

PUBLIC DISCLOSURE

February 14, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Union County National Bank of Liberty
2007**

**107 West Union
P.O. Box 217
Liberty, Indiana 47353**

Office of The Comptroller of the Currency

**Indianapolis Duty Station
8777 Purdue Road, Suite 105
Indianapolis, Indiana 46268**

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 Union County National Bank of Liberty** prepared by **the Office of the Comptroller of the Currency**, the institution's supervisory agency, as of February 14, 1997. 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 Satisfactory.

The Union County National Bank of Liberty (UCNB) has maintained a solid CRA performance record. Factors supporting this rating include: a reasonable loan-to-deposit ratio, a substantial majority of loans originated within the bank's assessment area, a reasonable dispersion of loans throughout the assessment area, and excellent penetration among low and moderate income individuals and businesses of different sizes given the demographics of the assessment area.

The following table indicates the performance level of The Union County National Bank of Liberty with respect to each of the five performance criteria.

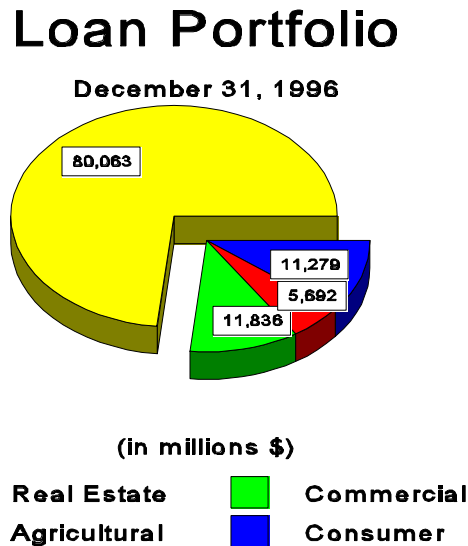
SMALL INSTITUTION ASSESSMENT CRITERIA	<u>UNION COUNTY NATIONAL BANK OF LIBERTY</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the last examination.		

DESCRIPTION OF INSTITUTION

This evaluation covers the time period from February 16, 1995 through February 14, 1997. The previous CRA rating was satisfactory.

UCNB is a \$174 million financial institution located in Liberty, Indiana. The bank is owned by First Merchants Corporation, a four-bank holding company. In addition to the main office in Liberty, the bank operates three branches, two located in Connersville and the other in Richmond, Indiana. The bank also has five ATMs, located at the main office, each branch and one on the Indiana University East Campus in Richmond, Indiana. There are no financial constraints or legal impediments that could impair the bank's ability to meet the credit needs of the community.

As of December 31, 1996, the loan portfolio was comprised primarily of real estate mortgage loans, as noted below.



DESCRIPTION OF ASSESSMENT AREA

UCNB's assessment area comprises Wayne, Union and Fayette Counties in Indiana and Oxford Township in Butler County, Ohio. This assessment area does not arbitrarily exclude low- or moderate-income areas.

Union County has a population of approximately 7,000 and is predominantly an agricultural community. Liberty is located 60 miles northwest of Cincinnati and 20 miles south of Richmond in southeast Indiana.

The Connersville branches are located in adjoining Fayette County with an approximate

population of 26,000. Connersville's economy is primarily centered around small manufacturing industries. The Richmond branch lies in bordering Wayne County with a population of 72,000. Richmond is an economically diverse community. The City of Oxford, Ohio, is located approximately 15 miles from Liberty in Butler County Ohio with a population of 24,000 which includes Miami University's student population. Agriculture dominates the rural areas of the bank's community with corn, soybeans, cattle and hogs providing the major agricultural products.

UCNB's assessment area consists of 32 Block Numbering Areas (BNAs). Two BNAs are designated as low income, six as moderate income, 21 as middle income and three as upper income level BNAs. According to 1990 census data, UCNB's assessment area includes 31,445 families. Of those families, 6,413 or 20 percent are low income and 6,629 or 21 percent are moderate income families. The 1996 HUD Nonmetropolitan Statistical Area (MSA) median family income for Indiana is \$37,200.

In evaluating UCNB's lending performance, we interviewed one individual representing an organization which provides services for low income families and children. We also reviewed four other interviews conducted by other regulatory agencies with realtors, and individuals from local economic development organizations. These contacts identified day care and housing as the primary needs in the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

UCNB's performance is considered satisfactory and is based upon the assessment criteria on page 2. Our review included a sample of real estate mortgages, commercial loans and installment loans originated since the last CRA examination.

Loan-to-Deposit Ratio

UCNB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.

