

# **PUBLIC DISCLOSURE**

June 21, 1999

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First Southern National Bank  
Charter #1493**

**27 Public Square Box 628  
Lancaster, Kentucky 40444**

**Office of the Comptroller of the Currency**

**Louisville Field Office  
9200 Shelbyville Road, Suite 505  
Louisville, KY 40222**

**NOTE: 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.**

## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of the **First Southern National Bank (FSNB)** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of June 21, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

**INSTITUTION'S CRA RATING:** This institution is rated Asatisfactory record of meeting community credit needs.@

This overall rating is supported by the following:

- < FSNB's average, quarterly loan-to-deposit ratio since our last evaluation is reasonable.
- < FSNB's performance in lending to borrowers of different income levels, including low- and moderate-income individuals, and businesses of different sizes is reasonable.
- < FSNB's distribution of loan origination, including low- and moderate-income geographies, is reasonable.

## DESCRIPTION OF INSTITUTION

The First Southern National Bank (hereafter referred to as FSNB) is a full-service commercial bank with its main office in Lancaster, Garrard County, Kentucky. FSNB's primary lending centers around business loans. FSNB reported \$358,369,000 in total assets as of March 31, 1999 and serves all of seven counties within the State of Kentucky. All offices (the main office plus 13 branches) are located within the seven counties served by the institution. FSNB also operates five, full-service automated teller machines (ATMs) that are located at select office locations. FSNB is a wholly-owned subsidiary of First Southern Bancorp, Inc., a one-bank holding company located in Stanford, Lincoln County, Kentucky. First Southern Bancorp, Inc. reported \$369,069,000 in total assets as of December 31, 1998.

Prior to December 17, 1998, First Southern Bancorp, Inc. was a multi-bank holding company with five, separately-chartered national banks. All five charters were merged to form a single institution with its charter located in Lancaster, Garrard County, Kentucky. This evaluation is being performed under the small bank procedures because at the time of this evaluation, FSNB still meets the definition of a small bank for CRA purposes (total bank assets of either of the prior two calendar years of less than \$250 million or total holding company banking and thrift assets of less than \$1 billion for this same prior two-year time period). This evaluation covers the period from October 28, 1997 through June 21, 1999. In addition, prior to the merger of the five charters, only one of the banks was subject to the Home Mortgage Disclosure Act (HMDA). Effective January 1, 1999, FSNB (the consolidated entity) began collecting HMDA data. At its last CRA examination dated October 28, 1997, this institution (charter #1493) received a rating of satisfactory record of meeting community credit needs.

Currently, there exists no legal impediments that would prevent FSNB from meeting its community reinvestment responsibilities. As of March 31, 1999, FSNB reported total equity capital of \$27,402,000, net income of \$1,165,000, a net loans and leases-to-assets ratio of 72 percent, and net loans and leases of \$257,767,000. A breakdown of the loan portfolio follows:

<b>Loan Type</b>	<b>Dollar % of Average Gross Loans and Leases</b>
Construction & Development	4%
1-4 Family Residential Secured	29%
Farmland	7%
Multi-Family	1%
Non-Farm, Non-Residential	41%
Farm Loans	1%
Commercial Loans	9%
Loans to Individuals & Other Loans	8%
<b>Total</b>	<b>100%</b>





## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

FSNB's lending, as mentioned earlier, focuses on business loans. In addition, the bank originates many loans secured by 1-4 family residential mortgages. Therefore, we analyzed these two loan types to determine FSNB's CRA performance in each of the following categories.

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

The distribution of borrowers reflects, given the demographics of the assessment areas, reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes. Table 4 below does; however, show that the combined volume of lending to low- and moderate-income borrowers is below the assessment area characteristics (7 percent and 11 percent versus 23 percent and 16 percent, respectively). It can also be noted that Non-MSA and MSA performance with respect to lending to low- and moderate-income borrowers mirrors that of the bank as a whole. Although community contacts stated that one need within the community is 1-4 family, residential mortgage loans, FSNB's low percentages can be explained by the fact that the bank, from a business strategy standpoint, portrays itself as a business lender.

