

## **Public Disclosure**

February 8, 1999

### **Community Reinvestment Act Performance Evaluation**

**Cumberland Valley National Bank and Trust Company  
Charter Number 10254  
490 Big Hill Road**

**Berea, Kentucky 40403**

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

**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.**

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## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout the Performance Evaluation. The definitions are intended to give the reader a general understanding of the terms, not a strict legal definition.

**Community Development** - means -

- Ⓒ affordable housing (including multifamily rental housing) for low- or moderate-income individuals;
- Ⓒ community services targeted to low- or moderate-income individuals;
- Ⓒ activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 C.F.R. 121.301) or have gross annual revenues of \$1 million or less; or,
- Ⓒ activities that revitalize or stabilize low- or moderate-income geographies.

**Community Reinvestment Act (CRA)** - The statute that requires banking regulatory agencies to evaluate a bank's record of meeting the credit needs of its local community, consistent with safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Consolidated Metropolitan Statistical Area (CMSA)** - An area may be defined by the OMB as a CMSA if several component areas (MSAs) can be identified within the entire area by meeting specified statistical criteria, and local opinion indicates there is support for the component areas.

**Geography** - means a census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA)** - A statute that requires certain mortgage lenders that do business or have banking offices in an MSA to file annual summary reports of their mortgage lending activity. The reports include data such as the race, gender, income of the applicant(s), a loan amount requested, and its disposition.

**Median Family Income (MFI)** - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of census tracts. Also, the updated median income determined by the Department of Housing and Urban Development (HUD) annually used to determine the income level category of individuals.

Ⓒ **Low Income** - Income levels that are less than 50 percent of the MFI.

Ⓒ **Moderate Income** - Income levels that are at least 50 percent and less than 80 percent of the MFI.

Ⓒ **Middle Income** - Income levels that are at least 80 percent and less than 120 percent of the MFI.

Ⓒ **Upper Income** - Income levels that are 120 percent or more of the MFI.

Continued

## Definitions and Common Abbreviations

(Continued)

**Metropolitan Statistical Area (MSA)** - An area defined by the United States Office of Management and Budget (OMB). MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

**Regulatory Capital** - Bank capital as defined by regulation. In this evaluation, we use Tier I capital as a measure. Tier I capital consists of paid in stock, surplus, and retained earnings.

**Small Business Loan** - A loan with an original amount of \$1 million or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

**Small Farm Loan** - A loan with an original amount of \$500 thousand or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

## 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 CRA performance of the **Cumberland Valley National Bank and Trust Company** (CVNB) prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of February 8, 1999. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

### INSTITUTION'S RATINGS

**Institution's CRA Rating:** This institution is rated "satisfactory record of meeting community credit needs." This rating is supported by the following:

- Ⓒ CVNB has an adequate distribution of home mortgage loans and small business and small farm loans amongst low- and moderate-income geographies.
- Ⓒ CVNB has an adequate penetration of loans within assessment area geographies.
- Ⓒ CVNB has an adequate level of community development loans given the opportunities that exist within the bank's assessment areas.
- Ⓒ CVNB's level of qualified investments is adequate for the bank's defined assessment areas given opportunities that exist in the defined assessment areas.
- Ⓒ CVNB's services do not vary in a way that inconveniences portions of the assessment areas, particularly LMI geographies and/or LMI individuals.
- Ⓒ CVNB has an adequate level of community development services given opportunities that exist in the defined assessment areas.

Our last CRA examination, dated January 21, 1997 and performed in accordance with the CRA regulation in effect prior to July 1997, resulted in an “outstanding” rating.

The following table indicates the performance level of the **Cumberland Valley National Bank and Trust Company** with respect to the lending, investment, and service tests.

Performance Levels	Cumberland Valley National Bank and Trust Company Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory			
Low satisfactory	X	X	X
Needs to improve			
Substantial noncompliance			

\* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

## DESCRIPTION OF THE INSTITUTION

The Cumberland Valley National Bank and Trust Company is a full-service commercial bank with its main office in Berea, Madison County, Kentucky. CVNB reported \$343 million in total assets as of September 30, 1998 and serves all or portions of four counties within the State of Kentucky through a network of 17 office locations. All offices are located within the four counties (or portions thereof) served by the institution. CVNB also operates 23 automated teller machines (ATMs), 14 of which are full-service, deposit-taking ATMs at branch locations and nine, cash-only dispensing machines. Eight of the nine cash-only dispensing machines are located at various sites throughout the bank’s assessment areas with the remaining one located in Cynthiana, Harrison County, Kentucky (outside of the defined assessment areas). Mortgage loans are sold to investors in the secondary market; however, the volume of these loans is minimal at this time.

In 1998, CVNB established Cumberland Valley Title Company, a wholly-owned bank subsidiary. The purpose of this operating subsidiary is to act as agent for the sale of title insurance and provide title opinion services (or title abstracting services) relating to real estate. As of December 31, 1998, this newly-formed subsidiary had total assets of \$108,000 and net income of \$7,000. The number of employees for the title company as of this same time period totaled two.

