



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

September 26, 2012

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The Lincoln National Bank of Hodgenville  
Charter Number 13479

41 Public Square  
Hodgenville, Kentucky 42748

Office of the Comptroller of the Currency

10200 Forest Green Boulevard, Suite 501  
Louisville, Kentucky 40223

**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 OVERALL CRA RATING: SATISFACTORY**

### **The Lending Test rating: Satisfactory**

The Lincoln National Bank of Hodgenville (LNB) has a satisfactory record of meeting community credit needs. This conclusion is based on the following.

- LNB's loan-to-deposit ratio is more than reasonable.
- A majority of LNB's loans originated during this evaluation period were within the assessment area.
- LNB's distribution of loans to farms with gross revenues of less than \$1 million and low- and moderate-income individuals reflects reasonable penetration.
- LNB's geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

## **SCOPE OF THE EXAMINATION**

The Lincoln National Bank of Hodgenville (LNB) was evaluated using the Small Bank examination procedures. These procedures include a lending test to evaluate LNB's record of meeting the credit needs of its assessment area (AA) through its lending activities.

The CRA evaluation covers the time period between April 3, 2007 and September 26, 2012. Conclusions regarding lending performance are based on LNB's primary loan products – residential real estate and farm loans. The residential real estate lending analysis was based on loans LNB reported on the 2010 and 2011 Home Mortgage Disclosure Act Loan Application Register (HMDA LAR). The Office of the Comptroller of the Currency (OCC) performed a data integrity review to verify the accuracy of LNB's HMDA LAR and concluded it was reliable. The farm loan analysis was performed using a random sample of farm loans originated or purchased in 2010 and 2011.<sup>1</sup>

## **DESCRIPTION OF THE INSTITUTION**

LNB is an intrastate financial institution headquartered in Hodgenville, Kentucky. Hambac, Inc., a one-bank holding company, owns over 97 percent of LNB. As of June 30, 2012, LNB reported \$162 million in total assets, \$119 million in total deposits, \$121 million in total loans, and \$27 million in Tier One Capital. LNB has three locations, each with automated teller machines. Branch locations are accessible to all segments of the community. No branches were opened or closed during the evaluation period.

LNB is a full-service lender offering traditional banking products and services. LNB offers conventional and government-guaranteed home mortgage loans, home improvement loans,

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<sup>1</sup> LNB is not required to report farm loans on the HMDA-LAR.

consumer loans, and a full range of farm and business loans. In addition, LNB offers loans through the Kentucky Housing Corporation and Veterans Administration. As of June 30, 2012, net loans represented 74 percent of LNB's total assets. The loan portfolio mix is as follows: 1-4 family residential real estate loans (51 percent); farmland and agricultural loans (27 percent); commercial and commercial real estate loans (13 percent); consumer loans (7 percent); and construction and development loans (2 percent).

LNB was rated Satisfactory at the last CRA evaluation, dated April 2, 2007. There are no legal or financial circumstances affecting LNB's ability to meet community credit needs.

## **DESCRIPTION OF LNB'S ASSESSMENT AREA**

LNB delineated LaRue County as its assessment area (AA) for CRA purposes. The AA is located in central Kentucky, within the Elizabethtown, Kentucky Metropolitan Statistical Area (MSA).<sup>2</sup> The AA is in conformance with regulatory requirements, appears appropriate in relation to the location of LNB's offices, and does not arbitrarily exclude any low- and moderate-income areas. Of the three census tracts in the AA, two are designated as moderate-income and one as middle-income. There are no low-income census tracts in the AA.

The AA is predominantly rural in nature. A majority of the population is employed outside of LaRue County. The local economy is supported by agricultural and service industries. Economic conditions in the AA have stabilized since the market turmoil of recent years. As of August 2012, the unemployment rate for the AA was 7.3 percent. This compares favorably to the state and national unemployment rates. The largest single employer is Nationwide Uniform Corporation, a manufacturer of military, postal service, and law enforcement uniforms.

Based on June 30, 2011 Federal Deposit Insurance Corporation deposit market share data, all of LNB's \$109 million in deposits were derived within the AA. This equates to a 43 percent market share, ranking LNB first among the four financial institutions in the market.

