



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 12, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Carrollton
Charter Number 2592

604 Highland Avenue
Carrollton, Kentucky 41008

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

This document is an evaluation of the Community Reinvestment Act (CRA) performance of The First National Bank of Carrollton (FNB), Carrollton, Kentucky prepared by the Office of the Comptroller of the Currency (OCC), the institution's primary regulator, as of December 31, 2012. The OCC rates the CRA performance of an institution consistent with the provisions set forth in appendix A to 12 CFR 25.

INSTITUTION'S OVERALL CRA RATING: SATISFACTORY

FNB has a satisfactory record of meeting the credit needs of its community. This conclusion is based on the following.

- The average loan-to-deposit ratio is reasonable given FNB's size, financial condition, and the credit needs of its assessment area (AA).
- A majority of FNB's loans were originated to borrowers within its AA.
- FNB's distribution of loans to low- and moderate-income individuals reflects reasonable penetration.

SCOPE OF THE EXAMINATION

This Performance Evaluation assesses FNB's record of meeting the credit needs of the communities in which it operates. FNB was evaluated using the Small Bank Examination Procedures. These procedures include a lending test to evaluate FNB's record of meeting the credit needs of its AA through its lending activities.

The CRA evaluation covers the period between July 1, 2007 and December 31, 2012. The lending test considered a random sample of loans originated by FNB between January 1, 2010 and December 31, 2011. The scope of the lending test included a review of FNB's primary loan product – residential real estate mortgages. We determined the primary loan product by reviewing available lending reports for the representative timeframe and through discussions with management. To analyze the primary loan product, we selected a random sample from the portfolio, using source documents to collect the data.

The institution's overall rating is the aggregate of conclusions reached in the lending test.

DESCRIPTION OF THE INSTITUTION

FNB is a full-service, intrastate institution. It is wholly owned by Port William Bancshares, Inc., a single bank holding company located in Carrollton, Kentucky. FNB is centrally situated off U.S. Interstate 71 between Louisville, Kentucky and Cincinnati, Ohio. As of December 31, 2012, FNB had approximately \$100 million in total assets, \$88 million in deposits, \$64 million in loans, and \$11.5 million in tier 1 capital. FNB operates from a main office and single branch location, both in the AA. The facilities are full service and have Automated Teller Machines

(ATMs) on location. FNB also operates a stand-alone ATM located at a grocery store in Carrollton, Kentucky.

As of December 31, 2012, net loans represented approximately 65 percent of average assets. The loan portfolio mix was as follows: one-to-four family residential real estate loans (60 percent), business purpose loans (23.4 percent), farm or farm-related loans (8.9 percent), commercial and industrial loans (3.2 percent), consumer loans (2.7 percent), lease financing receivables (1.7 percent), and all other loans (less than one percent). FNB's primary lending focus is residential real estate mortgages.

FNB offers traditional banking services and lending products. FNB continues to be community oriented and offer a wide variety of loan products including residential real estate, commercial real estate, agricultural, and consumer loans.

There are no legal or financial circumstances that impact FNB's ability to meet the credit needs of its community. The last CRA evaluation was performed on September 17, 2007. FNB received a satisfactory rating.

DESCRIPTION OF THE ASSESSMENT AREA

FNB's AA consists of Carroll and Owen Counties in Kentucky. The AA is appropriate in relation to the location of FNB's offices and does not arbitrarily exclude any low- or moderate-income areas.

According to the 2000 United States (U.S.) Census, the population of Carroll County was approximately 10,155, which increased to 10,811 as of the 2010 U.S. Census. The county is located in a non-Metropolitan Statistical Area. The 2000 U.S. Census divides Carroll County into three census tracts (CTs), with two upper-income CTs, one middle-income CT, and no low- or moderate-income CTs. However, approximately 24 percent of the county's residents live below the poverty level.

