



SMALL BANK

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

PUBLIC DISCLOSURE

February 15, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Muhlenberg County, Kentucky
Charter Number 8229**

**130 West Broad Street
Central City, KY 42330**

**Comptroller of the Currency
Nashville
5200 Maryland Way, Suite 104
Brentwood, TN 37027**

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 - This institution is rated Satisfactory.

- ◆ The average loan-to-deposit ratio at 88.11 percent is excellent given the bank's size, financial condition, and assessment area credit needs.
- ◆ A majority of the number of loans originated are in the bank's assessment area.
- ◆ The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- ◆ No public complaints related to CRA have been filed since the last CRA examination.

Examiners reviewed a sample of residential mortgage and business loans originating between January 1, 2003 and February 15, 2005.

DESCRIPTION OF INSTITUTION

First National Bank of Muhlenberg (FNB) is a community bank with three offices located in Muhlenberg County, Kentucky. The main office is located in Central City and two other full service branches are located in Bremen and Greenville. As of December 31, 2004, the bank reported total assets of \$105 million with \$92 million in deposits and \$78 million in loans (74 percent of total assets). FNB is a wholly owned subsidiary of First United, Inc., a one-bank holding company.

The institution operates in a competitive environment including other community banks, branches of a large regional bank, and credit unions. At June 30, 2004, FNB ranked second in deposit market share in Muhlenberg County, with 23 percent of the total deposits, according to FDIC data. The bank's primary business focus is residential real estate, commercial, and consumer loans. The loan portfolio composition as of December 31, 2004, is as follows:

Loan Category	\$ (000s)	Percent
Residential Mortgage Loans	\$47,190	60.1%
Commercial & Commercial Real Estate	\$18,449	23.5%
Individuals	\$5,942	7.6%
Farmland and Agriculture	\$3,301	4.2%
Construction & Land Development	\$3,478	4.4%
All Other	\$205	0.2%
Total	\$78,565	100%

** Data obtained from 12/31/2004 Call report*

FNB offers convenient banking hours and a variety of loan and deposit products to meet the needs of the assessment area. There are no financial impediments that would limit the bank's

ability to help meet the credit needs in its assessment area. The bank’s last CRA examination was performed as of September 27, 1999, and was rated **Satisfactory**.

DESCRIPTION OF ASSESSMENT AREA

FNB’s assessment area (AA) meets the legal requirement of the regulation and does not arbitrarily exclude low- and moderate-income geographies. The AA includes all nine census tracts within Muhlenberg County. The AA includes eight middle-income and one upper-income census tracts. There are no low- or moderate-income tracts within the AA.

Greenville serves as the county seat of Muhlenberg County. The local employment base is not well diversified, with principal industries being small manufacturing and agriculture. Some of the major employers in the county include the state prison, the county school system, and the Tennessee Valley Authority. The county has a high unemployment rate of 7.2 percent, which greatly exceeds the state average of 4.2 percent for the year ending 2004. This can be partly attributed to the continuing decline in the coal mining industry during the last decade or so. The 2004 updated median family income for Kentucky was \$38,400. With 20% of the households below the income poverty level, it would be difficult for these families to afford the median housing cost of \$52,398.

The following table shows the demographic and economic characteristics of the assessment area:

Demographic Information for Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	9	0.00	0.00	89.89%	11.11%	0.00
Population by Geography	31,839	0.00	0.00	90.11%	9.89%	0.00
Owner-Occupied Housing by Geography	10,246	0.00	0.00	91.09%	8.91%	0.00
Businesses by Geography	1,304	0.00	0.00	84.89%	15.11%	0.00
Farms by Geography	74	0.00	0.00	85.14%	14.86%	0.00
Family Distribution by Income Level	9,101	22.63%	16.83%	21.33%	39.21%	0.00
Distribution of low- and moderate income families throughout AA geographies	3,592	0.00	0.00	94.38%	5.62%	0.00
Medium Family Income	= \$34,085	Median Housing Value		= \$52,398		
HUD Adjusted Median Family Income for 2004	= \$38,400	Unemployment Rate		= 7.2%		
Households below the Poverty Level	= 20%					

(*) The NA category consists of geographies that have not been assigned an income classification.
 Source: 2000 U.S. Census, and 2004 HUD updated MFI.

Community Contact

We conducted one community contact with a local government official. They stated that the banking industry is adequately serving the needs of the community and local businesses. They did not reveal any unmet credit needs in the bank’s AA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio exceeds the standard for satisfactory performance given the bank's size, financial condition, and considering the credit needs of the AA. The quarterly loan-to-deposit ratio averaged 88.10 percent since the previous CRA examination dated September 27, 1999. The ratio has ranged from a high of 107.30 percent at December 31, 2000, to a low of 74.35 percent at June 30, 2003. We also compared FNB's LTD ratio to two other similarly situated community banks with offices in Muhlenberg County. As of September 30, 2004, FNB's LTD ratio of 84.29 percent compared favorably with the other banks with LTD ratios of 88.91 percent and 63.27 percent respectively.

Lending in Assessment Area

FNB's lending within its AA meets the standard for satisfactory performance. A substantial majority of the number of FNB's loans was originated within the AA. For business loans, 75 percent of the total number and 79 percent of the dollar amount of loans were originated within the AA. Our sample was comprised of residential real estate and business loans. Based on our sample, approximately 82 percent of the total number of sampled loans and 82 percent of the total dollar amount of sampled loans were originated in the AA. Lending within the AA is detailed in the following table.

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home mortgage loan sample	46	90.20%	5	9.80%	51	2,474	89.94%	277	10.06%	2,751
Business loan sample	43	75.44%	14	24.56%	57	4,976	79.00%	1,323	21.00%	6,299
Totals	89	82.41%	19	17.59%	108	7,450	82.32%	1,600	17.68%	9,050

Source: sampled home mortgage loans and business loans from 2003, 2004 and 2005.

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

The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.

The number of residential real estate loans to low- and moderate-income families compared to the percentage of low- and moderate-income families in the AA is reasonable. Although the percentage of the number of loans to low-income families appears low, slightly more than 10% of the number of loans in our sample were made to low-income families. This is reasonable

when considering the median housing costs and the number of families that fall below the poverty level. The number of loans to moderate-income families is higher than the percentage of moderate-income families in the AA.

Borrower Distribution of Residential Real Estate Loans in Assessment Area								
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
Home mortgage loan sample	22.63%	10.87%	16.83%	17.39%	21.33%	21.74%	39.20%	50.00%

Source: sampled home mortgage loans from 2003 and 2004.

The distribution of loans to small businesses is good compared to the number of small businesses in the AA. As shown below, our sample of business loans reveals that 74 percent of the loans in the AA were made to small businesses (businesses with \$1 million or less in gross annual revenues). This compares favorably to the reported 67 percent of small businesses within the AA.

Borrower Distribution of Loans to Businesses in Assessment Area				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Not reported	Total
% of AA Businesses*	67.34%	3.85%	28.81%	100%
% of Bank Loans in AA by #	74.42%	16.28%	9.30%	100%
% of Bank Loans in AA by \$	40.38%	52.45%	7.17%	100%

**Demographic data source: Dunn & Bradstreet*

Geographic Distribution of Loans

There are no low- or moderate-income census tracts within FNB's AA. Therefore, we did not perform an analysis of geographic distribution of loans since the findings from the analysis would not reveal meaningful information.

Responses to Complaints

FNB has not received any CRA-related complaints since the previous CRA examination.

Fair Lending or Other Illegal Credit Practices Review

An analysis of 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 that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1999.