Based on a community contact familiar with the credit needs of the AA, local banks provide satisfactory access to credit.

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<sup>2</sup> Note: the AA does not include Hardin County, also in the Elizabethtown MSA.

<b>Demographic Information for Full-Scope Area: LaRue County</b>							
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #	
Geographies (Census Tracts)	3	0.00	66.67	33.33	0.00	0.00	
Population by Geography	13,373	0.00	44.16	55.84	0.00	0.00	
Owner-Occupied Housing by Geography	4,235	0.00	46.85	53.15	0.00	0.00	
Businesses by Geography	1,444	0.00	39.82	60.18	0.00	0.00	
Farms by Geography	186	0.00	52.69	47.31	0.00	0.00	
Families by Income Level	3,874	24.14	21.81	21.40	32.65	0.00	
Distribution of Low- and Moderate-Income Families throughout AA Geographies	1,780	0.00	50.39	49.61	0.00	0.00	
Median Family Income	\$37,208						
HUD Adjusted Median Family Income for 2011	\$55,600	Median Housing Value				\$73,688	
Households Below the Poverty Level	16.58%	Unemployment Rate				See Above	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2000 U.S. Census and 2011 HUD updated Median Family Income.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

LNB’s performance under the lending test is satisfactory. LNB’s net loan-to-deposit ratio is more than reasonable and a majority of loan originations were inside LNB’s AA. LNB’s borrower distribution reflects reasonable penetration among borrowers of different incomes and farms of different sizes. Overall, the geographic distribution of loans reflects reasonable dispersion. There were no complaints regarding LNB’s performance in meeting the credit needs of the community.

### **Loan-to-Deposit Ratio**

LNB’s net loan-to-deposit ratio is more than reasonable. LNB’s net loan-to-deposit ratio averaged 94.84 percent over the 21 quarters since the previous CRA examination. This ratio ranged from a quarterly low of 91.95 percent to a quarterly high of 100 percent.

LNB’s average loan-to-deposit ratio was near the highest of the four community banks of similar size, location, and product offerings in the AA. The average net loan-to-deposit ratios of these banks ranged from 74.94 percent to 97.88 percent during the same time period. Their combined average net loan-to-deposit ratio was 89 percent.

**Lending in the Assessment Area**

A majority of the primary loan products originated between January 1, 2010 and December 31, 2011 were to borrowers within LNB’s AA. LNB originated 63.97 percent of its primary loan products to borrowers within the AA.

The following table details LNB’s lending within the AA by number and dollar amount of loans originated during the evaluation period.

<b>Lending in LaRue County</b>										
Loan Type	Number of Loans					Dollar Amount of Loans (000’s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
HMDA Reported	160	63.49%	92	36.51%	252	\$15,519	59.16%	\$10,714	40.84%	\$26,233
Farm Loans	14	70.00%	6	30.00%	20	\$2,384	87.84%	\$330	12.16%	\$2,714
Totals	174	63.97%	98	36.03%	272	\$17,903	61.85%	\$11,044	38.15%	\$28,947

*Source: HMDA data for residential real estate loans originated between January 1, 2010 and December 31, 2011. Random sample of twenty farm loans originated between January 1, 2010 and December 31, 2011.*

**Lending to Borrowers of Different Incomes and to Farms of Different Sizes**

The distribution of loans reflects reasonable penetration among individuals of different income levels and farms of different sizes. The distribution of residential real estate loans reflects reasonable penetration among low- and moderate-income borrowers in the AA and farms with annual revenues less than \$1 million.

*Residential Real Estate Loans*

The distribution of residential real estate loans reflects reasonable penetration among borrowers of different income levels, including low- and moderate-income borrowers. LNB’s loan distribution to low-income borrowers represented 14.19 percent of total loan originations, below the demographic comparator of 24.14 percent. Residential real estate originations to moderate-income borrowers were 30.97 percent, exceeding the demographic comparator of 21.81 percent.

The following table shows the distribution of residential real estate loans among borrowers of different income levels for the period January 1, 2010 through December 31, 2011 as compared to the percentage of families in each income category.