There have been several changes in the bank’s structure since our last CRA examination. In March 1997, CVNB opened a Wal-Mart Super-Center branch with a full-service ATM in London, Laurel County, Kentucky. Effective April 1, 1998, CVNB officially relocated its charter from London, Laurel County, Kentucky to Berea, Madison County, Kentucky giving the bank its first physical presence in the Lexington Kentucky MSA. With its first presence in an MSA, CVNB became a HMDA reporter

effective January 1, 1999. In November and December of 1998, the bank increased its presence in the Lexington MSA by opening two additional branches in Richmond, Madison County, Kentucky, one of which is equipped with a full-service ATM. Finally, in January 1999, CVNB opened another Wal-Mart Super-Center branch with a full-service ATM in Williamsburg, Whitley County, Kentucky. Given the recent opening of the two branches in Richmond, Madison County, Kentucky and the one in Williamsburg, Whitley County, Kentucky, these locations will not be made part of this CRA evaluation. Therefore, the analyses that follow will use 14 branch locations and 21 ATMs in evaluating CVNB's CRA performance.

CVNB is wholly owned by Cumberland Valley Financial Corporation, a \$343 million bank holding company (as of September 30, 1998) based in London, Laurel County, Kentucky. CVNB (and its wholly-owned title company) is the only holding of Cumberland Valley Financial Corporation.

CVNB's primary objective is to operate an effective financial services organization. This is accomplished through its 14-location branch network as well as its 21-location ATM network. The bank offers its customers an adequate variety of products which include consumer loans, commercial loans, real estate loans, construction loans, student loans, secondary market loans, and credit card loans. The institution's core lending is derived from the Laurel County area since this is where the bank was headquartered since its inception up until April 1, 1998. As of December 31, 1998, distribution of CVNB's dollar volume of deposits was 98 percent in the Laurel/Knox/Whitley County Assessment Area and two percent in the Lexington Kentucky MSA Assessment Area. CVNB's small percentage of deposits in the Lexington Kentucky MSA can be explained by its recent entrance into that market.

Currently, there exists no legal impediments that would prevent CVNB from meeting its community reinvestment responsibilities. As of September 30, 1998, CVNB reported total equity capital of \$25,363,000, net income of \$3,480,000, a net loans and leases-to-deposits ratio of 81 percent, and total loans of \$239,503,000. In addition, as of this same point in time, CVNB's loan portfolio was mainly comprised of the following loan types: 44 percent real estate mortgages, 18 percent consumer loans, 17 percent commercial and industrial loans, and 10 percent commercial real estate.

## **DESCRIPTION OF ASSESSMENT AREAS**

CVNB, an intrastate institution, has outlined two assessment areas which will be evaluated during this review period. The first assessment area, and the one with the most activity, consists of all of Laurel County, Kentucky, Whitley County, Kentucky, and BNA 9904 of Knox County, Kentucky. The second assessment area and CVNB's most recent market addition, is Madison County, Kentucky, which is a part of the Lexington, Kentucky MSA (#4280).

### **Laurel/Knox/Whitley Assessment Area**

This assessment area is comprised of all 11 BNAs in Laurel County, Kentucky, all eight BNAs in Whitley County, Kentucky, and BNA 9904 in Knox County, Kentucky. CVNB serves this assessment area through 13 office locations. A majority, or 70 percent, of this assessment area is

comprised of middle-income BNAs. Home ownership, the number of families, and the number of businesses are concentrated in middle-income geographies. As for income, 45 percent of the families are low- or moderate-income. The 1990 Department of Housing and Urban Development (HUD) Median family Income was \$22,543 and the 1998 HUD Updated Median Family Income was \$29,800.

During the examination, we spoke with one community contact located in Laurel County, Kentucky. Our objective was to determine if financial institutions (including CVNB) within the bank's defined assessment area are meeting the needs of the communities as well as to determine the extent of opportunities for these banks to become involved. Our contact, who is involved in attracting business development to the county, said that opportunities exist, on a limited basis, for financial institutions to become involved in projects designed to attract new businesses to the area. It was also mentioned that many of the area banks are involved, to some extent, in these opportunities.

The Laurel/Knox/Whitley Assessment Area is not located in an MSA. There are no other institutions headquartered in this area that are evaluated under the new, large bank CRA. Therefore, public evaluations of similar size institutions evaluated under the new large bank CRA do not exist and therefore could not be used to help determine the reasonableness of CVNB's lending and investment activities.

Competition is provided by four commercial banks and one federal savings bank in Laurel County, Kentucky, five commercial banks in Whitley County, Kentucky, and four commercial banks and one federal savings bank in Knox County, Kentucky. Competition within these counties is considered moderate to strong.

Below is a brief description of the characteristics of each county within this assessment area.

#### Laurel County

Laurel County, Kentucky is located in South Central Kentucky. The 1990 U.S. Census Data reports a total population of 43,438. This county is comprised of 10 middle-income tracts and one upper-income tract. Forty-two percent of the families in the county are low- or moderate-income. January 1999 preliminary estimates by the Kentucky Labor Force show the county's unemployment rate at 6.1 percent, which compares unfavorably to the Kentucky statewide unemployment rate of 4.2 percent for the same time period. The 1990 weighted average monthly gross rent for the county was \$276 and the weighted average median housing cost was \$45,884. Several of the largest companies in the county include American Greetings, CTA Acoustics, Inc., and Griffin Pie Company, Inc. Approximately 74 percent of the county's workforce is concentrated in the manufacturing, wholesale/retail trade, and services industries.

