



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

July 09, 2012

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Cumberland Valley National Bank & Trust Company  
Charter Number 10254

100 Main Street  
London, Kentucky 40741

Office of the Comptroller of the Currency  
Louisville Field Office  
10200 Forest Green Boulevard, Suite 501  
Louisville, Kentucky 40223

**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 Lending Test is rated Satisfactory.**

**The Community Development Test is rated Satisfactory.**

The major factors supporting this rating include

- A majority of Cumberland Valley National Bank's (CVNB) loans were originated within the Assessment Areas (AAs).
- CVNB's distribution of loans to low- and moderate-income individuals and small businesses with gross revenues less than \$1 million reflect reasonable penetration.
- CVNB's geographic distribution of loans reflects reasonable dispersion throughout the AAs.
- CVNB's loan-to-deposit ratio is reasonable.
- CVNB's responsiveness to community development needs and opportunities in its assessment areas is adequate.

## **Scope of Examination**

Cumberland Valley National Bank (CVNB) was evaluated under the Intermediate Small Bank examination procedures. These procedures include a lending test and a community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its assessment areas (AAs) through lending activities. The community development test evaluates the bank's responsiveness to CD needs in its AAs through community development lending, qualified investments, and community development services.

The CRA evaluation period covers the time period between June 10, 2009 and July 9, 2012. Conclusions regarding the bank's lending performance are based on the bank's business strategy to originate its primary loan types, residential real estate and business loans. The residential real estate lending analysis was based on loans CVNB reported on its 2010 and 2011 Home Mortgage Disclosure Act Loan Application Registers (HMDA LAR). The OCC performed a data integrity review to verify the accuracy of the bank's HMDA data and concluded the data was reliable. Our analysis of the geographic and borrower distribution of loans compares those originated during the testing period to the 2000 U.S. Census demographic information. The income level designations, used in the analysis of the home mortgage loans, are based on the Department of Housing and Urban Development (HUD) adjusted estimate of the Kentucky 2010 and 2011 Median Family Incomes for a Metropolitan Statistical Area (MSA) and non-metropolitan

area. The business purpose loan analysis was performed using a random sample of business loans originated or purchased in 2010 and 2011.<sup>1</sup> The overall rating, under each lending test, is the consolidation of conclusions reached for each full-scope assessment area. When consolidating AAs conclusions into overall ratings, more weight was given to AA2 than the other two assessment areas as the majority of CVNB's loans are located in AA2. When determining conclusions for the lending tests, performance in the two non-Metropolitan AAs was given more weight than performance in the Lexington-Fayette County MSA because CVNB's primary business area is in the non-Metropolitan AAs. CVNB's presence in Fayette County is limited to one branch office opened January 2, 2007.

Conclusions regarding the bank's community development tests (CD) are based on the bank's level of community development lending, qualified investments, and community development services performed between June 10, 2009 and July 9, 2012.

## Description of Institution

Cumberland Valley National Bank is an intrastate financial institution headquartered in East Bernstadt, Kentucky. The bank is wholly owned by Cumberland Valley Financial Corporation, a one-bank holding company, headquartered in London, Kentucky. As of March 31, 2012, the bank reported \$409 million in total assets, \$336 million in deposits, \$238 million in total loans, and \$45 million in Tier 1 Capital.

The bank is a full-service lender offering traditional banking products and services. CVNB offers conventional and government guaranteed home mortgage loans, home improvement loans, consumer loans, and a full range of business loans. In addition, CVNB offers loans through the Federal Housing Administration (FHA), Federal Home Loan Mortgage Corporation (Freddie Mac), Kentucky Housing Corporation (KHC), Veterans Administration (VA), and the Small Business Administration (SBA).

Bank branch locations are accessible to all segments of the community. CVNB operates 14 branches and 31 automated teller machines (ATMs) in six Kentucky counties (Fayette, Knox, Laurel, Madison, Pulaski, and Whitley). Thirteen branches are full-service with drive-thru facilities and deposit-taking ATMs. The other 18 ATMs dispense cash only and are located throughout the bank's assessment areas. The bank's Main Office is located in downtown London with four branches located throughout the city; two branches are located in both Corbin and Richmond, one in East Bernstadt, one in Williamsburg, one in Berea, one in Somerset, and one in Lexington. By geography, one branch is located in a low-income census tract, two are located in moderate-income census tracts, seven are located in middle-income non-metropolitan distressed census tracts<sup>2</sup>, and four are located in upper-income census tracts. The bank closed three branches since the last CRA examination.

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<sup>1</sup> CVNB is not required to report business purpose loans on the HMDA-LAR.

<sup>2</sup> A distressed census tract is one that has been identified by the federal government as having difficulty meeting essential community needs.

