



## **PUBLIC DISCLOSURE**

November 05, 2014

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

The Citizens National Bank of Lebanon  
Charter Number 3988

149 W. Main Street  
Lebanon, Kentucky 40033

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.

## **COMMUNITY REINVESTMENT ACT (CRA) RATING: Satisfactory**

The CRA rating for The Citizens National Bank of Lebanon (CNB or Bank) is satisfactory based on the following:

- The average loan-to-deposit (LTD) ratio is reasonable, considering the Bank's size, financial condition, assessment area (AA) credit needs, customer base, and local competition.
- A substantial majority of the Bank's loans (by number) was originated in the AA.
- The distribution of residential real estate loans reflects reasonable penetration among individuals of different income levels.
- CNB did not receive any consumer complaints about its performance in helping meet the credit needs of the AA during the evaluation period.

## **SCOPE OF THE EXAMINATION**

We assessed the Bank's performance under the CRA using Small Bank Examination Procedures, which included a lending test. The lending test evaluates the Bank's record of meeting the credit needs of its AA through its lending activities. The evaluation period for this examination is May 5, 2009 through November 5, 2014.

We reviewed both the dollar amount and number of loans originated during the evaluation period to determine the Bank's primary lending products. CNB's primary lending product was residential real estate loans. We reviewed a sample of 20 residential real estate loans originated from January 1, 2012 through December 31, 2013 to assess the Bank's lending performance.

The Bank's last CRA evaluation was in May 2009. The Bank received a satisfactory rating.

## **DESCRIPTION OF THE INSTITUTION**

CNB is a full-service, intrastate bank that is wholly owned by CNB of Lebanon Bancorp, Inc., a one-bank holding company headquartered in Lebanon, Kentucky. As of June 30, 2014, the Bank had \$115 million in total assets, \$96 million in deposits, \$37 million in loans, and \$12 million in tier 1 capital.

CNB offers traditional banking products and services. CNB's has a main office and one branch. Both are located in downtown Lebanon, Kentucky. The Bank has four automated teller machines (ATM) which are cash-withdrawal only. Two ATMs are

located at the main office, one at a local Kroger supermarket, and one near a local Wal-Mart. CNB's main office and ATMs are accessible to all segments of the community.

CNB's primary lending product is residential real estate loans. As of June 30, 2014, net loans represented 32 percent of the Bank's average assets. The loan portfolio is comprised of one-to-four family residential (40 percent), municipal (18 percent), agricultural and farmland (12 percent), consumer loans (12 percent), commercial real estate (10 percent), commercial and industrial (5 percent), construction and development (2 percent), and multifamily (1 percent) loans.

There were no legal or financial circumstances that hindered the Bank's ability to meet the community's credit needs.

## **DESCRIPTION OF THE ASSESSMENT AREA**

The AA for CNB is defined as all of Marion County, Kentucky, which is not part of a metropolitan statistical area (MSA). The county is comprised of six complete census tracts (CTs), with three middle- and three upper-income geographies. There are no low- or moderate-income tracts within the Bank's AA. CNB's AA meets the technical requirements of the CRA and does not arbitrarily exclude low- or moderate-income areas.

Marion County is a rural county located in central Kentucky. It had a total population of 19,820 according to the 2010 United States Census (2010 Census). The population was estimated to have grown to approximately 20,045 by the end of 2013. The 2010 population of the AA was comprised of 7,135 households. Approximately 37 percent (2,648) were considered to have low- or moderate-incomes, based on a median family income of \$43,600. Seventy-one percent of housing is owner-occupied. The median housing value is \$99,757. The Federal Financial Institutions Examination Council (FFIEC) Estimated Median Family Income for 2013 for the AA was \$44,700. Nineteen percent of households in the AA were living below the poverty level. Approximately 2 percent of these households received public assistance and 33 percent collected social security benefits.

