



PUBLIC DISCLOSURE

February 08, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Home National Bank of Thorntown
Charter Number 5842

117 East Main Street
Thorntown, IN 46071

Office of the Comptroller of the Currency
Indianapolis Field Office
8777 Purdue Road, Suite 105
Indianapolis, IN 46268

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 major factors that support the CRA rating for Home National Bank of Thorntown (HNBT) are:

- The average loan-to-deposit ratio is reasonable, considering HNBT's size, financial condition, and assessment area credit needs.
- A majority of the HNBT's loans are originated inside the bank's assessment area (AA).
- The distribution of loans reflects reasonable penetration among individuals of different income levels, and businesses and farms of different sizes.
- The geographic distribution of loans shows reasonable dispersion of loans within HNBT's AA.
- HNBT did not receive any consumer complaints regarding its CRA performance during the evaluation period.

SCOPE OF EXAMINATION

This evaluation addresses HNBT's Community Reinvestment Act (CRA) performance from September 27, 2010 to February 8, 2016. We assessed HNBT's CRA performance using Small Bank examination procedures. These procedures consist of a lending test that includes of an evaluation of the bank's lending practices with respect to the following criteria:

- Loan-to-deposit ratio, considering internal and external factors,
- Percentage of loans originated within the bank's AA,
- Lending to borrowers of different income levels and businesses of different sizes,
- Lending in low- and moderate-income geographies within the AA, and
- The bank's record of taking action on written complaints regarding its performance in helping meet the credit needs of its AA.

To evaluate HNBT's lending practices, we completed a full-scope analysis of the bank's lending within its AA. We considered data from a representative sample of the bank's primary loan products. This sample consisted of home mortgage, commercial, and agricultural loans originated by HNBT from January 1, 2013 to December 31, 2014. For home mortgage loans, we verified integrity and utilized the 2013 and 2014 data reported by the bank under the requirements of the Home Mortgage Disclosure Act (HMDA). For commercial and agricultural loans, we randomly selected a sample of each loan type originated during 2013 and 2014 to gather the pertinent data.

DESCRIPTION OF INSTITUTION

HNBT is a full-service intrastate bank that is wholly owned by Home National Corporation, a one-bank holding company, headquartered in Thorntown, Indiana. HNBT offers traditional banking products and services at its main office in Thorntown and a branch located in Lebanon, Indiana. There is a cash-dispensing ATM at each location. HNBT's main office is its primary deposit-gathering location with approximately 61 percent of total deposits.

As of September 30, 2015, HNBT had total assets of \$101.3 million and tier 1 capital of \$8.8 million. Loans of \$55.0 million represented 54.0 percent of total assets. HNBT's loan portfolio composition and loan originations indicate diversified lending activity primarily among home mortgage, commercial, and agricultural loans.

The following tables provide an overview of HNBT's loan portfolio and loan originations.

Loan Portfolio Composition			
Loan Category	Amount (\$000's)	Percent of Total Loans	Percent of Total Assets
Residential Loans	20,864	37.9	20.5
Commercial Loans	13,879	25.2	13.6
Agricultural Loans	17,716	32.2	17.4
Consumer Loans	2,570	4.7	2.5
Total Loan Portfolio	\$ 55,029	100.0%	54.0%

Source: Call Report for September 30, 2015

Loan Originations		
	% of # of Loans Originated	% of \$ of Loans Originated
Residential Loans	17.6%	23.9%
Commercial Loans	25.8%	33.3%
Agricultural Loans	14.6%	38.7%
Consumer Loans	42.0%	4.0%
Total	100.0%	100.0%

Source: Internal Bank Reports for 2013 and 2014

HNBT's activities are consistent with its size, financial capability, local economic conditions, and credit needs of its AA. HNBT does not have any legal, financial, or other impediments that hinder its ability to meet the credit needs of its AA. HNBT received a Satisfactory CRA rating at our last CRA evaluation dated September 27, 2010.

DESCRIPTION OF ASSESSMENT AREA(S)

HNBT defines its AA as a portion of Boone County, Indiana, which is located within the Indianapolis Metropolitan Statistical Area (MSA). The bank's AA includes only five of the ten census tracts in Boone County, since the entire county would be too large for HNBT to serve reasonably given its size, locations, and local competition. There are no low-income census tracts in Boone County and the AA has one moderate-income, three middle-income, and one upper-income census tracts. As delineated, HNBT's AA meets the requirements of CRA and does not arbitrarily exclude any low- or moderate-income geography.