The bank's primary lending focus is home mortgage loans and business loans. CVNB also makes loans to consumers and farms in the area. As of March 31, 2012, net loans represented approximately 58 percent of the bank's total assets. The loan portfolio mix is other real estate loans (48 percent), 1-4 family residential real estate loans (28 percent), commercial and industrial loans (9 percent), construction and development loans (7 percent), loans to individuals and credit cards (4 percent), municipal loans (3 percent), and agricultural loans (1 percent).

A Laurel County community contact involved with the Laurel County business and labor group indicated the overall credit needs of the community are being met by local banks.

There are no legal or financial circumstances affecting the bank's ability to meet community credit needs. CVNB was rated "Satisfactory" at its last CRA evaluation dated June 10, 2009.

## **Description of Assessment Area(s)**

CVNB has delineated three assessment areas (AAs) for CRA purposes. The first AA consists of one county (Madison), the second consists of four counties (Laurel, Knox, Whitley, and Pulaski), and the third consists of one county (Fayette), which is part of the Lexington-Fayette metropolitan statistical area (MSA). The AAs conform to the regulatory requirements of CRA, appear appropriate in relation to the location of the bank's offices, and do not arbitrarily exclude any low- or moderate-income areas.

### **Description of Assessment Area 1 (AA1): Madison County**

Madison County is a rural county located in the non-metropolitan portion of South Central Kentucky. The 2000 U.S. Census divides the AA into 14 census tracts (CTs), with one low-income tract, one moderate-income tract, four middle-income tracts, and eight upper-income tracts. The determination was based on the Kentucky 2000 Median Family Income for a non-metropolitan area of \$32,884.

AA1 has a total population of 70,872 according to the 2000 U.S. Census. That number had risen to approximately 84,188 in 2011. The 2000 population was comprised of 27,181 households, of which 1,250, or five percent, are considered to have low- or moderate-incomes. Additionally, 18 percent of households in the AA live below the poverty level and three percent receive public assistance.

Madison County has lower unemployment rates than the state average. As of March 2012, the unemployment rate for Madison County was 7.7 percent and 9 percent for the state of Kentucky. The Cabinet for Economic Development lists six industrial firms employing over 150 people. They are EnerSys, Inc. (industrial batteries), The Okonite Company (insulated electrical cable), Richmond Auto Parts Technology, Inc. (auto

transmission parts), Mikron Industries, Inc. (vinyl extrusions), Sherwin-Williams Automotive Finishes Corp. (auto coatings and finishes), and AFG Industries, Inc. (handyman services).

Competition from other financial institutions is strong. The bank’s competitors include five large regional banks with total deposits ranging from \$2.7 billion to \$743 billion and several local community banks. According to the Federal Deposit Insurance Corporation (FDIC) website, 13 banks with 38 offices operate in the county (CVNB operates three branches with one located in Berea and two in Richmond). These offices hold a combined total of \$1.2 billion in deposits, as of June 30, 2011, with CVNB having a three percent market share. CVNB’s market share ranks eighth.

The following additional demographic information is based on 2000 census data unless otherwise noted.

**AA1: Non-MSA AA of Madison County**

Demographic Information for Full-Scope Area: Non-MSA AA of Madison County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	14	7.14	7.14	28.58	57.14	0
Population by Geography	70,872	6.09	2.76	28.40	62.75	0
Owner-Occupied Housing by Geography	16,216	0.14	1.28	26.97	71.61	0
Businesses by Geography	7,301	0.63	6.82	27.20	65.35	0
Farms by Geography	255	0.00	2.36	25.88	71.76	0
Families by Income Level	18,303	15.57	14.21	18.06	52.16	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	5,450	1.91	4.02	36.55	57.52	0
Median Family Income	\$32,884	Median Housing Value				\$86,668
HUD Adjusted Median Family Income for 2011	\$43,000	Unemployment Rate				7.7%
Households Below the Poverty Level	18.26%					

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2000 U.S. Census and 2011 HUD updated Median Family Income.

## **Description of Assessment Area 2 (AA2): Laurel, Knox, Pulaski, and Whitley Counties**

Assessment Area 2 consists of Knox, Laurel, Pulaski, and Whitley Counties. AA2 is located in rural counties in the non-metropolitan portion of South Central Kentucky. The 2000 U.S. Census divides the AA into 37 census tracts (CTs), with zero low-income census tracts, eleven moderate-income, twenty-four middle-income, and two upper-income census tracts. The determination was based on the Kentucky 2000 Median Family Income for a non-metropolitan area of \$32,884.

AA2 has a total population of 176,592 according to the 2000 U.S. Census. That number had risen to approximately 189,432 in 2011. The 2000 population was comprised of 69,217 households, of which 32,323, or 47 percent, are considered to have low- or moderate-incomes. Additionally, 20 percent of households in the AA live below the poverty level and six percent receive public assistance.

