



INTERMEDIATE SMALL BANK

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

PUBLIC DISCLOSURE

June 19, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Farmers National Bank of Danville
Charter Number 2409**

**304 West Main Street
Danville, KY 40422**

**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 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 substantial 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 small business loans originated between January 1, 2005 and March 31, 2007. Conclusions regarding the community development test are based on community development activities between May 1, 2004 and June 19, 2007. 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, 2007, FNB had \$409 million in total assets, \$313 million in deposits, \$290 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 ten locations: the main office, four branches with drive-thru facilities in Danville, one branch with a drive-thru facility in Burgin, one branch with a drive-thru facility in Harrodsburg, one branch with a drive-thru facility in Junction City, one branch with a drive-thru facility in Perryville, and one branch with a drive-thru facility in Stanford. FNB has nine Automated Teller Machines (ATMs) with one located at the main office and the others at eight branches. FNB also has three cash-only dispensers located throughout 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, 2007, net loans represented approximately 70 percent of the bank's total assets. The loan portfolio mix is as follows: 1-4 family residential mortgages 44 percent, commercial loans 36 percent, farm-related loans 9 percent, construction and development loans 7 percent, consumer loans 3 percent, and other loans 1 percent.

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 April 19, 2004. 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 four 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 twenty census tracts (CTs), with ten middle-income tracts and ten 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 \$39,300.

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 89,632 in 2003. 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, and Lincoln Counties have unemployment levels higher than the state average (6.2 percent, 5.8 percent, and 6.4 percent versus 5.3 percent, as of May 2007). However, Mercer County's unemployment rate of 4.9 percent is lower than the state average. The assessment area is rural and has seen 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 three industrial firms employing over 250, including R.R. Donnelley & Sons Co., American Greetings, Dana Corporation, and FKI Logistex. 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 44 offices operate in these counties. These offices hold a combined total of \$1.2 billion in deposits, as of June 30, 2006, and FNB has a 24 percent market share. The competition includes five large regional banks with total deposits ranging from \$2 billion to \$435 billion and nine community banks with total deposits ranging from \$75 million to \$975 million.

A review of community contacts 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 contacts identified affordable housing for low- and moderate-income families as a major credit need.

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 – 2006 | \$39,300 | |
| 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 | 3,254 | 55 |
| Over \$1 Million Revenue | 186 | 3 |
| Revenue Not Reported | 2,519 | 42 |
| Total | 5,959 | 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 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 thirteen quarters since the last CRA evaluation was 89.42 percent. This average was compared to the average of four 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, 2007 was 91.62 percent. Refer to the table below for comparative data:

| Loan-To-Deposit Ratios | | |
|--|--|---|
| Institution | Total Assets \$ (000's) (As of 3/31/2007) | Average Loan -to-Deposit Ratio |
| The Farmers National Bank of Danville | 409,157 | 89.42% |
| Bank #1 | | 85.48% |
| Bank #2 | | 73.50% |
| Bank #3 | | 67.94% |
| Bank #4 | | 66.82% |

Source: Institution Reports of Condition from January 1, 2005 to March 31, 2007.

Lending in Assessment Area

FNB's lending in its AA exceeds the standard for satisfactory performance. A substantial majority of the number and dollar amount of the home mortgage and small business loans were originated within the bank's AA. As depicted in the table below, 93 percent of the number and 94 percent of the dollar amount of residential loans were 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 | 28 | 93 | 2 | 7 | 30 | 2,072 | 94 | 135 | 6 | 2,207 |
| Business | 26 | 87 | 4 | 13 | 30 | 1,737 | 78 | 504 | 22 | 2,241 |
| Totals | 54 | 90 | 6 | 10 | 60 | 3,809 | 86 | 639 | 14 | 4,448 |

Source: Random sample of residential real estate and commercial loans originated between January 1, 2005 and March 31, 2007.

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

The distribution of loans, given the demographics of the assessment area, reflects satisfactory 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 30 1-4 family residential mortgages and 30 business loans originated between January 1, 2005 and March 31, 2007. See the following tables for details.

FNB’s borrower distribution of residential loans is satisfactory. Residential loans to low-income borrowers represented 10 percent of sampled loans which does not meet the demographic comparator. However, loans to moderate-income borrowers represented 37 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, 2005 and Mar 31, 2007 | | | | Percentage of Families within each Income Category |
| | Number of Loans | Percentage of Loans | Dollar Amt of Loans \$ (000's) | Percentage of Dollars | |
| Low | 3 | 10 | 184 | 8 | 16 |
| Moderate | 11 | 37 | 905 | 39 | 15 |
| Middle | 11 | 37 | 770 | 33 | 19 |
| Upper | 5 | 16 | 449 | 20 | 50 |
| Total | 30 | 100 | 2,308 | 100 | 100 |

Source: Randomly selected 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 77 percent of sampled business loans, which exceeds the 55 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 42 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, 2005 and Mar 31, 2007 | | | | Percentage of Businesses in the AA |
| | Number of Loans | Percentage of Loans | Dollar Amt of Loans \$(000's) | Percentage of Dollars | |
| ≤ \$1 Million | 23 | 77 | 1,031 | 58 | 55 |
| > \$1 Million | 7 | 23 | 761 | 42 | 3 |
| Not Reported | 0 | 0 | 0 | 0 | 42 |
| Total | 30 | 100 | 1,792 | 100 | 100 |

Source: Randomly selected sample of commercial loans originated 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 two \$100 thousand certificates of deposit from a certified Community Development Financial Institution (CDFI) located outside the bank's assessment area. 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 76 qualified donations to 28 organizations totaling \$168 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 ten branch locations, nine ATMs, and three cash-only dispensers 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, fill out a loan application, and pay bills. Also offered are various checking and deposit products for all bank customers. And finally, FNB provides a telephone banking system, called Telebank, which allows 24-hour toll free service so customers can transfer funds, verify account balances, and verify deposits.

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). Affordable mortgage programs were noted as an identified credit need of the community. The bank offers two 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 three percent down and pay \$500 in closing costs. Part of the money may be gifted but the customer must contribute at least \$500 of their own funds. During the evaluation period, the bank made 8 loans for \$581 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 & closing costs up to a qualified amount. During the evaluation period, the bank made 3 loans for \$203 thousand.

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.

- **Habitat for Humanity**

A senior bank officer serves on the board providing financial advice to the local chapter. This organization is a nonprofit, housing committee dedicated to eliminating homelessness. Their mission is to improve the housing conditions for low- and moderate-income families.

- **Boyle County Chamber of Commerce**

A bank employee serves as a mentor for the Boyle County Chamber of Commerce. The purpose of this organization is to promote, establish, and maintain small businesses in the county.

- **Heart of Kentucky United Way (HKUW)**

A senior bank officer serves on the board of this organization and provides financial mentoring. 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.”

In addition, bank officers and employees serve as board members or provide financial expertise to other organizations such as the Third Street Development Corporation (Danville, KY), United Way of Mercer County, Boyle County Agriculture Extension Office (small farms), and Dollars for Scholars.

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 regarding its performance 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.