#### Knox County

Knox County, Kentucky is located in South Central Kentucky. The 1990 U.S. Census Data reports a



total population of 29,676. This county is comprised of one middle-income tract, six moderate-income tracts, and one low-income tract. Fifty-six percent of the families in the county are low- or moderate-income. January 1999 preliminary estimates by the Kentucky Labor Force show the county's unemployment rate at 6.5 percent, which compares unfavorably to the Kentucky statewide unemployment rate of 4.2 percent for the same time period. The 1990 weighted average monthly gross rent for the county was \$243 and the weighted average median housing cost was \$34,040. Approximately 39 percent of the county's workforce is concentrated in the retail trade, educational services, and health services industries.

### Whitley County

Whitley County, Kentucky is located in South Central Kentucky. The 1990 U.S. Census Data reports a total population of 33,326. This county is comprised of one upper-income tract, three middle-income tracts, three moderate-income tracts, and one low-income tract. Fifty percent of the families in the county are low- or moderate-income. January 1999 preliminary estimates by the Kentucky Labor Force show the county's unemployment rate at 6.3 percent, which compares unfavorably to the Kentucky statewide unemployment rate of 4.2 percent for the same time period. The 1990 weighted average monthly gross rent for the county was \$267 and the weighted average median housing cost was \$36,177. Several of the largest companies in the county include Tri-County Manufacturing and Assembly, Williamsburg Plastics, and Lion Apparel, Inc. Approximately 55 percent of the county's workforce is concentrated in the manufacturing, wholesale/retail trade, and services industries.

### **Lexington, KY MSA (#4280) Assessment Area**

This assessment area is comprised of all 14 census tracts in Madison County, Kentucky. CVNB serves this assessment area through its main office location in Berea, Madison County, Kentucky.

One-half, or 50%, of this assessment area is comprised of middle-income census tracts. Home ownership, the number of families, and the number of businesses are all concentrated in the middle-income geographies. As for income, 42 percent of the families are low- or moderate-income. The 1990 HUD Median Family Income was \$32,687 and the 1998 HUD Updated Median Family Income was \$44,700.

During the examination, we spoke with one community contact located in Madison County, Kentucky. Our objective was to determine if financial institutions (including CVNB) within the bank's defined assessment area are meeting the needs of the communities as well as to determine the extent of opportunities for these institutions to become involved. Our contact, who is involved in the residential real estate industry said opportunities exist for banks to become involved in the community. The contact indicated that most opportunities exist with respect to 1-4 family dwellings. Community leaders have put a moratorium on building multi-family dwellings as they believe there is more of a need for single-family dwellings. It was also mentioned that many of the locally-based banks are involved, to some extent, in many of the opportunities that might arise.

Competition is provided by nine commercial banks and one federal savings bank. Competition within Madison County is considered strong. This is predominantly due to its close proximity to the Lexington, Fayette County, Kentucky area.

Below is a brief description of the characteristics of Madison County.

### Madison County

Madison County, Kentucky is located in Central Kentucky. The 1990 U.S. Census Data reports a total population of 57,508. This county is comprised of one upper-income census tract, seven middle-income tracts, four moderate-income tracts, and two low-income tracts. Forty-eight percent of the families in the county are low- or moderate-income. January 1999 preliminary estimates by the Kentucky Labor Force show the county's unemployment rate at 3.0 percent, which compares favorably to the Kentucky statewide unemployment rate of 4.2 percent for the same time period. The 1990 weighted average monthly gross rent for the county was \$305 and the weighted average median housing cost was \$54,192. Approximately 72 percent of the county's workforce is concentrated in the wholesale/retail trade, manufacturing, and local and state government industries.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

### **LENDING TEST**

CVNB's performance under the lending test is Low Satisfactory. The following reasons lend support to this conclusion:

- C CVNB has an adequate geographic distribution of home mortgage loans and small business and small farm loans;
- C CVNB has an excellent level of responsiveness to the credit needs of its communities.
- C CVNB has an adequate penetration of loans within assessment area geographies; and,
- C CVNB has an adequate level of community development loans given opportunities within the bank's assessment areas.

### **Lending Activity**

CVNB has experienced strong loan growth over the past year. Net loans and leases grew a total of 23 percent from September 30, 1997 to September 30, 1998. Over this same time period, growth within individual loan types were as follows: commercial loans increased 54 percent, real estate loans increased 16 percent, loans to individuals increased 21 percent, and agriculture loans declined by 18 percent.

The bank has originated a substantial majority (or 94 percent) of its loans within its assessment areas. The lower percentages of bank deposits (two percent) and reported bank loans (one percent) in the

rated area for the Lexington Kentucky MSA can be explained by the bank's short presence in this market (only since April 1998). Therefore, even though this assessment area is part of this evaluation, it was not given the weight that would normally be assigned during the evaluation of an assessment area in arriving at an overall CRA rating. Additional details with respect to the bank's lending volume are located in Table 1 of Appendix B.