The four counties in AA2 face higher unemployment rates than the state's nine percent average. As of March 2012, the unemployment rate in Knox County was 11.6 percent, Laurel County 10.8 percent, Pulaski County 10.5 percent, and Whitley County 10.4 percent. The Cabinet for Economic Development lists each county's major industrial firms employing over 200:

- Knox County: Computer Science Corporation (inbound call center), Jackson MSC, Inc. (commercial dishwashers), and Truseal Technologies (sealants for insulated glass windows);
- Laurel County: Wal-Mart (distribution center), ACS Shared Services, Inc. (data entry), Aisin Automotive Casting, LLC (engine components), Laurel Cookie Factory (cookies), Laurel Grocery Company, LLC (food wholesaler), Household Int. (call center), and Flowers Bakery of London, LLC (doughnuts and honey buns);
- Pulaski County: Toyotetsu America, Inc. (auto components and stampings), Super Service (truckload interstate carrier), Armstrong Wood Products (hardwood flooring), Eagle Hardwoods, Inc. (hardwood flooring), and Southern Belle Dairy Co., LLC (milk and juice products); and
- Whitley County: CSC (data processing and imaging center), Firestone Industrial Products (air springs), and Williamsburg Plastics (plastic injection molded products).

Competition from other financial institutions is strong. The bank's competitors include three large regional banks with total deposits ranging from \$3 billion to \$181 billion and many local community banks. According to the Federal Deposit Insurance Corporation (FDIC) website, 19 banks with 88 offices operate in the county (CVNB operates 10 branches with five located in London, one in East Bernstadt, two in Corbin, one in

Williamsburg, and one in Somerset). These offices hold a combined total of \$300 million in deposits as of June 30, 2011, with CVNB having a 12 percent market share. CVNB’s market share ranks second.

The following additional demographic information is based on 2000 census data unless otherwise noted.

**AA2: Non-MSA AA of Knox, Laurel, Pulaski, and Whitley Counties**

Demographic Information for Full-Scope Area: Non-MSA AAs of Knox, Laurel, Pulaski, and Whitley Counties						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	37	0.00	29.73	64.86	5.41	0.00
Population by Geography	176,592	0.00	23.51	69.07	7.42	0.00
Owner-Occupied Housing by Geography	51,808	0.00	23.44	69.45	7.11	0.00
Businesses by Geography	17,555	0.00	13.43	75.42	11.15	0.00
Farms by Geography	494	0.00	11.94	80.57	7.49	0.00
Family Distribution by Income Level	50,674	0.00	23.50	69.22	7.28	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	22,370	0.00	29.93	65.27	4.80	0.00
Median Family Income	\$32,884	Median Housing Value				\$58,567
HUD Adjusted Median Family Income for 2011	\$43,000	Unemployment Rate				See above
Households Below the Poverty Level	24.68%					

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2000 U.S. Census and 2011 HUD updated Median Family Income.

**Description of Assessment Area 3 (AA3): Fayette County**

Assessment Area 3 consists of Fayette County. AA3 is located in the Lexington-Fayette MSA portion of South Central Kentucky. The 2000 U.S. Census divides the AA into 61 census tracts. Nine are low-income census tracts, 11 are moderate-income, 24 middle-income, 16 upper-income tracts, and one tract not rated. The determination was based on the Kentucky 2000 Median Family Income for a metropolitan statistical area of \$66,200.

AA3 has a total population of 260,512 according to the 2000 U.S. Census. That number has risen to approximately 301,569 in 2011. The 2000 population was comprised of 108,288 households, of which 43,304, or 40 percent, are considered to have low- or moderate-incomes. Additionally, 13 percent of households in the AA live below the poverty level and two percent receive public assistance.

As of March 2012, Fayette County's 6.8 percent unemployment rate was lower than the nine percent rate for Kentucky.

The Cabinet for Economic Development lists major employers in Fayette County to be:

- The University of Kentucky with 12,096 employees;
- Fayette County Public Schools with 5,300 employees;
- Lexmark International (manufactures printers, information processing supplies, etc.) with over 3,100 employees;
- City of Lexington with 2,973 employees; and
- Several medical facilities providing health care such as St. Joseph Hospital, Veterans Medical Center, Central Baptist Hospital, and Lexington Clinic with over 6,000 employees combined.

Competition from other financial institutions is strong. The bank's competitors include several local community banks, branches of large regional banks, savings associations, FDIC savings banks, and U.S. branches of foreign banks. According to the Federal Deposit Insurance Corporation (FDIC) website, 23 banks with 107 offices operate in the county (CVNB operates one branch located in Fayette County). These branches hold a combined total of \$5.9 billion in deposits as of June 30, 2011, with CVNB having less than one percent market share. CVNB's deposits totaled approximately \$2 million but were only three one-hundredths of a percent of the Fayette County market share. CVNB's market share ranks twenty-second.

The following additional demographic information is based on 2000 census data unless otherwise noted.