Borrower Income as a Percent of HUD MSA Median Family Income	Non-MSA		Percent of Total		MSA		Percent of Total		Combined		Percent of Total		(A)
	# Loans	\$ (000s)	# Loans	\$ (000s)	# Loans	\$ Loans	# Loans	\$ Loans	# Loans	\$ Loans	# Loans	\$ (000s)	
	# Loans	\$ (000s)	# Loans	\$ (000s)	# Loans	\$ Loans	# Loans	\$ Loans	# Loans	\$ Loans	# Loans	\$ (000s)	
Low Income	24	\$314	7%	3%	4	\$152	6%	4%	28	\$466	7%	3%	23%
Moderate Income	39	\$581	11%	5%	8	\$178	11%	4%	47	\$759	11%	5%	16%
Middle Income	82	\$2,311	23%	22%	10	\$553	14%	13%	92	\$2,864	22%	19%	21%
Upper Income	210	\$7,471	59%	70%	48	\$3,440	69%	80%	258	\$10,911	61%	73%	40%
<b>TOTAL</b>	<b>355</b>	<b>\$10,677</b>	<b>100%</b>	<b>100%</b>	<b>70</b>	<b>\$4,323</b>	<b>100%</b>	<b>100%</b>	<b>425</b>	<b>\$15,000</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: FSNB Internal Records; U.S. Bureau of the Census; U.S. Department of Housing and Urban Development (HUD).

(A) - Assessment Area Characteristics (Number of Low, Moderate, Middle, and Upper Income Families Within the Bank's Combines Assessment Areas. Percentages for the Non-MSA Assessment Area are: Low - 26%, Moderate - 17%, Middle - 20%, and Upper - 21%; Percentages for the MSA Assessment Area are: Low - 22%, Moderate - 16%, Middle - 21%, and Upper - 41%.

Table 5 below shows that FSNB originates most all of its small business loans to businesses with gross annual revenues of less than \$1 million. From January 1998 through March 1999, FSNB originated 93 percent (by volume) and 83 percent (by dollar amount) to such business entities.

**Table 5**  
**Small Loans to Businesses by Loan Size**  
**and Small Loans to Businesses with Gross Annual Revenues of Less than \$1 million**  
**January 1, 1998 through March 31, 1999**

Loan Origination Size	Non-MSA				MSA				Combined				A
	Loans		% of Total		Loans		% of Total		Loans		% of Total		
	#	\$ (000s)	#	\$	#	\$ (000s)	#	\$	#	\$ (000s)	#	\$ (000s)	
\$100,000 and Less	292	\$7,323	87%	35%	122	\$4,714	70%	24%	414	\$12,037	81%	29%	
>\$100,000 to < \$250,000	24	\$3,716	7%	18%	33	\$5,736	19%	28%	57	\$9,452	11%	23%	
>\$250,000 to ≤ \$1,000,000	21	9,720	6%	47%	19	\$9,724	11%	48%	40	\$19,444	8%	48%	
Total Small Loans	337	\$20,759	100%	100%	174	\$20,174	100%	100%	511	\$40,933	100%	100%	
Total Small Loans to Businesses with Gross Annual Revenues of Less than \$1 million	324	\$16,870			160	\$16,890			484	\$33,760			
As a % of Total Small Loans	96%	81%			92%	84%			93%	83%			A

Sources: FSNB Internal Reports; U.S. Bureau of the Census.

(A) - Assessment Area Characteristics (Percentage of Businesses in the Assessment Area With Annual Sales of \$1 million or Less. Percentage for the Combined Assessment Area is 88%. Percentages for the Non-MSA and MSA Assessment Areas are 90% and 87%, Respectively).