### Data Integrity

A routine part of our examination includes a data integrity verification of HMDA and small business and small farm data. This review is performed to determine if the data filed by the institution can be relied upon to support conclusions with respect to the bank's lending performance. Since CVNB was not a HMDA reporter during the time frame for this evaluation, we only sampled supporting loans for its CRA Disclosure Statement. We determined, through verification of a sample of loans, that small business and small farm data contained material errors. Therefore, we drew conclusions from 57 small business loans and five small farm loans all of which were originated during 1997 or 1998. Of these totals, 49 of the business loans and three of the farm loans were originated within the bank's defined assessment areas. Bank reports reveal that CVNB originated approximately 189 business loans and 31 farm loans in 1997. Management has agreed to implement additional internal controls in order to ensure the accuracy of this data going forward.

### Mortgage Lending Samples

Effective January 1, 1999, CVNB became subject to the Home Mortgage Disclosure Act, requiring it to obtain and collect data on certain dwelling-related loans. Since this was not required of the institution during the period of evaluation for this report, we sampled mortgage loans for 1997 and 1998 in order to arrive at conclusions with respect to CVNB's lending activities. Sample sizes were 58 loans from 1998 and 30 from 1997. CVNB did not specifically classify loans as home improvement; therefore, only purchases and refinances were sampled.

### Home Mortgage Lending

CVNB is an active lender of home mortgage loans. It offers an adequate variety of products, each designed to meet the needs of individual borrowers. Although these product types generally meet the needs of the bank's assessment areas, they are not considered innovative nor are they flexible.

### Small Business and Small Farm Lending

As mentioned previously, data integrity issues prevented us from using CVNB's small business and small farm data in assessing its performance in lending to small businesses and small farms. A sample of these loan types from 1997 and 1998 (which we verified) revealed that CVNB tends to be an active small business lender.

CVNB does not display much lending with respect to small farm loans. This is due, in part, to the limited opportunities to lend to these businesses. Demographic information for the bank's assessment

areas show only 29 farms with gross annual revenues less than \$1 million throughout all of Laurel and Whitley Counties and BNA 9904 of Knox county. There were 37 small farms reported throughout Madison County; however, the bank's opportunities have been limited here due to its recent presence in this market.

## **Geographic Distribution of Loans**

CVNB's geographic distribution of loans reflects adequate penetration throughout its defined assessment areas. Even though our sample of mortgage loans did not include any from BNA 9808 (the only low-income geography in the Laurel/Knox/Whitley Assessment Area), CVNB was able to provide internal records indicating that other types of loans are being originated in that geography. In addition, due to CVNB's recent entrance into the Lexington, Kentucky MSA market, it has only been able to originate approximately 37 mortgage loans and seven business loans in this assessment area.

### Home Mortgage Loans

CVNB's home mortgage lending in low- and moderate-income geographies is adequate. Our sample of mortgage loans for the Laurel/Knox/Whitley Assessment Area did not, however, reveal any loan originations (purchase or refinance) within low-income geographies and a very small percentage within moderate-income geographies (13 percent for purchases and two percent for refinances) within the assessment area as compared to 22 percent of owner-occupied units in moderate-income geographies. Management was able to provide us with reports that showed CVNB is originating other types of loans in low- and moderate-income geographies within this assessment area.

It should also be noted that even though our sample revealed no lending in low- and moderate-income geographies out of the Lexington, Kentucky MSA Assessment Area, this is reasonable. As mentioned previously, this assessment area became a new market for the bank effective April 1998. Since its recent entrance into this market, CVNB has only been able to originate approximately 37 mortgage loans.

### Small Business and Small Farm Loans

Our sample of loans tested revealed that there was no lending to small business and small farms within low-income geographies in either assessment area. In addition, there was no lending to small farms in moderate-income geographies within the Lexington Kentucky MSA Assessment Area. Demographic data for the Laurel/Knox/Whitley assessment area shows that only four percent (58 of 1,603) of the small businesses within this assessment area are located in low- and moderate-income geographies. In addition, only seven percent (2 of 29) of the small farm within this same assessment area are located in low- and moderate-income geographies. This helps to explain why there is little to no lending in low-income tracts within the Laurel/Knox/Whitley assessment area.

On the other hand, 47 percent (535 of 1,147) of small businesses and 30 percent of the small farms (11

of 37) in the Lexington MSA assessment area are located in low- and moderate-income geographies. The bank's recent entrance into this market area helps to explain the lack of small business and small farm lending in this assessment area. According to internal reports, CVNB has only been able to originate a total of seven small business loans in this assessment area.

### Loan Penetration

CVNB's penetration of geographies within its assessment areas is adequate. Within the Laurel/Knox/Whitley Assessment Area, our loan sample noted lending activity in 67 percent (2 of 3) of the moderate-income tracts, 86 percent (12 of 14) middle-income tracts, and 100 percent (2 of 2) of the upper-income tracts. Even though our sample of mortgage, business and farm loans did not show any activity in this assessment area's only low-income geography (BNA #9808), internal bank reports indicated that other loans are being originated in this. It should also be noted that we did not note arbitrary exclusion with respect to this low-income geography.

As for the Lexington, Kentucky MSA Assessment Area, an analysis of loan penetration of two business loans would not be meaningful. This can be explained by the bank's recent entrance into this market effective April 1998. To date, CVNB has only originated approximately 37 mortgage loans and seven business loans.