**AA 3: Lexington-Fayette County Metropolitan Statistical Area AA**

Demographic Information for Full-Scope Area: Lexington-Fayette County MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	61	14.75	18.04	39.34	26.23	1.64
Population by Geography	260,512	11.25	17.22	39.42	31.94	0.17
Owner-Occupied Housing by Geography	59,915	4.47	13.97	42.17	39.39	0.00
Businesses by Geography	33,893	12.94	12.08	33.51	41.18	0.29
Farms by Geography	1,101	6.90	8.27	35.24	49.59	0.00
Family Distribution by Income Level	63,648	20.53	16.68	21.17	41.62	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	23,682	14.65	26.75	41.49	17.11	0.00
Median Family Income	\$55,960	Median Housing Value				\$116,911
HUD Adjusted Median Family Income for 2011	\$66,200	Unemployment Rate				6.8%
Households Below the Poverty Level	12.89%					

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2000 U.S. Census and 2011 HUD updated Median Family Income.

**Conclusions with Respect to Performance Tests**

CVNB’s performance under the lending test is satisfactory. CVNB was found to have reasonable penetration among borrowers of different income levels and businesses of different sizes. CVNB’s geographical distribution of loans reflects reasonable dispersion. The geographical distribution conclusion was based on the additional weight it received for the significant volume of non-metropolitan distressed middle-income census tracts in AA2. Results of the lending test are documented below.

**LENDING TEST**

CVNB’s performance under the lending test is Satisfactory.

CVNB’s loan-to-deposit ratio is reasonable and a substantial majority of loan originations were inside the bank’s Assessment Areas. CVNB’s borrower distribution reflects reasonable penetration among borrowers of different income-levels and

businesses of different sizes. The geographic distribution of CVNB’s residential and business loans reflects reasonable dispersion among geographies.

Less weight and consideration was given to the Lexington-Fayette County MSA AA3 due to the lack of bank presence in the AA. Less than one percent of the deposits are derived from this AA and only two percent of the bank’s loans are originated there.

**Loan-to-Deposit Ratio**

The bank’s loan-to-deposit ratio is reasonable. It averaged 70 percent over the 11 quarters since the last CRA examination, with a quarterly low of 66 percent and a quarterly high of 73 percent. CVNB’s average loan-to-deposit ratio falls in between other community banks of similar size, location, and product offerings. The other banks had average loan-to-deposit ratios ranging from 64 percent to 81 percent.

Our conclusion took into consideration the competitive market within the AAs and CVNB’s secondary market activity. CVNB’s average loan-to-deposit ratio does not reflect all residential mortgage lending activity, as the bank routinely originates and sells mortgages into the secondary market. During the evaluation period, CVNB originated and sold approximately \$45 million of loans into the secondary market and currently has an additional \$8 million in the pipeline.

Institution	Average Net Loan-to-Deposit Ratio
Cumberland Valley National Bank	70%
Bank #1	64%
Bank #2	69%
Bank #3	81%
Bank #4	82%

**Lending in Assessment Areas**

A substantial majority of CVNB’s primary loan products were made within the bank’s assessment areas. The following table details the bank’s lending within the AAs by number and dollar amount of loans. Ninety-three percent of the bank’s primary loan products were originated in the bank’s AAs.

<b>Lending in MSA and Non-MSA Assessment Areas (AAs) Residential and Business Loan Originations Between January 1, 2010 and December 31, 2011</b>										
<b>Loan Type</b>	<b>Number of Loans</b>					<b>Dollars of Loans (000's)</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
<b>HMDA-reported</b>	640	93	45	7	685	78,613	94	5,321	6	83,934
<b>Business Purpose</b>	22	88	3	12	25	3,307	49	3,375	51	6,682
<b>Totals</b>	662	93	48	7	710	81,920	90	8,696	10	90,616

Source: Residential Loans - HMDA data for residential loans originated between January 1, 2010 and December 31, 2011. Business Loans - Random sample of business loans originated between January 1, 2010 and December 31, 2011.

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

Overall, CVNB's distribution of loans, given the demographics of the AAs, reflects reasonable penetration among low- and moderate-income individuals and businesses with annual revenues of less than \$1 million.

Less weight and consideration was given to the Lexington-Fayette County MSA AA due to the lack of bank presence in the AA. Less than one percent of the deposits are derived from this AA and only two percent of the bank's loans are originated there.

### **Performance in Madison County - AA1**

CVNB's record of lending to borrowers of different incomes and businesses of different sizes reflects reasonable penetration in the Non-MSA AA1.

#### **Residential Real Estate Loans**

**Table INC-1a** shows CVNB's overall distribution of residential loans. It reflects reasonable penetration among borrowers of different income levels. CVNB's loan distribution to low- and moderate-income borrowers represented approximately nine percent of all residential loan originations in the AA falling short of the demographic comparators of 16 and 14 percent, respectively.

CVNB has several barriers to lending in AA1. The U.S. Census reported 18 percent of all households in the community are living below the poverty level and 23 percent receive social security. Living on such a low income makes it especially difficult to afford or maintain a home. Other barriers to home purchasing include the unavailability of private mortgage insurance without strong credit scores and the lack of a sufficient down payment to qualify for in-house and secondary market programs. Given the small number of home purchase and improvement loans, along with the current economic environment, residential loan distribution is reasonable.