## Geographic Distribution of Loans

FSNB's geographic distribution of loans reflects reasonable dispersion throughout the bank's assessment areas. As outlined in Table 6 below, the percentage of mortgage loans (by volume) originated in low- and moderate-income geographies, on a combined basis, approximates the assessment area characteristics (1 percent and 25 percent versus 3 percent and 20 percent, respectively). It should also be noted that performance in the Non-MSA and MSA assessment areas, with respect to lending in low- and moderate-income geographies, tends to mirror the bank as a whole. Table 7 displays similar results for FSNB's business lending; however, loans to businesses in moderate-income geographies is a little lower than the assessment area characteristics (17 percent versus 25 percent).

Geography Income Level	Non-MSA				MSA				Combined				(A)
	# Loans	\$ (000s)	Percent of Total		# Loans	\$ (000s)	Percent of Total		# Loans	\$ (000s)	Percent of Total		
			# Loans	\$ (000s)			# Loans	\$ (000s)			# Loans	\$ (000s)	
Low	2	\$2	1%	0%	0	\$0	0%	0%	2	\$2	1%	0%	3%
Moderate	93	\$2,748	26%	26%	13	\$619	18%	14%	106	\$3,367	25%	23%	20%
Middle	219	\$6,323	62%	59%	33	\$1,966	46%	46%	252	\$8,289	59%	55%	47%
Upper	40	\$1,593	11%	15%	25	\$1,749	36%	40%	65	\$3,342	15%	22%	30%
<b>TOTAL</b>	<b>354</b>	<b>\$10,666</b>	<b>100%</b>	<b>100%</b>	<b>71</b>	<b>\$4,334</b>	<b>100%</b>	<b>100%</b>	<b>425</b>	<b>\$15,000</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: FSNB Internal Reports; U.S. Bureau of the Census.

(A) - Assessment Area Characteristics (Number of Owner-Occupied Housing Units Within the Bank's Combined Assessment Areas. Percentages for the Non-MSA Assessment Area are: Low - 1%, Moderate - 22%, Middle - 67%, and Upper - 10%. Percentages for the MSA Assessment Area are: Low - 4%, Moderate - 20%, Middle - 39%, and Upper - 38%).

**Table 7**  
**Small Loans to Businesses Originated Within FSNB=s Assessment Areas by Census Tract Income Level**  
**January 1, 1998 through March 31, 1999**

Geography Income Level	Non-MSA				MSA				Combined				(A)
	# Loans	\$ (000s)	Percent of Total		# Loans	\$ (000s)	Percent of Total		# Loans	\$ (000s)	Percent of Total		
			# Loans	\$ (000s)			# Loans	\$ (000s)			# Loans	\$ (000s)	
Low	8	\$63	2%	0%	11	\$1,561	6%	8%	19	\$1,624	4%	4%	5%
Moderate	55	\$4,655	17%	22%	31	\$2,356	18%	12%	86	\$7,011	17%	17%	25%
Middle	232	\$13,644	69%	64%	63	\$7,274	36%	36%	295	\$20,918	57%	51%	42%
Upper	42	\$2,861	12%	13%	69	\$8,961	40%	44%	111	\$11,822	22%	28%	28%
<b>TOTAL</b>	<b>337</b>	<b>\$21,223</b>	<b>100%</b>	<b>100%</b>	<b>174</b>	<b>\$20,152</b>	<b>100%</b>	<b>100%</b>	<b>511</b>	<b>\$41,375</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: FSNB Internal Reports; U.S. Bureau of the Census.

(A) - Assessment Area Characteristics (Number of Businesses Within the Bank=s Combined Assessment Areas. Percentages for the Non-MSA Assessment Area are: Low - 0%, Moderate - 13%, Middle - 67%, and Upper - 20%. Percentages for the MSA Assessment Area are: Low - 6%, Moderate - 28%, Middle - 36%, and Upper - 30%).