Additional information with respect to geographic distribution can be seen by referring to Tables 2 and 4 in Appendix B.

### **Loans by Borrower Distribution**

Overall, CVNB has an adequate distribution of loans among borrowers of different incomes and businesses and farms of different sizes. CVNB's lending to low- and moderate-income borrowers and small businesses and farms is adequate.

### Home Mortgage Loans

CVNB's lending to low- and moderate-income borrowers (according to our sample of loans) is below assessment area characteristics as only refinanced home mortgage loans to moderate-income borrowers is slightly above the percentage of moderate-income families for the Laurel/Knox/Whitley Assessment Area (18 percent versus 17 percent). Lending to low-income borrowers was well-below assessment area characteristics for the Laurel/Knox/Whitley Assessment Area (13 percent of purchases and five percent of refinances compared to 28 percent of families in the assessment area being low-income). CVNB was; however, able to give us information to support that it does lend to low- and moderate-income individuals. These loans did not come up in our small sample. Given this additional information, lending to low- and moderate-income individuals is considered adequate.

Also, it can be noted that there is no lending to low- and moderate-income individuals within the

Lexington, Kentucky MSA Assessment Area. This can be explained by the bank's recent entrance into this market. Since its entrance into this market, CVNB only originated 39 mortgage loans.

Additional details on mortgage purchase and refinance lending with respect to borrower distribution can be seen by referring to Tables 7 and 9 in Appendix B.

### Small Business and Small Farm Loans

From our sample of 62 loans taken from 1997 and 1998, CVNB's lending to small businesses and origination of small loans to businesses is adequate. Most loans within the Laurel/Knox/Whitley Assessment Area (or 78 percent) were originated for less than \$100,000 and 59 percent were to businesses with gross annual revenues of less than \$1 million. Although 73 percent of the businesses in this assessment area have gross annual revenues of less than \$1 million, CVNB's lending to 59 percent is considered reasonable. As for the three small farm loans reviewed that were within this same assessment area, all three were under \$100,00 in amount and to farms with gross annual revenues of less than \$1 million.

As for the Lexington, Kentucky MSA Assessment, only two small business loans were represented in our sample. This is reasonable due to CVNB's recent entrance into this market. Internal bank reports indicate that approximately 37 business loans have been originated in this market to date.

Additional details on small business and small farm loans with respect to borrower distribution can be seen by referring to Tables 10 and 11 in Appendix B.

### **Innovative and/or Flexible Lending Programs**

CVNB offers standard loan products to its customers. While this line of loan products generally tends to meet portions of the bank's lending needs, these products are not considered innovative or flexible.

### **Community Development Loans**

CVNB makes an adequate level of community development loans with respect to opportunities presented in its assessment areas. As discussed prior in this evaluation, community contacts stated that opportunities are somewhat limited for bank involvement in these assessment areas.

- o CVNB provided an \$80,000 line of credit to a local organization whose primary mission is to provide for the needs of low- and moderate-income individuals. A few of the services provided by this agency include utility bill assistance, rent assistance, food pantry services, various forms of assistance for fire victims, housing rehabilitation, and transient assistance.

## **INVESTMENT TEST**

CVNB's performance under the Investment Test is rated Low Satisfactory due to the following reasons:

- C CVNB's level of qualified investments of \$9,150 is adequate for the bank's defined assessment areas. This represents a little more than .03 percent of CVNB's equity capital of \$25,363,000 at September 30, 1998. According to community contacts we spoke with during the examination, opportunities for qualified investments within the bank's assessment areas, while available, tend to be limited. These also tend to be qualified investments in the form of donations. Although limited, the contacts said that the banks in the area all participated to the extent that opportunities become available.
- C CVNB exhibits an adequate responsiveness to credit and community development needs. As noted by community contacts, the opportunities for investments in the local community exist, but tend to be limited. All local banks are receptive to opportunities when available.
- C CVNB's investments are neither innovative nor complex.

Following are two examples of the bank's total qualified investments:

- C CVNB made donations totaling \$1,100 to a local college scholarship fund. The scholarships are reserved for those demonstrating financial need.
- C CVNB donated \$700 to a local organization whose mission is to repair the housing of low-income families. In order to meet the guidelines of the program, clients must be 65 years of age or older with individual client annual income not to exceed \$8,900 per year or a couple whose family income does not exceed \$10,150.

The bank has also made qualified donations to other organizations whose primary missions are to providing services to low- and moderate-income families.

Additional data with respect to Qualified Investments can be seen by referring to Table 12 in Appendix B.

## **SERVICE TEST**

CVNB's performance under the Service Test is rated Low Satisfactory. This is supported by the following reasons:

- C CVNB's branch locations are reasonably accessible to geographies and individuals of different income levels within its assessment areas;
- C CVNB's services do not vary in a way that inconveniences portions of the assessment area, particularly LMI geographies and/or LMI individuals; and,
- C CVNB has an adequate level of community development services.

## **Retail Banking Services**

CVNB's delivery systems are reasonably accessible to portions of the bank's assessment areas. We did note, however, that no offices are located in any of the bank's three low-income geographies (both assessment areas combined). However, the bank does have eight percent of its branches (1 of 13 branches from the Laurel/Knox/Whitley assessment area) in moderate-income geographies. Area demographics show that three percent of the Laurel/Knox/Whitley assessment area population and nine percent of the Lexington MSA assessment area population are located in low-income geographies. Similar figures for moderate-income geographies are 17 percent and 28 percent, respectively.