The following table shows the distribution of home loan products among borrowers of different incomes compared to the percentage of families in each income level.

<b>Table INC-1a - Borrower Distribution of Residential Real Estate Loans in Madison County - AA1</b>					
<b>Borrower Income Level</b>	<b>Loan Originations Between Jan 1, 2010 and Dec 31, 2011</b>				<b>Percent of Families within each Income Category</b>
	<b>Percent of Home Purchases</b>	<b>Percent of Home Improvements</b>	<b>Percent of Home Refinances</b>	<b>Overall Percent Totals</b>	
<b>Low</b>	0	0	1	1	16
<b>Moderate</b>	7	0	9	8	14
<b>Middle</b>	24	0	15	17	18
<b>Upper</b>	69	100	75	74	52
<b>Total</b>	100	100	100	100	100

Source: HMDA data for 2010 and 2011, and 2000 U.S. Census data.

### Business Loans

**Table INC-1b** shows CVNB's overall distribution of business loans. It reflects reasonable dispersion among businesses of different income levels. The percentage of CVNB's business loans to small businesses (i.e., firms with revenues of \$1 million or less) exceeds the demographic comparator of 72 percent. Loans to small businesses make-up 75 percent of the number of business purpose loans sampled. This is reasonable compared to demographic data.

The following table shows the distribution of business loan products among businesses of different incomes compared to the percentage of businesses in each income level.

**Table INC-1b - Borrower Distribution of Loans to Businesses in Madison County - AA1**

Business Income Level in Revenues	Loan Originations Between Jan 1, 2010 and Dec 31, 2011				Percent of Businesses in AA1
	Number of Loans	Percent of Loans	Dollar Amt of Loans \$(000's)	Percent of Dollars	
≤ \$1 Million	15	75	1,879	27	72
> \$1 Million	5	25	5,170	73	2
Not Reported	0	0	0	0	26
<b>Total</b>	20	100	7,049	100	100

Source: 2000 U.S. Census data. Randomly selected sample of 20 commercial loans originated within AA1.

### **Performance in Laurel, Knox, Pulaski, and Whitley Counties - AA2**

CVNB's record of lending to borrowers of different incomes and businesses of different sizes reflects reasonable penetration in the Non-MSA AA2.

#### **Residential Real Estate Loans**

**Table INC-2a** shows CVNB's overall distribution of residential loans. It reflects reasonable penetration among borrowers of different income levels. CVNB's loan distribution to both low- and moderate-income borrowers represented approximately 19 percent of all residential loan originations in the AA falling short of the demographic comparators of 26 and 18 percent, respectively.

CVNB has several barriers to lending in AA2. The U.S. Census reported 25 percent of all households in the community are living below the poverty level and 33 percent receive social security. Living on such a low income makes it especially difficult to afford or maintain a home. Other barriers to home purchasing include the unavailability of private mortgage insurance without strong credit scores and the lack of a sufficient down payment to qualify for in-house and secondary market programs. Given the small number of home purchase and improvement loans, along with the current economic environment, residential loan distribution is reasonable.

The following table shows the distribution of home loan products among borrowers of different incomes compared to the percentage of families in each income level.

<b>Table INC-2a - Borrower Distribution of Residential Real Estate Loans in Laurel, Knox, Pulaski, and Whitley Counties - AA2</b>					
<b>Borrower Income Level</b>	<b>Loan Originations Between Jan 1, 2010 and Dec 31, 2011</b>				<b>Percent of Families within each Income Category</b>
	<b>Percent of Home Purchases</b>	<b>Percent of Home Improvements</b>	<b>Percent of Home Refinances</b>	<b>Overall Percent Totals</b>	
<b>Low</b>	2	7	6	5	26
<b>Moderate</b>	11	28	12	14	18
<b>Middle</b>	19	22	21	20	21
<b>Upper</b>	68	43	61	61	35
<b>Total</b>	100	100	100	100	100

Source: HMDA data for 2010 and 2011, and 2000 U.S. Census data.

### Business Loans

**Table INC-2b** CVNB's overall distribution of business loans reflects reasonable dispersion among businesses of different income levels. The percentage of CVNB's business loans to small businesses (i.e., firms with revenues of \$1 million or less) falls short of the demographic comparator of 71 percent. Loans to small businesses make up 65 percent of the number of business purpose loans sampled. This is reasonable considering 27 percent of the businesses did not report their income.

The following table shows the distribution of business loan products among businesses of different incomes compared to the percentage of businesses in each income level.

