



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 10, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Kentucky National Bank
Charter Number 23434**

**1000 North Dixie Avenue
Elizabethtown, KY 42701**

**Comptroller of the Currency
Louisville Field Office
9200 Shelbyville Road Suite 505
Louisville, KY 40222**

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.

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INSTITUTION'S CRA RATING

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Kentucky National Bank of Elizabethtown, Kentucky** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **June 10, 2002**. 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.

Major Conclusions:

- The average loan-to-deposit ratio is outstanding.
- A majority of loans and other lending-related activities are in the bank's assessment area.
- The distribution of loans reflects satisfactory penetration among individuals of different income levels and excellent levels of lending to businesses of different sizes.
- The geographic distribution of loans is reasonable, considering the community's credit needs and demographics in relation to the bank's location and capacity to lend.

DESCRIPTION OF INSTITUTION

Kentucky National Bank (KNB) is a \$79 million intrastate bank headquartered in Elizabethtown, Kentucky approximately 50 miles south of Louisville. KNB operates from the main office and one branch both located in Elizabethtown on opposite sides of the city. In September 2001, an 8,000 square foot addition to the main office was completed to provide additional space for the Mortgage Division, in-house loan department, and bookkeeping department. Both facilities are full-service and have an Automated Teller Machine (ATM) at their location.

The bank's stock is widely held by local investors so there is no controlling interest. As of March 31, 2002, the bank's net loan portfolio totals approximately \$68 million, or 86% of total assets. Tier One capital is approximately \$7 million.

KNB offers traditional banking services and lending products. KNB continues to be community oriented and offers a wide variety of loan products including residential real estate, business-related, consumer, and agricultural. The composition of the loan portfolio is as follows: 1-4 family residential mortgages 54%, business-related loans 20%, consumer loans 14%, construction loans 7%, farm-related loans 3%, and other loans 2%.

The bank has no financial or legal impediments that restrict it from meeting the credit needs of its local community. The last CRA evaluation was performed on March 2, 1998. The bank received a rating of satisfactory. The coverage period for this evaluation is from April 1, 1998 through May 31, 2002.

DESCRIPTION OF HARDIN COUNTY

KNB's assessment area (AA) is all of Hardin County. The assessment area is located in a non-MSA portion of the State of Kentucky. The county is centrally located and has three major highways intersecting nearby. Easy access to the area is helping to attract new businesses. The two largest towns are Elizabethtown, the county seat, and Radcliff. The U.S. Army's Fort Knox operations also occupy a large portion of the northern part of the county. The AA is comprised of eight upper-income, eight middle-income, and one moderate-income census tract. It does not include any low-income tracts. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. The following demographic information on the bank's AA in Hardin County is based on 1990 census data, unless otherwise indicated.

Type of Information	AA	
Population	94,174	
Kentucky 2002 HUD Adjusted Median Family Income	\$36,300	
Median Family Income of AA	\$22,542	
Families in AA:		
Income Level of Families	#	%
Low	3,028	13%
Moderate	3,705	16%
Middle	4,887	21%
Upper	11,817	50%
Total Families within AA	23,437	100%
Occupancy:		
Owner	58%	
Rental	33%	
Vacant	9%	
Median Home Value	\$57,969	
Median Year of Homes Built	1971	

The economy is growing and considered mixed. The major industry in the assessment area is services, followed by retail trade and finance. Some of the major employers in the AA are Ambrake Corporation, Dana Corporation, A P Technoglass Incorporated, and Gates Rubber Company. Eighty-eight percent of the businesses in the assessment area have gross annual revenues of less than \$1 million. As of May 2002, the unemployment rate for Hardin County was 7.0%. Kentucky's unemployment rate was 5.2% and the national average was 5.5%. However, Hardin County's unemployment statistics are not entirely reflective of the local economy because the deployment of soldiers from Fort Knox has a negative impact on local businesses.

There are a total of fourteen commercial and savings banks in the assessment area. Of these banks, six are chartered in Hardin County. The total deposits of these banks range from \$29 million to \$230 million. KNB's deposit totals are in the middle of this range, with a 6% deposit market share. The bank's major competition in the Hardin County assessment area consists of South Central Savings Bank, The Cecilian Bank, and West Point Bank.

We performed one community contact interview during our evaluation. We contacted a member of the Hardin County business and labor group. The contact indicated Hardin County is experiencing strong economic growth and the overall credit needs of the community are being met by local banks.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The bank's primary products are 1-4 family residential real estate loans, consumer loans, and commercial loans because they represent the majority of the loans made during the evaluation period.

