



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

February 2, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Henderson National Bank
Charter Number 23955**

**208 North Main Street
Henderson, KY 42420**

**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.

INSTITUTION'S CRA RATING INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

All the lending performance components meet the standards for satisfactory performance. The major factors that support this rating are:

- The bank's lending reflects a good dispersion among borrowers of different income levels and an adequate dispersion among businesses of different sizes given the demographics, economic factors, and legal impediments faced by the bank.
- The level of lending is reasonable. The bank's average loan-to-deposit ratio is 70% and is comparable to similarly situated area banks.
- Loans are reasonably distributed by geographic classification.
- A majority of the bank's loans extended during this evaluation period were originated within the bank's AA.

DESCRIPTION OF INSTITUTION

Henderson National Bank (HNB) is an independent, shareholder-owned financial institution located in Henderson, Kentucky. As of December 31, 2002, HNB had total assets of \$33.3 million, net loans of \$20.3 million, total deposits of \$26.9 million, and total risk based capital of \$5.2 million.

HNB is a de novo national bank that currently operates one office in downtown Henderson, with drive-through services, including a non-depository automated teller machine (ATM), on the opposite side of the street. There are also two non-depository ATMs located within the Henderson city limits, at Palmer's Market at 1850 2nd Street, and Fast Fuel at 2950 US Hwy 60 East. HNB closed its branch at 400 Marywood Drive, located in the northern part of Henderson, on November 29, 2003. The bank's lease on the property was not renewed, as Walgreen's purchased the entire block for construction of a new store location. There have been no other branch or ATM openings or closings. There have been no changes in the bank's corporate structure since its inception and there are no subsidiaries or affiliates. As a de novo institution, this is HNB's first CRA evaluation.

HNB was chartered on February 22, 2000. The evaluation period covers the time from the bank's inception to December 31, 2002. During the evaluation period, the bank's ability to perform under the Community Reinvestment Act (CRA) was impeded by several factors. Earnings have been low, several internal matters required time and resources, and the bank entered into a formal agreement with bank regulators in 2002 to strengthen credit administration and control systems.

The bank's primary lending focus is business-related loans, residential real estate loans, and consumer loans. As of December 31, 2002, net loans totaled \$20.3 million, representing 61% of total assets. The loan portfolio was comprised of 48% business-related loans, 35% 1-4 family residential real estate loans, and 14% consumer loans, with agricultural loans and other loans representing the remaining 3%. By dollar value, business (48%) and residential real estate loans (35%) account for the majority of the loans originated during the evaluation period. When considering the number of loans originated during the period, consumer loans (51%) and 1-4 family residential real estate loans (26%) are the bank's largest product categories.

To accommodate the credit needs of its customers who want long-term residential real estate financing, the bank takes applications for such loans and brokers them to other lenders who originate them for sale into the secondary market. The bank is also involved with the local Economic Development Council (EDC) and the Henderson County Chamber of Commerce. These activities are indicative of the bank's willingness to meet community credit needs.

DESCRIPTION OF ASSESSMENT AREA

Management has designated Henderson County, Kentucky as its AA. This is a contiguous area, meets the requirements of the regulation, and does not arbitrarily exclude low- or moderate-income geographies.

Henderson County is part of the Evansville-Henderson Metropolitan Statistical Area (MSA), and is comprised of eleven census tracts (CTs). Based on the 1990 MSA median family income, one CT or 9% is classified as low-income, two CTs or 18% are classified as moderate-income, and eight CTs or 73% are classified as middle-income. The bank's main office and drive-through facility are located in a moderate-income CT. The other moderate-income CT and the low-income CT are adjacent.

The 1990 census data shows the total population in Henderson County was 43,044, which included 12,197 families. Of these families, 3,217 or 26% were classified as low-income, 2,124 or 18% as moderate-income, 2,840 or 23% as middle-income, and 4,016 or 33% as upper-income. The MSA median family income as of the 1990 census was \$33,523. The 2002 updated figure, adjusted for inflation by the Department of Housing and Urban Development, is \$54,700. We used the 2002-updated figure in our analysis to determine the borrower income levels.

Based on the 1990 census data for Henderson County, 13% of the population is age 65 or older, 13% of households are in retirement, and 16% of households live below the poverty level. The Henderson downtown area where the main office and drive-through facility are located has a notable percentage of households (32%) living below the poverty level, 16% of households living in retirement, and 18% of the population age 65 or older. The adjacent moderate- and low-income CTs also have significant percentages of households (28% and 27%) living below the poverty level, 12% and 15% of households living in retirement, and 13% and 14% of the population age 65 or older. Small service-related retail trade, financial, insurance, and real estate businesses primarily support the downtown Henderson area.