<b>Table INC-2b - Borrower Distribution of Loans to Businesses in Laurel, Knox, Pulaski, and Whitley Counties - AA2</b>					
<b>Business Income Level in Revenues</b>	<b>Loan Originations Between Jan 1, 2010 and Dec 31, 2011</b>				<b>Percent of Businesses in AA2</b>
	<b>Number of Loans</b>	<b>Percent of Loans</b>	<b>Dollar Amt of Loans \$(000's)</b>	<b>Percent of Dollars</b>	
<b>≤ \$1 Million</b>	13	65	1,974	26	71
<b>&gt; \$1 Million</b>	7	35	5,614	74	2
<b>Not Reported</b>	0	0	0	0	27
<b>Total</b>	20	100	7,588	100	100

Source: 2000 U.S. Census data. Randomly selected sample of 20 commercial loans originated within AA2.

### **Performance in the Lexington-Fayette County MSA - AA3**

Overall, CVNB's record of lending to borrowers of different incomes and businesses of different sizes reflects reasonable penetration in the Lexington-Fayette County MSA AA. CVNB's loan volume is low in this AA because the bank operates only one branch and is relatively new in the market. Bank management indicated this branch's marketing strategy is focused on commercial lending.

#### **Residential Real Estate Loans**

**Table INC-3a** shows CVNB's overall distribution of residential loans. It reflects reasonable penetration among borrowers of different income levels. The percentage of CVNB's residential loans to low-income borrowers was four percent and did not meet the demographic comparator of 21 percent. However, the overall percentage of the bank's residential loans to moderate-income borrowers was 18 percent exceeding the demographic comparator by one percent. Overall, CVNB's percentage of residential loans to low- and moderate-income borrowers was 22 percent and did not meet the comparator of 38 percent.

CVNB has several barriers to lending in AA3. The U.S. Census reported 13 percent of all households in the community are living below the poverty level and 20 percent receive social security. Living on such a low income makes it especially difficult to afford or maintain a home. Other barriers to home purchasing include the unavailability of private mortgage insurance without strong credit scores and the lack of a sufficient down payment to qualify for in-house and secondary market programs. Given the small number of home purchase and improvement loans, along with the current economic environment, residential loan distribution is reasonable.

The following table shows the distribution of home loan products among borrowers of different incomes compared to the percentage of families in each income level.

<b>Table INC-3a - Borrower Distribution of Residential Real Estate Loans in Lexington-Fayette County MSA - AA3</b>					
<b>Borrower Income Level</b>	<b>Loan Originations Between Jan 1, 2010 and Dec 31, 2011</b>				<b>Percent of Families within each Income Category</b>
	<b>Percent of Home Purchases</b>	<b>Percent of Home Improvements</b>	<b>Percent of Home Refinances</b>	<b>Overall Percent Totals</b>	
<b>Low</b>	0	0	10	4	21
<b>Moderate</b>	22	0	10	18	17
<b>Middle</b>	17	0	40	25	20
<b>Upper</b>	61	0	40	53	42
<b>Total</b>	100	0	100	100	100

Source: HMDA data for 2010 and 2011, and 2000 U.S. Census data.

### Business Loans

**Table INC-3b** CVNB's overall distribution of business loans reflects reasonable dispersion among businesses of different income levels. The percentage of CVNB's business loans to small businesses (i.e., firms with revenues of \$1 million or less) falls well short of the demographic comparator of 67 percent. Loans to small businesses make up 34 percent of the number of business-purpose loans sampled. This is still reasonable considering the bank's limited presence and the high level of competition in the AA.

The following table shows the distribution of business loan products among borrowers of different incomes compared to the percentage of businesses in each income level.

<b>Table INC-3b - Borrower Distribution of Loans to Businesses in Lexington-Fayette County MSA - AA3</b>					
<b>Business Income Level in Revenues</b>	<b>Loan Originations Between Jan 1, 2010 and Dec 31, 2011</b>				<b>Percent of Businesses in AA3</b>
	<b>Number of Loans</b>	<b>Percent of Loans</b>	<b>Dollar Amt of Loans \$(000's)</b>	<b>Percent of Dollars</b>	
<b>≤ \$1 Million</b>	4	33	941	31	67
<b>&gt; \$1 Million</b>	8	67	2,079	69	3
<b>Not Reported</b>	0	0	0	0	30
<b>Total</b>	12	100	3,020	100	100

Source: All commercial loans originated within AA3 during the assessment period. 2000 U.S. Census data.

### **Geographic Distribution of Loans**

Overall, CVNB's geographic distribution of loans exhibits reasonable dispersion into the low- and moderate-income census tracts. This conclusion is based on the additional weight given to the high volume of distressed middle income census tracts and the context of CVNB's market.

### **Performance in Madison County AA1**

CVNB's record of lending to borrowers in different income census tracts or geographies reflects reasonable penetration in the Madison County AA1.

### **Residential Real Estate Loans**

**Table GEO-1a** shows CVNB's overall distribution of residential loans. It reflects reasonable penetration among different income census tracts. During the assessment period, the bank's assessment area contained one low- and one moderate-income census tract. Information from the HMDA/LAR showed management originated residential loans in all different income type CTs. However, loans originated in the low- and moderate-income geographies fell slightly short of the owner occupied housing comparators of one and one percent, respectively. Although the number of loans originated did not meet the comparators, penetration is reasonable considering both tracts are primarily comprised of the Eastern Kentucky University campus and student housing in Richmond, Kentucky.