The following table presents additional demographic data for the AA.

Demographic Information for HNBT's Assessment Area	
Population	25,254
Families	7,052
Households	10,113
Housing Stock: <i>1-4 family housing units</i>	83%
Occupancy: <i>owner-occupied, renter-occupied, vacant</i>	68%, 25%, 7%
Home Values: <i>Median home value</i>	\$130,531
Age of Homes: <i>Median year of homes built</i>	1966
Family Income Levels (%): <i>Low-, moderate-, middle-, upper-income</i>	18%, 18%, 26%, 37%
Weighted Average of Census MSA Median Family Income	\$64,663
Weighted Average of FFIEC 2014 Updated MSA Median Family Income	\$67,900
Families Below Poverty Level	10%
Households Below Poverty Level	12%
Unemployment Rate: <i>Dec 2013, Dec 2014, Nov 2015</i>	4.6%, 4.3%, 3.6%

Source: 2010 Census Data; U.S. Bureau of Labor Statistics

Competition for deposits is significant due to the number and size of financial institutions within the AA. Including HNBT, there are a total of seven banks and one credit union with one or more offices located within the AA. The competition is predominately located in Lebanon, IN and includes three large national banks, three state banks, and one credit union. In comparison to its competitors, HNBT has the smallest asset size and is the only financial institution that is not located elsewhere in Boone County or any of the contiguous counties.

As of June 30, 2015, the FDIC Deposit Data showed HNBT and ten other national and state banks operated 20 branches in Boone County and held deposits of \$792.9 million. HNBT's two branches with \$90.3 million of deposits represent a market share of 11.4 percent; this market share ranks HNBT fourth in Boone County. Within the AA, HNBT ranks first in deposit market share, holding a 25.0 percent share of deposits.

Competition for home loans is also significant. Aggregate HMDA data for 2013 and 2014 shows numerous banks, credit unions, and mortgage companies originated or purchased home loans in both years. In these years respectively, 128 and 124 lenders reported lending activity in the AA. HNBT ranked fifth both years, with a loan market share of 4.2 percent in 2013 and 4.8 percent in 2014.

A community contact familiar with small business credit needs in the northern portion of the MSA, which includes Boone County, perceives bank support for small businesses as good. The contact further stated banks seem willing to finance small businesses, unless there is a weakness in their structure, management, or market. According to the contact, Boone County is poised for growth over the next decade thereby providing more opportunities for small business lending. In general, the contact reported there is a growing interest from people to break away from larger companies and start their own business.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

HNBT's performance in helping meet the needs of its AA through lending is satisfactory.

Loan-to-Deposit Ratio

HNBT's loan-to-deposit (LTD) ratio is reasonable given its asset size, financial condition, and AA credit needs. The quarterly LTD ratio over the 21 quarters since the last CRA evaluation averaged 58.4 percent. During this timeframe, the LTD ratio ranged from a high of 71.0 percent to a low of 50.8 percent. The LTD ratio includes a notable level of public funds and excludes a moderate amount of unused lines of credit. If the LTD ratios are adjusted for these two items, the average increases from 58.4 percent to 79.7 percent.

Lending in Assessment Area

HNBT originated a majority of its home, business, and farm loans to borrowers inside its AA. Based on our analysis, 71.2 percent of loans by number and 71.5 percent of loans by dollar were inside the AA.

Lending in AA										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Loans	78	67.2%	38	32.8%	116	\$ 9,038	63.2%	\$ 5,269	36.8%	\$14,307
Business Loans	15	75.0%	5	25.0%	20	\$ 950	63.2%	\$ 553	36.8%	\$ 1,503
Farm Loans	18	90.0%	2	10.0%	20	\$ 4,795	98.5%	\$ 69	1.5%	\$ 4,864
TOTAL LOANS	111	71.2%	45	28.8%	156	\$ 14,783	71.5%	\$ 5,891	28.5%	\$20,674

Source: Home loan information from 2013 and 2014 HMDA data; Business and farm loan information based on a sample of loans originated in 2013 and 2014.

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

HNBT's overall distribution of loans reflects reasonable penetration among individuals of different income levels and to businesses and farms of different sizes.