Loan-to-Deposit Ratio

KNB's loan-to-deposit ratio is more than reasonable. The bank's average loan-to-deposit ratio from June 1998 to March 2002 was 105%. The quarterly averages during that time period ranged from 96% to 112%. Currently, KNB's loan-to-deposit ratio is 112%. This is higher than the ratios of the two banks considered similarly situated and operating in the assessment area. They are comparable to KNB in asset size, market, and major lending products. KNB's ratio also exceeds its national peer group, which is 69%.

Lending in Assessment Area

A majority of loans and other lending-related activities are in KNB's assessment area. The analysis shows 74% of the number and 75% of the dollar amount of the loans originated were to borrowers inside the assessment area. To reach this conclusion, the bank's lending activity was analyzed using a random sample of loans originated during the evaluation period. See the table below for details.

SAMPLE OF LOAN ORIGINATIONS FROM APRIL 1, 1998 THROUGH JUNE 30, 2002*				
	Number of Loans	Percentage of Loans	Dollar Amt of Loans \$(000's)	Percentage of Dollars
Within the Assessment Area	56	74%	\$2,287	75%
Outside the Assessment Area	20	26%	\$760	25%
Totals	76	100%	\$3,047	100%

* Source: Randomly selected sample of residential real estate, consumer, and commercial loans originated between April 1, 1998 and June 30, 2002.

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

KNB's overall lending to borrowers of different incomes and to businesses of different sizes reflects reasonable penetration based on the lending performance of the bank within the assessment area. To reach this conclusion, the bank's lending activity was analyzed using a random sample of their primary loan types originated during the evaluation period. The loan

types included residential real estate, consumer, and commercial loans. The distribution of KNB's lending reflects the income characteristics of the assessment area.

Table INC-1 Residential Real Estate Loans shows the percentage of KNB's residential real estate loans originated to low- and moderate-income borrowers is less than the percentage of families in the assessment area with low- and moderate-incomes. KNB originated 6% of their residential mortgages to low-income borrowers and 11% to moderate-income borrowers. By comparison, 13% of the families are low-income and 16% are moderate-income. A review of the assessment area demographics indicates that while the demand for affordable housing is present, the actual lending opportunities for banks may not be present. The assessment area suffers a relatively high poverty rate and a substantial percentage of households live on social security or public assistance. Considering this information, the distribution of residential real estate lending reflects a reasonable penetration among individuals of different income levels including low- and moderate-income individuals.

Table INC-1 Residential Real Estate Loans

1-4 FAMILY MORTGAGE LOANS					
Borrower Income Level	April 1, 1998 through June 30, 2002*				Percentage of Families within each Income Category
	Number of Loans	Percentage of Loans	Dollar Amt of Loans \$(000's)	Percentage of Dollars	
Low	1	6%	\$24	3%	13%
Moderate	2	11%	\$90	11%	16%
Middle	5	28%	\$220	27%	21%
Upper	10	55%	\$474	59%	50%
Total	18	100%	\$808	100%	100%

*Source: Randomly selected sample of residential real estate loans originated in the assessment area between April 1, 1998 and June 30, 2002.

Table INC-2 Consumer Loans shows the percentage of KNB consumer loans originated to low- and moderate-income borrowers is comparable to the percentage of families in the assessment area with low- and moderate-incomes. Low-income borrowers received 15% of the number of consumer loans and moderate-income borrowers also received 15%. By comparison, 13% of the families in the AA are low-income and 16% are moderate-income.

Table INC-2 Consumer Loans

CONSUMER LOANS					
Borrower Income Level	April 1, 1998 through June 30, 2002*				Percentage of Families within each Income Category
	Number of Loans	Percentage of Loans	Dollar Amt of Loans \$(000's)	Percentage of Dollars	
Low	3	15%	\$24	5%	13%
Moderate	3	15%	\$75	14%	16%
Middle	5	25%	\$117	22%	21%
Upper	9	45%	\$315	59%	50%
Total	20	100%	\$531	100%	100%

*Source: Randomly selected sample of consumer loans originated in the assessment area between April 1, 1998 and June 30, 2002.

Table INC-3 Business Loans shows a significant majority (94%) of KNB's commercial lending is to small businesses. These numbers exceed the percentage of small businesses located in the assessment area. Demographic information indicates 88% of all businesses in the AA are considered small and have revenues less than \$1 million.