The following table shows the distribution of home loan products among geographies of different income levels compared to the percentage of owner occupied housing.

<b>Table GEO-1a - Geographic Distribution of Residential Real Estate Loans in Madison County - AA1</b>					
<b>Census Tract Income Level</b>	<b>Loan Originations Between Jan 1, 2010 and Dec 31, 2011</b>				<b>Distribution of Owner Occupied Housing</b>
	<b>Percent of Home Purchases</b>	<b>Percent of Home Improvements</b>	<b>Percent of Home Refinances</b>	<b>Overall Percent Totals</b>	
<b>Low*</b>	0	0	0	0	1
<b>Moderate*</b>	0	0	1	1	1
<b>Middle</b>	26	29	14	19	26
<b>Upper</b>	74	71	85	80	72
<b>Total</b>	100	100	100	100	100

Source: HMDA data for 2010 and 2011, and 2000 U.S. Census data. \* The bank has 1 low- and 1 moderate-income census tract in AA1.

#### Business Loans

**Table GEO-1b** shows the geographic distribution of business loans reflects excellent dispersion throughout AA1. During the assessment period, CVNB did not originate any loans in the low-income census tract but exceeded the comparator for loans originated in the moderate-income CT. The bank originated 25 percent of its loans to businesses in the moderate-income CT when only six percent of the businesses in AA1 are located in the moderate-income CT.

The following table shows the distribution of business loan products among different census tract income levels as compared to the percentage of businesses in the tracts.

<b>Table GEO-1b - Geographic Distribution of Business Loans in Madison County - AA1</b>					
<b>Census Tract Income Level</b>	<b>Loan Originations Between Jan 1, 2010 and Dec 31, 2011</b>				<b>Distribution of Businesses in the AA</b>
	<b>Number of Loans</b>	<b>Percent of Loans</b>	<b>Dollar Amt of Loans \$ (000's)</b>	<b>Percent of Dollars</b>	
<b>Low*</b>	0	0	0	0	1
<b>Moderate*</b>	5	25	282	5	6
<b>Middle</b>	2	10	2,322	39	27
<b>Upper</b>	13	65	3,313	56	66
<b>Total</b>	20	100	5,917	100	100

Source: Randomly selected sample of 20 commercial loans with revenues less than \$1 million and originated within the bank's AA. \* The bank has 1 low- and 1 moderate-income census tract in AA1.

### **Performance in Laurel, Knox, Pulaski, and Whitley Counties - AA2**

CVNB's record of lending to borrowers in different income census tracts or geographies reflects reasonable penetration in Laurel, Knox, Pulaski, and Whitley Counties - AA2.

#### Residential Real Estate Loans

**Table GEO-2a** shows CVNB's overall distribution of residential loans. It reflects reasonable penetration among different income geographies. During the assessment period, the bank's assessment area contained zero low- and eleven moderate-income census tracts. Information from the HMDA/LAR showed management originated residential loans in all different income type CTs. However, loans originated in the moderate-income geographies did not meet the owner occupied housing comparator of 23 percent. Residential loan originations to those tracts were only eight percent overall (seven percent home purchase, 14 percent home improvement, and seven percent home refinance). Low dispersion in the moderate-income census tracts is the result of the census tracts designated moderate-income being sparsely populated and part of the Daniel Boone National Forest. Most of the moderate-income census tracts are situated around the perimeter of the assessment area, while CVNB's offices are located centrally within the middle-income census tracts in the towns of Corbin and London. In addition, potential borrowers located in the moderate-income census tracts near the town of Barbourville are over 15 miles away from the nearest CVNB office making it difficult to provide services.

The bank failed to meet the comparator for moderate-income CTs but, more weight was placed on the lending in the 24 middle-income census tracts given the majority are designated as distressed due to poverty. CVNB exceeded the comparator of 70 percent by originating 84 percent of its residential loans (82 percent home purchases, 84 percent home improvements, and 85 percent home refinances) to middle-income census tracts.

The following table shows the distribution of home loan products among geographies of different income levels compared to the percentage of owner occupied housing.

<b>Table GEO-2a - Geographic Distribution of Residential Real Estate Loans in Laurel, Knox, Pulaski, and Whitley Counties - AA2</b>					
<b>Census Tract Income Level</b>	<b>Loan Originations Between Jan 1, 2010 and Dec 31, 2011</b>				<b>Distribution of Owner Occupied Housing</b>
	<b>Percent of Home Purchases</b>	<b>Percent of Home Improvements</b>	<b>Percent of Home Refinances</b>	<b>Overall Percent Totals</b>	
<b>Low</b>	NA	NA	NA	NA	NA
<b>Moderate</b>	7	14	7	8	23
<b>Middle</b>	82	84	85	84	70
<b>Upper</b>	11	2	8	8	7
<b>Total</b>	100	100	100	100	100

Source: HMDA data for 2010 and 2011, and 2000 U.S. Census data.