Business hours and services do not vary in a way that inconveniences certain portions of the assessment areas, particularly LMI geographies and/or LMI individuals. Office hours are tailored to meet the needs of the community. In order to determine the exact needs of each office, CVNB monitors its activity monthly at its branch locations through teller activity as well as through ongoing surveys. Of the 14 office locations, eight are equipped with drive-up facilities. Lobby hours vary by location in order to best meet the needs of the community. Office hours on Monday through Friday vary from 8:30 am - 2:30 pm at the Main & Fifth, North London, East Bernstadt, South 25, and West branches to 8:30 am - 8:00 pm. at the Wal-Mart Supercenter office. Drive-up facilities at the eight branch locations are open until 6:00 pm Monday - Friday. Office hours on Saturdays vary as well from 8:30 am - 12:00 noon at the East Bernstadt, South 25, and Depot branches to 8:30am - 8:30 pm at the Wal-Mart Supercenter office. The Wal-Mart Supercenter office is open on Sundays from 1:00 pm - 5:00pm. The Williamsburg, KY branch, the only branch located in a moderate-income geography, has lobby hours of 8:30 am - 4:00 pm Monday - Thursday and 8:30 am - 5:00 pm on Fridays. The Drive-up is open Monday - Friday from 8:30 - 6:00 pm and on Saturdays from 8:30 - 4:00 pm. Therefore, this branch's hours of service do not vary in a way that would inconvenience low- and moderate-geographies.

## **Alternative Delivery Systems**

Twelve of CVNB's 14 office locations have full-service automated teller machines (ATMs). All ATM locations are reasonably accessible to geographies and individuals of different income levels in its assessment areas.

## **Community Development Services**

CVNB provides an adequate level of community development services. Eighteen CVNB employees provided technical expertise to three local organizations. The nature of some of these services, along with brief explanations, is provided below:

- C Four CVNB employees lent technical expertise to a local organization whose primary mission is to assist eligible home owners in the area in making needed housing repairs. In order to qualify for assistance from this nonprofit organization, clients must be 65 years or older at the time of



application and have an annual income that does not exceed \$8,900 per year for a single client and \$10,150 a year for couples.

- C One employee sat on a committee for Habitat for Humanity. This committee, referred to as the Family Selection Committee, is responsible for interviewing families that apply to Habitat to have a house built for them.

## **FAIR LENDING REVIEW**

We performed a fair lending examination in conjunction with this CRA examination. Matched pair analysis was performed to determine if gender played a role in the credit decision on auto loans. Our sample consisted of 11 female denials and 20 male approvals. This sample of applications was taken from the time period December 1998 through January 1999. In summary, we noted no evidence of discriminatory practices with respect to gender within our sample of auto loans.

## **Lexington, Kentucky MSA #4280**

### **(Conclusions with Respect to CVNB's Performance in this Assessment Area)**

We performed a limited-scope review on the Lexington, KY MSA assessment area. From this limited-scope review, we noted that CVNB's performance in this assessment area was weaker than experienced by the bank as a whole. For example, the only lending noted from our sample of loans were two small business loans. In addition, there were no qualified investments attributed to this area. As explained throughout this evaluation, the bank's recent entrance into this market coupled with only two percent of its deposits in this assessment area helps to explain the lack of activity. In addition, given that this is such a new market for the bank, more reliance was placed upon the Laurel/Knox/Whitley assessment area in assessing CVNB's overall CRA rating.

## **APPENDIX A**

## **Scope of Examination**

The following scope was utilized in assessing CVNB's CRA performance:

- o Full procedures were utilized on both assessment areas in assessing the bank's CRA performance
- o The period of review was January 21, 1997 (date of last CRA examination) to February 8, 1999 (the date of this CRA examination).
- o Since the bank was not a HMDA reporter until January 1, 1999, we sampled real estate purchase and refinanced loans originated during the review period.
- o No affiliate lending was considered.
- o One banking office was reviewed.

## **APPENDIX B**

**Table 1. Lending Volume**

LENDING VOLUME		State: KENTUCKY				Evaluation Period: JANUARY 1, 1997 TO DECEMBER 31, 1998						
MSA/Assessment Area:	% of Total Bank Deposits in Rated Area	Home Mortgage		Small Business		Small Farm		Community Development		Total Reported Loans		% of Total Reported Bank Loans in Rated Area
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	
Full-Scope:												
Laurel/Knox/Whitley	98%	83	\$4,608	47	\$3,904	3	\$26	1	\$80	136	\$8,618	99%
Lexington MSA	2%	0	\$0	2	\$55	0	\$0	0	\$0	2	\$55	1%

**Table 2. Geographic Distribution of Home Purchase Loan Originations**

Geographic Distribution: HOME PURCHASE																	State: KENTUCKY		Evaluation Period: JANUARY 1, 1997 TO DECEMBER 31, 1998	
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Purchase Loans					
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total				
Full-Scope:																				
Laurel/Knox/Whitley	4%	0%	22%	13%	67%	69%	7%	18%	NA	NA	NA	NA	NA	NA	39	100%				
Lexington MSA	6%	0%	28%	0%	58%	0%	8%	0%	NA	NA	NA	NA	NA	0	0%					

(\*) Based on 1997 Aggregate HMDA Data only.