As of December 31, 2012, Carroll County's unemployment rate was 9 percent, which is above Kentucky's unemployment rate of 8.1 percent. The major industry in Carroll County is manufacturing, followed by services, trade, transportation, and utilities. The Kentucky Cabinet for Economic Development lists the following companies as the largest employers in the county:

- North American Stainless employs approximately 1,380 individuals. The company produces stainless steel coils, sheets, strips, plates, and long products such as bar, wire, rod, and rebar.
- Dow Corning Corporation employs approximately 370 individuals. The company produces silicone fluids, blends, emulsions, and intermediate materials.
- PMC Group, Inc. employs approximately 140 individuals through its PMC Organometallics division. The company produces organic and inorganic tin chemicals, catalysts for automotive paint, stabilizers for vinyl products, and additives for the glass industry.

According to the 2000 U.S. Census, the population of Owen County was approximately 10,547,

which increased to 10,841 as of the 2010 U.S. Census. The county is located in a non-Metropolitan Statistical Area. The 2000 U.S. Census divides Owen County into three CTs, with two middle-income CTs, one upper-income CT, and no low- or moderate-income CTs. However, approximately 13 percent of the county's residents live below the poverty level.

As of December 31, 2012, Owen County's unemployment rate was 6.6 percent, which is below Kentucky's unemployment rate of 8.1 percent. The major industry in Owen County is the services industry, followed by trade, transportation, and utilities. Public administration is another significant contributor to the local economy. The Kentucky Cabinet for Economic Development lists the following company as the largest employer in the county:

- Itron, Inc. employs approximately 280 individuals. The company offers products and services that help utilities measure, manage, and analyze electricity, natural gas, thermal energy, and water.

There are a total of eight financial institutions in the AA, from small community banks to a branch of a large national bank. The total deposits (inside the AA) of these branches or banks range from \$4 million to \$86 million. FNB is the largest financial institution in the AA in relation to deposits, with a 30 percent deposit market share. FNB's major competition in the AA consists of First Farmers Bank and Trust Company and Peoples Bank and Trust Company.

We performed one community contact interview during our evaluation. The contact indicated local banks are active in meeting the community's needs. In addition, the contact identified loans to small businesses and one-to-four family residential housing as credit needs in the community.

The following demographic information covering FNB’s AA of Carroll and Owen Counties is based on 2000 census data, unless otherwise indicated.

Demographic Information for Full-Scope Area: Carroll and Owen Counties						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	6	0.00%	0.00%	50.00%	50.00%	0.00%
Population by Geography	20,702	0.00%	0.00%	38.55%	61.45%	0.00%
Owner-Occupied Housing by Geography	9,784	0.00%	0.00%	40.71%	59.29%	0.00%
Businesses by Geography	2,048	0.00%	0.00%	28.56%	71.44%	0.00%
Farms by Geography	147	0.00%	0.00%	48.30%	51.70%	0.00%
Families by Income Level	5,802	16.53%	13.00%	19.03%	51.45%	0.00%
Distribution of Low- and Moderate-Income Families throughout AA Geographies	1,713	0.00%	0.00%	42.73%	57.27%	0.00%
Median Family Income	\$40,919					
HUD Adjusted Median Family Income for 2012	\$43,600	Median Housing Value				\$73,848
Households Below the Poverty Level	16.55%	Unemployment Rate				38.91%

(*) The NA category consists of geographies not assigned an income classification.
 Source: 2000 U.S. Census and 2012 U.S. Department of Housing and Urban Development (HUD) updated Median Family Income. These figures were obtained directly from U.S. Census data and may or may not total exactly 100 percent.

CONCLUSIONS ABOUT THE PERFORMANCE CRITERIA

Lending Test

FNB’s performance under the lending test is satisfactory. The average net loan-to-deposit (LTD) ratio is reasonable and a majority of loans originated were inside FNB’s AA. FNB’s borrower distribution reflects reasonable penetration among borrowers of different income levels. There were no complaints regarding FNB’s performance in meeting the credit needs of the community.