FSNB has penetrated a high percentage of geographies within its defined assessment areas. As for low-income geographies, only 57 percent had lending activity. Two of the low-income geographies without business/1-4 family residential, mortgage secured loan activity are located in Fayette County, Kentucky. Bank internal reports show that FSNB has no lending of any sort (i.e. consumer secured/unsecured) in either of these geographies. The lack of lending activity in these two geographies can be explained by the location of the bank=s branch in this county in reference to the two, low-income geographies. The bank=s branch is located in the southwestern part of the county whereas the low-income geographies are located in the northeastern part of the county. In addition, as noted in the **A**Description of Assessment Areas@section of this evaluation (page 3), there is much competition provided by a number of financial institutions of various sizes within Fayette County, Kentucky.

<b>Table 8</b>									
<b>Loan Penetration by Income Level of Geography</b>									
Income Level of Geography	Non-MSA			MSA			Total		
	Total # of Geographies/ # Penetrated		% of Geographies Penetrated	Total # of Geographies/# Penetrated		% of Geographies Penetrated	Total # of Geographies/ # Penetrated		% of Geographies Penetrated
Low	1	1	100%	6	3	50%	7	4	57%
Moderate	7	7	100%	19	15	79%	26	22	85%
Middle	15	14	93%	28	21	75%	43	35	81%
Upper	2	2	100%	23	21	91%	25	23	92%

Source: FSNB Internal Reports; U.S. Bureau of the Census.

## Lending in Assessment Areas

A majority of FSNB's loans (by volume) and other lending-related activities are in its assessment areas. As noted in Table 9 below, 68 percent of mortgage and small business loans by volume and 43 percent by dollar amount were originated within the bank's defined assessment areas.

Table 9 Loans Originated by Loan Type January 1, 1998 through March 31, 1999						
Loan Type	Total Loans Originated		Loans Originated within the Assessment Area			
	Number	Dollars (in 000s)	Number	Percent of Number Originated	Dollars (in 000s)	Percent of Dollars Originated
Mortgage	534	\$21,557	425	80%	\$15,000	70%
Small Business	845	\$135,976	511	60%	\$53,510	39%
<b>Total</b>	<b>1,379</b>	<b>\$157,553</b>	<b>936</b>	<b>68%</b>	<b>\$68,510</b>	<b>43%</b>

Source: FSNB Internal Reports.

## Loan-to-Deposit Ratio

FSNB's average loan-to-deposit ratio of 80 percent, which covers a five-quarter period of time, is reasonable. This compares favorably to a national peer of 70 percent calculated over the same time period. In addition, we compared FSNB's loan-to-deposit ratio with two of its competitors. Over this same time period, one bank had an average loan-to-deposit ratio of 75 percent and the other had a 78 percent average ratio. FSNB's ratio compares favorably to both of these competitors. We selected these two competitors because each has locations within FSNB's assessment areas, each has total assets similar to FSNB, and each has a branching structure similar to that of FSNB (i.e. branches in both MSA and non-MSA areas).

## Responses to Complaints

FSNB has not received any complaints during this evaluation period.

## Record of Compliance with Antidiscrimination Laws

We performed a fair lending examination in conjunction with this CRA examination. Matched pair analysis was performed to determine if gender played a role in determining rates and conditions with respect to the originated, real estate secured loans. Our sample consisted of eight female approvals and 18 male approvals. We selected our sample of loans from the time period January 1999

through May 1999. In summary, our sample noted no evidence that gender played a role in determining the rate, terms, and/or conditions of real estate secured loans.

**LEXINGTON, KENTUCKY MSA #4280**  
**(Conclusions with Respect to FSNB=s Performance in this Assessment Area)**

We performed a full-scope review of the MSA Assessment Area. FSNB=s performance in this assessment area with respect to the lending to borrowers of different incomes and to businesses of different size and the geographic distribution of loans is consistent with that of the bank as a whole.