Home Loans

The distribution of home loans reflects reasonable penetration among borrowers of different income levels. HNBT’s penetration to moderate-income borrowers was near the percentage of moderate-income families in the AA. The penetration to low-income borrowers was below the percentage of low-income families in the AA, but is reasonable considering ten percent of the families live below the poverty level. Families living below the poverty level often experience barriers to home ownership, which reduces the population of potential low-income borrowers. Generally, the costs of homeownership make it difficult for families living below the poverty level to qualify for a home loan.

Borrower Distribution of Home Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Type of Loan	% 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 Loans	18.49%	12.85%	19.03%	17.14%	25.94%	22.00%	37.29%	47.14%

Source: 2013 and 2014 HMDA data; 2010 U.S. Census data.

Business Loans

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. Based on our loan sample, HNBT originated the majority to businesses with gross revenue of \$1.0 million or less (i.e. small businesses). HNBT’s percentage of loans to small businesses exceeded the demographic comparator for those businesses that reported revenue; however, revenues were unavailable for 24.8 percent of the businesses in the AA.

Borrower Distribution to Businesses in AA				
Business Revenues	<=\$1,000,000	>\$1,000,000	Unavailable	Total
% of AA Businesses	71.85%	3.33%	24.82%	100.00%
% of Bank Loans in AA by #	78.95%	21.05%	0.00%	100.00%
% of Bank Loans in AA by \$	66.07%	33.93%	0.00%	100.00%

Source: Sample of 20 commercial loans originated during 2013 and 2014; 2014 Business Geodemographic data.

Farm Loans

The distribution of loans to farms reflects reasonable penetration among farms of different sizes. Based on our loan sample, HNBT originated the majority to farms with gross revenue of \$1.0 million or less (i.e. small farms). HNBT’s percentage of loans to small farms was lower than the demographic comparator, but not significantly lower.

Borrower Distribution to Farms in AA				
Farm Revenues	<=\$1,000,000	>\$1,000,000	Unavailable	Total
% of AA Farms	96.25%	0.83%	1.36%	100.00%
% of Bank Loans in AA by #	75.00%	25.00%	0.00%	100.00%
% of Bank Loans in AA by \$	67.46%	32.54%	0.00%	100.00%

Source: Sample of 20 agricultural loans originated during 2013 and 2014; 2014 Business Geodemographic data.

Geographic Distribution of Loans

The overall geographic distribution of HNBT’s home, business, and farm loans reflects reasonable dispersion.

Home Loans

The geographic distribution of home loans in the moderate-income census tract shows reasonable dispersion, given lending opportunities and competition. HNBT’s percentage of loans in the moderate-income census tract was significantly lower than the percentage of owner-occupied housing in that geography. However, lending opportunities were somewhat limited by a modest percentage of rental and vacant units in the geography. Census data for 2010 indicates 26.9 percent of the total units in the moderate-income census tract were rentals and 6.6 percent were vacant. In addition, a significant number of lenders originated or purchased loans in the moderate-income census tract. Aggregate HMDA data shows there were 55 lenders in 2013 and 62 lenders in 2014.

Geographic Distribution of Home Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Type of Loan	% 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 Loans	% of Number of Loans
Home Loans	0.00%	0.00%	22.61%	10.39%	57.01%	67.53%	20.38%	22.08%

Source: 2013 and 2014 HMDA data; 2010 U.S. Census data.

Business Loans

The geographic distribution of business loans shows excellent dispersion. HNBT’s percentage of loans to businesses in the moderate-income census tract exceeded the percentage of businesses located in that geography.

Geographic Distribution of Business Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Type of Loan	% of AA Businesses	% of Number of	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans

		Loans						
Business Loans	0.00%	0.00%	19.31%	40.00%	54.80%	60.00%	25.90%	0.00%

Source: Sample of 20 commercial loans originated during 2013 and 2014; 2014 Business Geodemographic data

Farm Loans

The geographic distribution of farm loans shows reasonable dispersion. HNBT did not make any loans to farms in the moderate-income census tract. However, this performance is reasonable given the demographics. According to 2014 Business Geodemographic data, there were only five farms located in the moderate-income census tract.

Geographic Distribution of Farm Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Type of Loan	% 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	0.00%	0.00%	2.37%	0.00%	77.73%	100.00%	19.91%	0.00%

Source: Sample of 20 agricultural loans originated during 2013 and 2014; 2014 Business Geodemographic data

Responses to Complaints

HNBT did not receive any complaints regarding its CRA performance during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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