Loan-to-Deposit Ratio

The LTD is reasonable given FNB’s size, financial condition, and the AA’s credit needs. FNB’s average LTD for the 22 quarters since the last CRA public evaluation was 77 percent. As of December 31, 2012, FNB’s LTD ratio was 72 percent. This marks an increase since the last CRA evaluation when the LTD ratio averaged 66 percent.

We compared FNB to three similarly situated banks. These banks are comparable to FNB in asset size, deposit size, number of offices, and major lending products. While FNB’s LTD is lower than the other banks, two of the other banks are headquartered in Owen County, where the unemployment rate is lower than the rate reported by Carroll County. Management also cited the high level of rental properties in Carroll County and FNB’s above average deposit pricing as contributing factors to the lower ratio. The table below shows the average LTDs of the other banks for the period under review ranged from 83 percent to 105 percent.

Institution	Average LTD Ratio
First National Bank of Carrollton	76.60%
Bank #1	104.64%
Bank #2	82.85%
Bank #3	85.99%

Lending in the Assessment Area

A majority of loans and other lending-related activities are in FNB’s AA. Table 1 shows that 53 percent of the loans and 31 percent of the dollar of loans were made to borrowers inside the AA. To reach this conclusion, the OCC analyzed FNB’s lending activity by selecting a random sample of 30 residential loans originated between January 1, 2010 and December 31, 2011.

FNB has two Loan Production Offices (LPOs). One LPO is in Oldham County, Kentucky and the other is in Gallatin County, Kentucky. The LPO in Oldham County may explain the dollar amount of loans outside the AA. Loans originated at this LPO are primarily to borrowers in Oldham and Jefferson Counties, where the median value of owner-occupied housing units is significantly higher than inside the AA.

Loan Type	Number of Loans				Total	Dollars of Loans (000’s)				Total
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Residential Real Estate Loans	16	53.33%	14	46.67%	30	\$1,301	31.00%	\$2,896	69.00%	\$4,197

**Source: Randomly selected sample of one-to-four family residential loans originated between January 1, 2010, and December 31, 2011.*

Lending to Borrowers of Different Incomes

The distribution of loans reflects reasonable penetration among individuals of different income levels. To reach this conclusion, the OCC analyzed FNB’s lending activity by selecting a random sample of 30 residential loans originated within the AA between January 1, 2010 and December 31, 2011. See Table 2 for details.

Income Distribution of Residential Real Estate Loans

The distribution of loans, given the demographics of the AA, reflects reasonable penetration among individuals of different income levels, including low- and moderate-income families.

Households in the AA below the poverty level total approximately 17 percent, which may be a barrier to homeownership. We identified two other potential barriers to homeownership. Approximately 31 percent of households in the AA receive social security benefits, and a large percentage (25 percent) of total housing units are rental properties.

FNB originated three percent of the sampled loans to low-income families and 17 percent to moderate-income families. Although the random sample selected does not meet the demographic comparator of 17 percent for low-income families, it exceeds the comparator of 13 percent for moderate-income families. The level of penetration is reasonable given the barriers detailed above.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Carroll and Owen Counties								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Residential Real Estate Loans	16.53%	3.33%	13.00%	16.67%	19.03%	33.33%	51.45%	46.67%

Source: Percent of AA Families derived from 2000 U.S. Census data. Random sample of one-to-four family residential real estate loans originated between January 1, 2010 and December 31, 2011.

Geographic Distribution of Loans

The focus of this analysis is to assess FNB’s geographic distribution of lending among low-, moderate-, middle-, and upper-income geographies. Since the AA consists of six CTs (three middle-income CTs, three upper-income CTs, and no low- or moderate income CTs), an analysis of loan distribution by geographies would not provide a meaningful analysis.

Responses to Complaints

FNB 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), the OCC must consider in its CRA ratings evidence of discriminatory or other illegal credit practices in any geography by FNB or in any AA by an affiliate whose loans have been considered as part of FNB’s lending performance.

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