail services, qualified investments, and community development services demonstrate adequate responsiveness to community development needs in its AA.

Qualified Investments

FNB made a satisfactory level of qualified investments during the evaluation period.

FNB purchased 2 certificates of deposit totaling \$300 thousand from a certified Community Development Financial Institution (CDFI) located outside the bank's assessment area. FNB also purchased 1 series A bond and 2 series B bonds with a total value of \$1.3 million from the Kentucky Housing Corporation (KHC). The bank sought investment opportunities outside the AA since there were none locally. In order to be certified as a CDFI, the institution must have a primary mission of promoting community development; predominantly serving and maintaining accountability to eligible target markets and providing community development services.

During the evaluation period, FNB made 140 qualified donations to 34 organizations totaling \$212 thousand. All funds are specifically targeted to benefit low-and moderate-income persons within the AA or support organizations whose major purpose is providing economic development, revitalizing of central business districts, and offering assistance to attract, expand, and retain small business entities, payrolls, and job levels throughout the AA.

Community Development Services

The bank provides a satisfactory level of qualified community services.

In evaluating FNB's services, consideration is given because the bank's AA does not contain any low- or moderate-income census tracts. The bank has 11 branch locations, 12 ATMs, and 1 cash-only dispenser in its AA, which are accessible to all geographies and individuals of different income levels.

In addition to the bank's branches, ATMs, and cash-only dispensers, FNB offers on-line banking, providing customer access to consumer and business accounts. Bank customers can access accounts, check balances, view statements, transfer funds between accounts, and pay bills. Also offered are various checking and deposit products for all bank customers. Finally, FNB provides a telephone banking system, Telebanc, which allows 24-hour toll free service where customers can transfer funds and obtain account information.

FNB offers a full range of consumer and commercial banking products and services at all its full-service branches. In 2007, FNB started offering a full array of secondary market loans through Kentucky Housing Corporation (KHC), Veteran Affairs (VA), and Farmers Home Administration (FHA); however, due to the recent economic downturn in the housing sector, demand has declined. The bank offers 2 loan products specifically targeted to low- and moderate-income persons who meet certain income qualifications.

The "Affordable Home Loan" Program is an adjustable-rate loan for owner-occupied properties within the FNB market area. Low- and moderate-income applicants are targeted because the program contains income limits. Borrowers must put 3 percent down and pay \$500 in closing costs. Part of the money may be gifted but customers must contribute at least \$500 of their own funds. During the evaluation period, the bank made 8 loans for \$614 thousand and waived over \$6 thousand in down payment and closing costs.

The “Welcome Home Loan Grant” Program is a fixed-rate loan up to 30 years for owner-occupied properties within the FNB market area for moderate-income applicants. Welcome Home grants may be used to cover down payment and closing costs up to a qualified amount. During the evaluation period, the bank made 8 loans using \$40 thousand in grant funds

The Federal Home Loan Bank of Cincinnati awarded FNB an “Affordable Housing Program” grant for the Habitat for Humanity of Mercer County. This grant amount of \$197 thousand allows FNB to wave construction loan fees, provide lower than usual interest rates and service the mortgages without any cost to the Habitat for Humanity of Mercer County. FNB employees are required to provide a certain amount of construction and landscaping labor. Habitat for Humanity gives qualified low-income families opportunities for home ownership.

Through the bank’s officers and employees, FNB is involved in a variety of community development services. Many are involved in non-profit organizations that provide services for low-and moderate-income individuals or economic development for small businesses. Senior management is actively involved in several economic development organizations and community groups such as:

- **Boyle County Industrial Foundation**
 A senior bank officer has served as a board member of this organization since 2003. The officer provides financial expertise to the organization regarding financing needs of businesses. The mission of the industrial foundation is to recruit business and industry to Boyle County.
- **Harrodsburg Housing Authority**
 A senior bank officer serves on the board providing advice to this local organization. The Harrodsburg Housing Authority provides affordable housing for low- or moderate-income individuals, including multi-family rental housing.
- **Lincoln County Chamber of Commerce**
 A bank employee serves as a board member for the Lincoln County Chamber of Commerce. The purpose of this organization is to promote, establish, and maintain small businesses in the county.
- **Danville-Boyle County Economic Development Partnership**
 A bank employee serves as a board member for this organization. The purpose of this organization is to “communicate, collaborate, and coordinate the interdependent economic development missions, resources, and initiatives of its Partners to grow the economy of Boyle County, Kentucky.” The EDP has 4 missions: business development, business and community services, downtown redevelopment, and tourism development.
- **Heart of Kentucky United Way (HKUW)**
 FNB employees participate by donating their time and working in a variety of fundraisers. HKUW is a nonprofit organization that provides donations to other community organizations. One such organization is the Family Association Service, which provides financial help to low-income families experiencing temporary financial

hardship. FNB has been recognized on the HKUW website for its “ongoing investment in the effort to create lasting change.”

Bank officers and employees also serve as board members or provide financial expertise to other organizations such as the Salvation Army, CASA at Woodlawn, Heritage Hospice, Pioneer Vocational Industrial, and the Big Brother/Big Sister Program.

Community Development Loans

FNB did not originate any community development loans during the evaluation period.

Growth in the AA has been slow and there were no local community development projects during the evaluation period.

Responses to Complaints

FNB has not received any written complaints relating to the bank’s Community Reinvestment Act performance during the 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.