The average loan-to-deposit ratio since the prior CRA examination is approximately 70.03 percent and is considered reasonable. Discussions with members of the community revealed that the local financial institutions are meeting the credit needs of the assessment area. Additionally, UCNB's assessment area is considered very competitive. The bank's ratio as of September 30, 1996 was 74.62 percent versus a peer ratio of 81.5 percent. The peer group consists of four comparably sized local financial institutions.

Lending in the Assessment Area

A substantial majority of loans and other related lending activities are in UCNB's assessment area.

A review of UCNB's internal analysis of all real estate, commercial and agricultural loans made in the last year indicated that \$30,967 million, or 89 percent were extended within UCNB's assessment area.

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

Given the demographics of the assessment area, the distribution of borrowers reflects excellent penetration among individuals of different income levels and businesses of different sizes.

The table below shows that the distribution of credit across income levels is excellent based on a sample of 36 real estate loans and 20 consumer loans, originated since the last CRA exam. UCNB's distribution of credit to low and moderate income households exceeds the percentage of low and moderate income families in UCNB's assessment area which total 41 percent.

Distribution of Loans Across Income Levels								
Loan Type	Low Income*		Mod Income		Middle Income		Upper Income	
	#	\$(000)	#	\$(000)	#	\$(000)	#	\$(000)
Consumer	19	101	1	5	0	0	0	0
Consumer %	95	95	5	5	0	0	0	0
Real Estate	5	156	11	409	12	623	8	381
Real Estate %	14	10	31	26	33	40	22	24

*Income categories are defined as follows: 0-49% of Indiana nonMSA median family income is designated as low income; 50-79% is moderate income; 80-119% is middle income; and 120% and over is upper income.

We also reviewed information provided by the bank on commercial loans originated in 1995 and 1996. A sample of commercial loans indicated that a significant majority of those loans are to businesses having less than \$1 million in annual gross revenues and small farms.

UCNB has been a leader in their assessment area by offering affordable housing products for low and moderate income home buyers. Currently, UCNB offers two different programs through the United States Department of Agriculture (USDA).

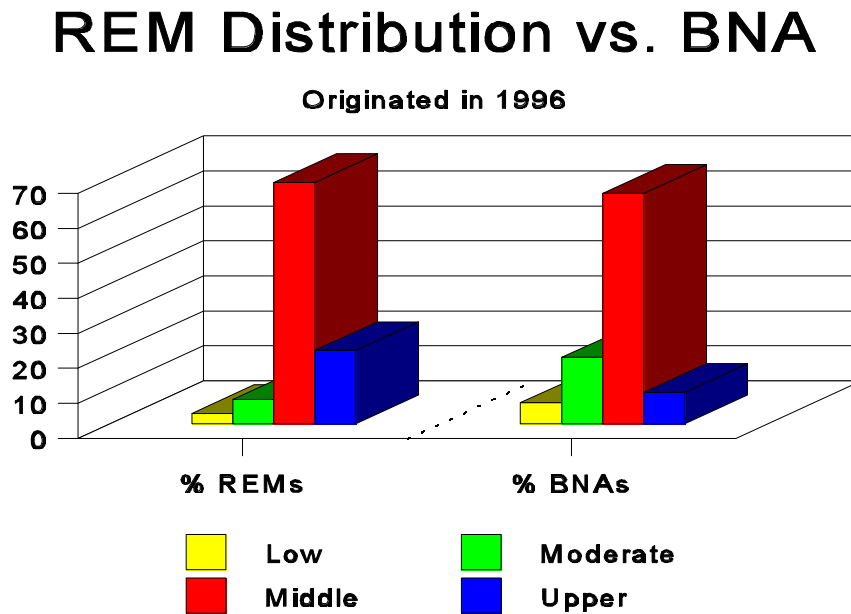
As of December 31, 1996, UCNB had originated ten affordable home loans for a total of

\$413,000 under the Guaranteed Rural Housing Loan Program. Additionally, in December 1996, UCNB began offering a Rural Economic Community Development Loan Program through the USDA which offers 100 percent financing at an interest rate substantially below the market. UCNB has not yet closed any loans under this program. Finally, UCNB provides 95 percent financing on their standard home loan products by offering Private Mortgage Insurance (PMI).

Geographic Distribution of Loans

The geographic distribution of real estate loans reflects reasonable dispersion throughout the assessment area.

The geographic distribution of all real estate mortgages originated in 1996 is reasonable given the composition of UCNB’s assessment area. All the moderate BNA/CTs in UCNB’s assessment area are located in Richmond, Indiana which is a fairly new and highly competitive market for the bank. The following graph depicts that 36 real estate loans originated in 1996, totaling \$1,934,000, or 10 percent were made to low and moderate income BNAs. Eight, or 15 percent of UCNB’s 32 BNAs are designated as low or moderate income BNAs.



Other Considerations

No violations of the substantive provisions of the antidiscrimination laws and regulations were identified.