NA - Not Applicable; Bank was not a HMDA reporter during evaluation period.

**Table 3. Geographic Distribution of Home Improvement Loan Originations**

Geographic Distribution: HOME IMPROVEMENT												State: KENTUCKY		Evaluation Period: JANUARY 1, 1997 TO DECEMBER 31, 1998			
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Improvement Loans		
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total	
Full-Scope: <b>This table was not used because the bank does not code its loans to specifically identify home improvement loans.</b>																	
Laurel/Knox/Whitley																	
Lexington MSA																	

(\*) Based on 1997 Aggregate HMDA Data only.



**Table 4. Geographic Distribution of Home Mortgage Refinance Loan Originations**

Geographic Distribution: HOME MORTGAGE REFINANCE																State: KENTUCKY		Evaluation Period: JANUARY 1, 1997 TO DECEMBER 31, 1998	
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Mortgage Refinance Loans				
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total			
Full-Scope:																			
Laurel/Knox/Whitley	4%	0%	22%	2%	67%	91%	7%	7%	NA	NA	NA	NA	NA	NA	44	100%			
Lexington MSA	6%	0%	28%	0%	58%	0%	8%	0%	NA	NA	NA	NA	NA	0	0%				

(\*) Based on 1997 Aggregate HMDA Data only.

NA - Not Applicable; Bank was not a HMDA reporter during evaluation period.

**Table 5. Geographic Distribution of Small Business Loan Originations**

Geographic Distribution: SMALL BUSINESS		State: KENTUCKY				Evaluation Period: JANUARY 1, 1997 TO DECEMBER 31, 1998										
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Small Business Loans	
	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total
Full-Scope:																
Laurel/Knox/Whitley	1%	0%	3%	6%	84%	84%	12%	10%	NA	NA	NA	NA	NA	NA	49	96%
Lexington MSA	12%	0%	36%	50%	44%	50%	8%	0%	NA	NA	NA	NA	NA	2	4%	

(\*) Based on 1997 Aggregate Small Business Data only.

NA - Not Meaningful; Bank's 1997 filed CRA Contained Material Errors.

**Table 6. Geographic Distribution of Small Farm Loan Originations**

Geographic Distribution: SMALL FARM																	State: KENTUCKY		Evaluation Period: JANUARY 1, 1997 TO DECEMBER 31, 1998				
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Small Farm Loans								
	% of Farms	% BANK Loans	% of Farms	% BANK Loans	% of Farms	% BANK Loans	% of Farms	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total							
Full-Scope:																							
Laurel/Knox/Whitley	0%	0%	6%	67%	88%	33%	6%	0%	NA	NA	NA	NA	NA	NA	3	100%							
Lexington MSA	5%	0%	22%	0%	68%	0%	5%	0%	NA	NA	NA	NA	NA	0	0%								

(\*) Based on 1997 Aggregate Small Farm Data only.

NA - Not Meaningful; Bank's 1997 filed CRA Contained Material Errors.

**Table 7. Borrower Distribution of Home Purchase Loan Originations**

Borrower Distribution: HMDA HOME PURCHASE		State: KENTUCKY		Evaluation Period: JANUARY 1, 1997 TO DECEMBER 31, 1998												
MSA/Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank*	Market Share by Borrower Income**					Total Home Purchase Loans	
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upp	#	% of Total
Full-Scope:																
Laurel/Knox/Whitley (1)	28%	13%	17%	10%	19%	28%	36%	46%	NA	NA	NA	NA	NA	NA	39	100%
Lexington MSA	31%	0%	17%	0%	22%	0%	30%	0%	NA	NA	NA	NA	NA	0	0%	

(\*) As a percentage of loans with borrower income information available.

(\*\*) Based on 1997 Aggregate HMDA Data only.

NA - Not Applicable; Bank was not a HMDA reporter during evaluation period.

(1) Income Could not be Determined for 1 of 39 (or 3%) loans in the Laurel/Knox/Whitley Assessment Area.

**Table 8. Borrower Distribution of Home Improvement Loan Originations**

Borrower Distribution: HOME IMPROVEMENT																	State: KENTUCKY		Evaluation Period: JANUARY 1, 1997 TO DECEMBER 31, 1998			
MSA/Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank*	Market Share by Borrower Income**					Total Home Improvement Loans							
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upp	#	% of Total						
Full-Scope: This table was not used because the bank does not code its loans to specifically identify home improvement loans.																						
Laurel/Knox/Whitley																						
Lexington MSA																						

(\*) As a percentage of loans with borrower income information available.

(\*\*) Based on 1997 Aggregate HMDA Data only.

**Table 9. Borrower Distribution of Home Mortgage Refinance Loan Originations**

Borrower Distribution: HOME MORTGAGE REFINANCE				State: KENTUCKY				Evaluation Period: JANUARY 1, 1997 TO DECEMBER 31, 1998								
MSA/Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank*	Market Share by Borrower Income**					Total Home Mortgage Refinance Loans	
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upp	#	% of Total
Full-Scope:																
Laurel/Knox/Whitley (1)	28%	5%	17%	18%	19%	36%	36%	36%	NA	NA	NA	NA	NA	NA	44	100%
Lexington MSA	31%	0%	17%	0%	22%	0%	30%	0%	NA	NA	NA	NA	NA	NA	0	0%

(\*) As a percentage of loans with borrower income information available.