Local unemployment has returned to pre-2009 levels. Marion County has an unemployment rate of 7.3 percent. This is just under the 2013 national unemployment rate of 7.4 percent and well below the 2013 Kentucky unemployment rate of 8.3 percent. Businesses with international and local ties are expanding. Major employers in the area include TG Kentucky, LLC; Curtis-Maruyasu, Inc.; and Wilbert Plastic Services (all related to the automotive industry); Kentucky Cooperage, Inc.; American Wood Fibers Inc.; and Canton Wood Products LLC (wood products); and Maker's Mark Distillery, Inc. (bourbon).

CNB faces strong competition for banking services from community banks, Farm Credit Services, and finance companies. CNB ranks first in deposit market share at 33

percent according to the June 30, 2014 Federal Deposit Insurance Corporation (FDIC) Market Share Report.

Community contacts familiar with the area’s credit needs indicated local banks are active in the community and willing to provide financing. The contacts did not identify any credit needs in the county that were not being addressed by the banks or other financial institutions. The contacts stated the presence of multiple banks in the AA benefits consumers in terms of competitive pricing and accessibility.

The following demographic information covering the Bank’s AA of Marion County is based on 2010 Census data, unless otherwise indicated.

<b>Type of Information</b>	<b>AA</b>	
Total Population in AA	19,820	
Kentucky FFIEC Adjusted Median Family Income – 2012	\$43,600	
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Families in AA		
Income Levels of Families	<b>#</b>	<b>%</b>
Low	777	17
Moderate	669	14
Middle	1,041	22
Upper	2,191	47
Total Families within AA	4,678	100
Median Home Value	\$99,757	
Median Year Built	1975	
1-4 Family Housing Units	86%	
Occupancy	<b>#</b>	<b>%</b>
Owner Occupied Units	5,697	71
Renter Occupied Units	1,438	18
Vacant Units	916	11
Total Units within AA	8,051	100

## CONCLUSIONS WITH RESPECT TO THE PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The LTD ratio is reasonable given the Bank’s size, financial condition, AA credit needs, customer base, and local competition. CNB’s average net LTD ratio for the 20 quarters since the last CRA public evaluation was 37 percent. The LTD ratio ranged from a quarterly low of 32 percent to a quarterly high of 46 percent.

While CNB’s loan portfolio increased 9 percent during the evaluation period, the LTD ratio is low compared to two similarly situated banks. However, given strong local competition, low AA loan demand, and the fact competing banks rely on out-of-area lending to increase loan volume, CNB’s LTD ratio is reasonable. While CNB’s board of directors would like to increase loan volume, it is reluctant to look for it outside the local area.

Institution	Average
The Citizens National Bank of Lebanon	37.49%
The Farmers National Bank of Lebanon	62.06%
Peoples Bank	68.52%

### Lending in the Assessment Area

A substantial majority of loans by number and dollar volume were in the AA. CNB has readily met the needs of its customer base, as 100 percent of the total number and dollar of residential real estate loans were made within CNB’s AA.

Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate	20	100%	0	0	20	\$1,188	100%	0	0	\$1,188
<b>Totals</b>	20	100%	0	0	20	\$1,188	100%	0	0	\$1,188

Source: Randomly selected sample of residential real estate loans.

### Lending to Borrowers of Different Incomes

The distribution of residential real estate loans to low- and moderate-income individuals reflects reasonable penetration. CNB’s loan distribution to low-income borrowers represented 15 percent of total loan originations, slightly below the demographic

comparator of 17 percent. Residential real estate originations to moderate-income borrowers were 10 percent, slightly below the demographic comparator of 14 percent.

<b>Borrower Distribution of Residential Real Estate Loans</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
	% 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
<b>Residential Real Estate</b>	17%	15%	14%	10%	22%	30%	47%	45%

*Source: Randomly selected sample of residential real estate loans within the Bank's AA and 2010 Census demographics.*

### **Geographic Distribution of Loans**

The primary focus of this test is to analyze the Bank's geographic distribution of lending among low-, moderate-, middle- and upper-income geographies. A geographical distribution of loans was not performed because the Bank's AA does not contain low-or moderate-income geographies to measure dispersion performance. The analysis would not have provided any meaningful information.

### **Responses to Complaints**

There have been no complaints regarding the Bank's CRA performance since our previous evaluation.

### **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 AA 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.