In 1990, the median housing value for Henderson County was \$50,802 and the median age of the housing stock was 25 years. Local housing for the AA was 76% 1-4 family units, with only 61% owner-occupied. The median housing value for the main office CT was \$36,500 and the median age of the housing stock was 43 years. Local housing for main office CT was 87% 1-4 family units, with just 40% owner-occupied. The median housing value for the adjacent moderate-income CT and the low-income CT was \$27,800 and \$31,500, and the median age of the housing stock was 51 years and 44 years, respectively. Local housing for the adjacent moderate-income CT and low-income CT was 88% and 94% 1-4 family units, with only 44% and 49% owner-occupied. Vacant housing units for the AA (7%) are similar to levels found in the main office CT and the adjacent moderate-income CT (8% and 9%). Vacant housing units for the low-income CT are considerably higher at 14%.

The local economy has remained relatively stable despite factory closures and downsizing. Major employers in the AA include Tyson Foods, with 1,500 employees; Gibbs Die Casting, Inc., with 1,300 employees; Methodist Hospital, with 1,252 employees; and Henderson County Schools, with 1,030 employees. Many Henderson area residents commute to Evansville, Indiana for employment. Henderson County does have an active EDC, as well as a Chamber of Commerce, to promote and attract economic development. The area has several recreational and entertainment attractions. These include John James Audubon State Park; Sloughs Wildlife Management Area; and Atkinson Park, River Walk, & Municipal Golf Course; as well as horse racing at Ellis Park.

The December 2003 seasonally unadjusted unemployment rates for Henderson County and the state of Kentucky are 5.2% and 5.1%, respectively. These figures compare favorably to the national unemployment rate of 5.7% for the same period. The annual average unemployment rates for Henderson County for 2000, 2001 and 2002, seasonally unadjusted, were 4.0%, 5.5% and 5.8%, respectively. These figures correspond with the number of plant closings and downsizings that have recently taken place in the AA. In 2002, CPS, Inc. closed its facilities, resulting in 200 lost jobs, while Sights Denim Systems, Inc. downsized by 150 employees. A local government official estimates that 1,000 jobs have been lost over the previous five years due to such closures and downsizing. He also pointed out that a distribution center employing 90 people is under construction, with the possibility of a second such facility in the near future.

Competitive pressures in the local community are strong, and come primarily from two local banks and three large regional banks which have branches located in Henderson County. Together, the competitors have sixteen branches located in Henderson County. This number does not include the array of mortgage companies, investment services, farm services, and insurance company offices that now offer loan products.

The bank has identified the primary credit needs of Henderson County as business-related loans; residential real estate loans, specifically long-term fixed rate, home-equity lines of credit, and non-owner occupied housing; and consumer loans. Management also stated the need for farm-related loans has declined in recent years, which correlates with demographic data showing only 3% of the Henderson County labor force is self-employed farmers.

To further our understanding of the community's credit needs, we made a community contact with a local government official knowledgeable about the community. Our contact identified residential real estate, business, and agricultural loans as the primary credit needs in the community. Our contact did not identify any unmet credit needs and felt the local banks are more than adequately involved in the community and are adequately meeting its credit needs. While stating the local economy is fair, he did remark that the area had been unable to attract new industry despite the presence of an EDC. The contact was unaware of any community development or other credit-related projects available for participation by local financial institutions.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

HNB does a reasonable job of meeting the credit needs of its AA, given the demographics, economic factors, competitive pressures, earnings levels and regulatory issues faced by the bank. Please refer to the "Description of Institution" and "Description of Assessment Area" sections of this evaluation for details on these performance context factors.

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

HNB's lending reflects a good dispersion among borrowers of different income levels and an adequate dispersion among businesses of different sizes. Lending levels, as shown by the volume of all loans generated, reflect good responsiveness to the credit needs of the AA. Based on new or renewed loan reports since February 22, 2000, HNB extended approximately 1,159 real estate, commercial, and consumer loans, totaling \$41 million. Several of these loans were sold to, or participated with, other financial institutions.

During this evaluation period, HNB's primary loan products were business-related loans, 48%, and residential real estate loans, 35%, by dollar, and consumer loans, 51%, and residential real estate loans, 26%, by number.

Using only loans made in the AA, we sampled 20 residential real estate loans, 20 consumer auto loans, and 20 business-related loans originated from February 22, 2000 through December 31, 2002. Residential real estate loans were not differentiated by type, i.e., home purchase, refinancing, and home improvement, because that information was not readily available.

Residential Real Estate Loans

The overall borrower distribution of residential real estate loans in the bank's AA is good. In evaluating the borrower distribution of residential real estate loans, we considered the large number of households that live below the poverty level (16% of households) and the barriers this may have on home ownership. Many of the sampled loans were refinances and it is likely that middle- and upper-income level borrowers can more easily afford the costs associated with refinancing. The data used to evaluate HNB's residential lending activity is presented in the following table.

Borrower Distribution of Residential Real Estate Loans in Henderson County								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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	26%	10%	18%	25%	23%	15%	33%	50%

Sources: Loan Sample and 1990 US Census Information. The updated 2002 MSA median family income is \$54,700. The income categories are defined as: less than 50%, 50% to 80%, 80% to 120%, and over 120%, respectively, of \$54,700.