(\*\*) Based on 1997 Aggregate HMDA Data only.

NA - Not Applicable; Bank was not a HMDA reporter during evaluation period.

(1) Income Could not be Determined for 2 of 44 (or 5%) loans in the Laurel/Knox/Whitley area.

**Table 10. Borrower Distribution of Small Business Loan Originations**

Borrower Distribution: SMALL BUSINESS			State: KENTUCKY			Evaluation Period: JANUARY 1, 1997 TO DECEMBER 31, 1998					
MSA/Assessment Area:	Businesses with Revenues of \$1 million or less			Loans by Original Amount Regardless of Business Size			Market Share****		Total Small Business Loans		
	% of Businesses*	% BANK Loans**	% Market Loans***	\$100,000 or Less	> \$100,000 to \$250,000	> \$250,000 to \$1,000,000	All	Rev \$1 million or less	#	% of Total	Avg Loan Size
Full-Scope:											
Laurel/Knox/Whitley	90%	59%	NA	78%	16%	6%	NA	NA	49	96%	\$80M
Lexington MSA	92%	100%	0%	2%	0%	0%	NA	NA	2	4%	\$29M

(\*) As a percentage of businesses with known revenues.

(\*\*) As a percentage of loans with revenue information available.

(\*\*\*) The market consists of all other Small Business reporters in BANK's assessment area and is based on 1997 Aggregate Small Business Data only.

(\*\*\*\*) Based on 1997 Aggregate Small Business Data only.

NA - Not Meaningful; Bank's 1997 filed CRA Contained Material Errors.

**Table 11. Borrower Distribution of Small Farm Loan Originations**

Borrower Distribution: SMALL FARM												State: KENTUCKY		Evaluation Period: JANUARY 1, 1997 TO DECEMBER 31, 1998			
MSA/Assessment Area:	Farms with Revenues of \$1 million or less			Loans by Original Amount Regardless of Farm Size			Market Share****		Total Small Farm Loans								
	% of Farms*	% BANK Loans**	% Market Loans***	\$100,000 or Less	> \$100,000 to \$250,000	> \$250,000 to \$500,000	All	Rev \$1 million or less	#	% of Total	Avg Loan Size						
Full-Scope:																	
Laurel/Knox/Whitley	100%	100%	NA	100%	0%	0%	NA	NA	3	100%	\$9M						
Lexington MSA	100%	0%	0%	0%	0%	0%	NA	NA	0	0%	NA						

(\*) As a percentage of farms with known revenues.

(\*\*) As a percentage of loans with revenue information available.

(\*\*\*) The market consists of all other Small Farm reporters in BANK's assessment area and is based on 1997 Aggregate Small Farm Data only.

(\*\*\*\*) Based on 1997 Aggregate Small Farm Data only.

NA - Not Meaningful; Bank's 1997 filed CRA Contained Material Errors.



**Table 12. Qualified Investments**

QUALIFIED INVESTMENTS		State: KENTUCKY			Evaluation Period: JANUARY 21, 1997 TO FEBRUARY 8, 1998					
MSA/Assessment Areas:	Prior Period Investments*			Current Period Investments			Total Investments			
	#	\$ (000's)	%**	#	\$ (000's)	%**	#	\$ (000's)	% of Total \$'s	
Full-Scope:										
Laurel/Knox/Whitley	0	\$0	0%	15	\$9	100%	15	\$9	100%	
Lexington MSA	0	\$0	0%	0	\$0	0%	0	\$0	0%	

(\*) "Prior Period Investments" means investments made in a previous evaluation period that remain outstanding.

(\*\*) Percentage of the dollars invested in that MSA/Assessment Area that are prior period investments or current period investments.

**Table 13. Distribution of Branch and ATM Delivery System**

DISTRIBUTION OF BRANCH AND ATM DELIVERY SYSTEM				State: KENTUCKY				Evaluation Period: JANUARY 21, 1997 TO FEBRUARY 8, 1999									
MSA/Assessment Area:	Deposits	Branches*						ATMs*				Population					
	% of Total BANK Deposits	# of BANK Branches	% of Total BANK Branches	Location of Branches by Income of Geographies(1)				# of BANK ATMs	% of Total BANK ATMs	Location of ATMs by Income of Geographies(1)				% of the Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
Full-Scope:																	
Laurel/Knox/Whitley	98%	13	93%	0%	8%	84%	8%	12	100%	0%	8%	83%	8%	3%	17%	73%	7%
Lexington MSA	2%	1	7%	0%	0%	100%	0%	0	0%	0%	0%	0%	0%	9%	28%	56%	7%

\* Number of branches/ATMs do not include two in the Lexington MSA assessment area and one in the Laurel/Knox/Whitley assessment area due all opening subsequent to November 1, 1998.

(1) Aggregate percentages of low, moderate, middle, and upper income branch/ATM locations do not equal 100% due to rounding.