Table INC-3 Business Loans

BUSINESS LOANS					
Business Income Level in Revenues	April 1, 1998 through June 30, 2002*				Percentage of Businesses in the AA
	Number of Loans	Percentage of Loans	Dollar Amt of Loans \$(000's)	Percentage of Dollars	
< \$1 Million	17	94%	\$944	98%	88%
> \$1 Million	1	6%	\$18	2%	6%
Not Reported	0	0%	\$0	0%	6%
Total	18	100%	\$962	100%	100%

*Source: Randomly selected sample of commercial loans originated in the assessment area between April 1, 1998 and June 30, 2002.

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. KNB’s lending activity extends throughout most of the assessment area. However, there were notable gaps in lending in four of the assessment area’s seventeen census tracts. The reasons for the gaps were because one tract is located approximately forty miles from the bank. The tract is much closer to the Louisville MSA than it is to Elizabethtown. The other three tracts are located in Radcliff approximately fifteen miles from the bank. Radcliff is the second largest town in the county, lies next to Fort Knox, and has many financial institutions which service the local population's loan needs. To reach this conclusion, the bank’s lending activity was analyzed by selecting a random sample of loans of each of the bank’s primary loan types originated during the evaluation period. The loan types included residential real estate, consumer, and commercial loans. The distribution of KNB’s loans in its assessment area reflects the geographic characteristics of the assessment area.

Table GEO-1 Residential Mortgage Loans shows KNB had reasonable penetration when making mortgage loans in the assessment area’s one moderate-income census tract. This geography contains 1.95% of all owner-occupied housing in the AA. The sample shows 16.67% of the number and 16.71% of the dollars lent for residential mortgage loans were made to borrowers located in the moderate-income census tract.

Table GEO-1 Residential Mortgage Loans

Geographic Distribution of 1-4 Family Residential Mortgage Loans by Geography Income Designation Originated Between April 1, 1998 and June 30, 2002					
Geography Characteristics**		1-4 Family Mortgage Loans*			
Income Level of Census Tracts	Distribution of Owner Occupied Housing	Number	Percentage	Dollars \$(000's)	Percentage
Moderate	1.95%	3	16.67%	\$135	16.71%
Middle	33.02%	3	16.67%	\$189	23.39%
Upper	65.03%	12	66.66%	\$484	59.90%
Total	100.00%	18	100.00%	\$808	100.00%

* Source: Randomly selected sample of residential mortgages originated between April 1998 and June 2002 from within the bank’s assessment area.

** Note: The assessment area has no low-income geographies.

Table GEO-2 Consumer Loans shows KNB had reasonable penetration when making consumer loans in the assessment area’s one moderate-income census tract. This geography contains 1.51% of all the households in the AA. The sample shows 5.00% of the number and 5.08% of the dollars lent for consumer loans were made to borrowers located in the moderate-income census tract.

Table GEO-2 Consumer Loans

Geographic Distribution of Consumer Loans by Geography Income Designation Originated Between April 1, 1998 and June 30, 2002					
Geography Characteristics**		Consumer Loans*			
Income Level of Census Tracts	Households	Number	Percentage	Dollars \$(000's)	Percentage
Moderate	1.51%	1	5.00%	\$27	5.08%
Middle	43.18%	4	20.00%	\$85	16.01%
Upper	55.31%	15	75.00%	\$419	78.91%
Total	100.00%	20	100.00%	\$531	100.00%

* Source: Randomly selected sample of consumer loans originated between April 1998 and June 2002 from within the bank's assessment area.

** Note: The assessment area has no low-income geographies.

Table GEO-3 Business Loans shows KNB had reasonable penetration when making business loans in the assessment area's one moderate-income census tract. This geography contains 2.72% of all businesses in the AA. The sample shows 5.56% of the number and 9.67% of the dollars lent for business loans were made to borrowers located in the moderate-income census tract.

Table GEO-3 Business Loans

Geographic Distribution of Business Loans by Geography Income Designation Originated Between April 1, 1998 and June 30, 2002					
Geography Characteristics**		Business Loans*			
Income Level of Census Tracts	Distribution of Businesses in the AA	Number	Percentage	Dollars \$(000's)	Percentage
Moderate	2.72%	1	5.56%	\$93	9.67%
Middle	36.37%	6	33.33%	\$187	19.44%
Upper	60.91%	11	61.11%	\$682	70.89%
Total	100.00%	18	100.00%	\$962	100.00%

* Source: Randomly selected sample of business loans originated between April 1998 and June 2002 from within the bank's assessment area.

** Note: The assessment area has no low-income geographies.

Responses to Complaints

Kentucky National Bank has not received any complaints about its performance in helping to meet assessment area needs during this evaluation period.

Fair Lending Review

An analysis of recent years' public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 2000.