Based on the sample of loans selected, the bank's residential lending to low-income borrowers (10%) is below the percentage of low-income families (26%) in the AA. Opportunities to make loans to low-income borrowers are limited by the high percentage of people living below the poverty level. Residential lending to moderate-income borrowers (25%) significantly exceeds the percentage of moderate-income families (18%).

Consumer Auto Loans

The overall borrower distribution of consumer auto loans is good in the bank's AA. In evaluating the borrower distribution of consumer auto loans, we considered the large number of households below the poverty level (16% of households). The data used to evaluate HNB's consumer lending activity is presented in the following table.

Borrower Distribution of Consumer Auto Loans in Henderson County								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Auto Loans	29%	20%	15%	35%	20%	20%	36%	25%

Sources: Loan Sample and 1990 US Census Information.

Based on the sample of loans selected, the bank's consumer lending to low-income borrowers (20%) is below the percentage of low-income households (29%) in the AA. Opportunities to make loans to low-income borrowers are limited by the high percentage of people living below the poverty level. Consumer lending to moderate-income borrowers (35%) significantly exceeds the percentage of moderate-income households (15%).

Business Loans

The bank's overall lending distribution to businesses of different sizes is adequate. The data used to evaluate HNB's business lending activity is presented in the following table.

Borrower Distribution of Loans to Businesses in Henderson County		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	76%	6%
% of Bank Loans in AA by #	50%	50%
% of Bank Loans in AA by \$	21%	79%

*Source: Loan Sample and Dunn and Bradstreet 2002 data. * 18% of AA businesses did not report revenue data*

Based on the sample of loans selected, HNB's business lending to small businesses (50%) with revenues of \$1 million or less is below the percentage of small businesses (76%) in the AA. Although the bank's level of lending is quite a bit below the proportion of small businesses in the area, this is considered adequate given the performance context factors.

Geographic Distribution of Loans

The bank's overall lending reflects an adequate dispersion among geographies of different income levels. There are CTs with little loan penetration. This is reasonable, given the contextual factors. Our conclusion was based on the sample of residential real estate loans, consumer auto loans, and business-related loans discussed above.

Residential Real Estate Loans

Residential real estate loan geographic distribution is adequate. The data used to evaluate HNB's residential lending activity is presented in the following table.

Geographic Distribution of Residential Real Estate Loans in Henderson County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential Real Estate Loans	4%	0%	8%	10%	88%	90%	0%	0%

Sources: Loan Sample and 1990 US Census Information.

The percentage of the bank's residential real estate loans made in the low-income geography (0%) is below the percentage of owner-occupied housing units (4%) in these geographies. The percentage of the bank's residential real estate loans made in the moderate-income geographies (10%) is slightly above the percentage of owner-occupied housing units (8%) in these geographies.

Consumer Auto Loans

Consumer auto loan geographic distribution is poor. The data used to evaluate HNB's consumer lending activity is presented in the following table.

Geographic Distribution of Consumer Auto Loans in Henderson County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Auto Loans	5%	0%	11%	5%	84%	95%	0%	0%

Sources: Loan Sample and 1990 US Census Information.

The percentage of the bank's consumer auto loans made in the low-income geography (0%) is below the percentage of households (5%) in these geographies. The percentage of the bank's consumer auto loans made in the moderate-income geographies (5%) is also below the percentage of households (11%) in these geographies. The bank's low penetration is somewhat mitigated by the large number of households that live below the poverty level in these low- and moderate-income geographies.

Business Loans

Business loan geographic distribution is adequate. The data used to evaluate HNB's business lending activity is presented in the following table.

Geographic Distribution of Loans to Businesses in Henderson County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	3%	10%	29%	15%	68%	75%	0%	0%

Source: Loan Sample and Dunn and Bradstreet 2002 data.

The percentage of the bank's business loans made in the low-income geography (10%) significantly exceeds the percentage of businesses (3%) in these geographies. The percentage of the bank's business loans made in the moderate-income geographies (15%) is significantly lower than the percentage of businesses (29%) in these geographies.

Loan-to-Deposit Ratio

HNB's loan-to-deposit (LTD) ratio is reasonable. As of December 31, 2002, the bank's LTD ratio was 76%. HNB's quarterly average LTD ratio since February 22, 2000 was 70%. This is comparable to nine similarly situated banks in the area whose quarterly average LTD ratios ranged from 35% to 104%, with an average ratio of 73%. These banks are considered similarly

situated because of their size, lending opportunities, and location. Although slightly below the average LTD ratio for its peer group, HNB's LTD ratio is satisfactory based on the contextual factors. Please refer to the "Description of Institution" and "Description of Assessment Area" sections of this evaluation for details on these performance context factors.

Lending in Assessment Area

Lending in the AA is satisfactory. A majority of the bank's consumer auto loans originated since February 22, 2000 were made in the AA. A sample of 20 consumer auto loans totaling \$241 thousand found that 85% by number and 80% by dollar were made within the bank's AA.

Responses to Complaints

HNB has not received any complaints about its performance in helping to meet community credit needs since the bank's inception.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.