<b>Borrower Distribution of Residential Real Estate Loans in LaRue County</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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 Purchase	24.14%	17.11%	21.81%	34.21%	21.40%	21.05%	32.65%	27.63%
Home Improvement	24.14%	15.38%	21.81%	15.38%	21.40%	19.24%	32.65%	50.00%
Refinancing	24.14%	9.43%	21.81%	33.96%	21.40%	22.64%	32.65%	33.97%
Total	24.14%	14.19%	21.81%	30.97%	21.40%	21.29%	32.65%	33.55%

Source: Percent of the number of loans as a percentage of loans with borrower income information derived from HMDA reported loans. Percent of AA families derived from 2000 U.S. Census data.

### *Farm Loans*

The distribution of loans to farms of different sizes in the AA reflects reasonable penetration when compared to the percentage of small farms in the AA. Loan originations to farms with annual revenues less than \$1 million represented 85 percent of the number of loans and 97.54 percent of the original principal balance of the loans sampled.

The following table shows the distribution of farm loans among different sized farms in the AA.

<b>Borrower Distribution of Loans to Farms in LaRue County</b>				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99.46%	0.54%	0.00%	100.00%
% of Bank Loans in AA by #	85.00%	5.00%	10.00%	100.00%
% of Bank Loans in AA by \$	97.54%	1.95%	0.51%	100.00%

Source: Random sample of twenty farm loans originated between January 1, 2010 and December 31, 2011. Percent of AA farms derived from 2000 U.S. Census data.

### **Geographic Distribution of Loans**

The overall geographic distribution of loan reflects reasonable dispersion throughout the moderate-income census tracts, given the locations of LNB's offices and the locations of competitor banks. LNB's offices are all located in Hodgenville, Kentucky, within the middle-income census tract. Borrowers in the AA's moderate-income tracts are in closer proximity to two other banks.

### *Residential Real Estate Loans*

The geographic distribution of residential real estate loans to borrowers in the moderate-income census tracts reflects reasonable dispersion. LNB originated 41.25 percent of their residential real estate loans to borrowers in the moderate-income census tracts, slightly below the demographic comparator of 46.85 percent.

The following table details LNB's performance compared to the percentage of owner-occupied housing units in each census tract income level.

<b>Geographic Distribution of Residential Real Estate Loans in LaRue County</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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 Housing	% of Number of Loans
Home Purchase	N/A	N/A	46.85%	38.75%	53.15%	61.25%	N/A	N/A
Home Improvement	N/A	N/A	46.85%	50.00%	53.15%	50.00%	N/A	N/A
Refinancing	N/A	N/A	46.85%	40.74%	53.15%	59.26%	N/A	N/A
Total	N/A	N/A	46.85%	41.25%	53.15%	58.75%	N/A	N/A

Source: HMDA data for residential real estate loans originated between January 1, 2010 and December 31, 2011. Percent of AA owner-occupied housing derived from 2000 U.S. Census data.

*Farm Loans*

LNB’s geographic distribution of farm loans reflects reasonable dispersion into moderate-income census tracts, given the level of competition. LNB and other area financial institutions face very strong competition for farm loans from a national lending cooperative specializing in agricultural lending.

LNB originated 25 percent of farm loans to borrowers within moderate-income tracts, significantly less than the demographic comparator of 52.69 percent. However, the demographic comparator is not representative of the number of farms in existence within these tracts during the evaluation period. Since the Tobacco Transition Payment Program (Tobacco Buyout) was established in 2004, the number of farms in these tracts decreased significantly from the number reported in the 2000 U.S. Census.

<b>Geographic Distribution of Loans to Farms in LaRue County</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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	N/A	N/A	52.69%	25.00%	47.31%	75.00%	N/A	N/A

Source: Random sample of twenty farm loans originated between January 1, 2010 and December 31, 2011. Percent of AA farms derived from 2000 U.S. Census data.

**Responses to Complaints**

LNB has not received any CRA complaints during this evaluation period.

## **Fair Lending or Other Illegal Credit Practices Review**

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

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