Note: The 24 middle income census tracts are designated as distressed due to poverty.

Business Loans

**Table GEO-2b** shows the geographic distribution of business loans. It reflects reasonable dispersion throughout AA2. During the assessment period, CVNB did not meet the comparator for business loans originated in moderate-income census tracts. The bank originated one percent of its loans in the moderate-income CTs falling short of the comparator of 13 percent. However, given the bank’s middle-income CTs are designated as distressed due to poverty, additional weight was placed on the loans made to businesses in those geographies. CVNB exceeded the comparator of 76 percent by originating 82 percent of its business loans in middle-income census tracts.

The following table shows the distribution of business loan products among different census tract income levels as compared to the percentage of businesses in the tracts.

<b>Table GEO-2b - Geographic Distribution of Business Loans in Laurel, Knox, Pulaski, and Whitley Counties - AA2</b>					
<b>Census Tract Income Level</b>	<b>Loan Originations Between Jan 1, 2010 and Dec 31, 2011</b>				<b>Distribution of Businesses in the AA</b>
	<b>Number of Loans</b>	<b>Percent of Loans</b>	<b>Dollar Amt of Loans \$ (000's)</b>	<b>Percent of Dollars</b>	
<b>Low</b>	NA	NA	NA	NA	NA
<b>Moderate</b>	2	5	15	1	13
<b>Middle</b>	32	82	874	59	76
<b>Upper</b>	5	13	603	40	11
<b>Total</b>	39	100	1,492	100	100

Source: Randomly selected sample of 39 commercial loans with revenues less than \$1 million and originated within the bank's AA.

### **Performance in the Lexington-Fayette County MSA - AA3**

#### Residential Real Estate Loans

**Table GEO-3a** shows CVNB's overall distribution of residential loans. It reflects reasonable penetration among different income census tracts or geographies. During the assessment period, the bank's AA contained nine low- and 11 moderate-income census tracts. Information from the HMDA/LAR showed management originated residential loans in all different income type CTs. However, loans originated in the low- and moderate-income geographies did not meet the owner occupied housing comparators of four and 14 percent, respectively. However, given the bank's limited presence in the AA where only one office exists, penetration is reasonable.

The following table shows the distribution of home loan products among geographies of different income levels compared to the percentage of owner occupied housing.

<b>Table GEO-3a - Geographic Distribution of Residential Real Estate Loans in the Lexington-Fayette County MSA - AA3</b>					
<b>Census Tract Income Level</b>	<b>Loan Originations Between Jan 1, 2010 and Dec 31, 2011</b>				<b>Distribution of Owner Occupied Housing</b>
	<b>Percent of Home Purchases</b>	<b>Percent of Home Improvements</b>	<b>Percent of Home Refinances</b>	<b>Overall Percent Totals</b>	
<b>Low</b>	0	0	1	1	4
<b>Moderate</b>	7	0	9	8	14
<b>Middle</b>	24	0	15	17	42
<b>Upper</b>	69	100	75	74	40
<b>Total</b>	100	100	100	100	100

Source: HMDA data for 2010 and 2011, and 2000 U.S. Census data.

### Business Loans

**Table GEO-3b** shows the geographic distribution of business loans. It reflects reasonable dispersion throughout AA3. During the assessment period, CVNB did not meet the comparator for business loans originated in low- or moderate-income CTs. The bank originated nine percent of its loans in both the low-income and moderate-income CTs falling short the comparators of 13 and 12 percent, respectively. The lack of penetration into low- and moderate-income census tracts is explained by several factors. The AA's low- and moderate-income CTs are located in Lexington's downtown business district and are readily served by banks located closer in proximity. The bank's office is situated in south-central Fayette County in a moderate-income census tract bounded by middle- and upper-income census tracts, which helps to explain why lending is geographically concentrated in these tracts.

The following table shows the distribution of business loan products among different census tract income levels as compared to the percentage of businesses in the tracts.

<b>Table GEO-3b - Geographic Distribution of Business Loans in the Lexington-Fayette County MSA - AA3</b>					
<b>Census Tract Income Level</b>	<b>Loan Originations Between Jan 1, 2010 and Dec 31, 2011</b>				<b>Distribution of Businesses in the AA</b>
	<b>Number of Loans</b>	<b>Percent of Loans</b>	<b>Dollar Amt of Loans \$ (000's)</b>	<b>Percent of Dollars</b>	
<b>Low</b>	1	9	206	6	13
<b>Moderate</b>	1	9	100	3	12
<b>Middle</b>	8	73	2,322	61	34
<b>Upper</b>	1	9	1,100	30	41
<b>Total</b>	11	100	3,728	100	100

Source: Randomly selected sample of 20 commercial loans with revenues less than \$1 million and originated within the bank's AA.

## COMMUNITY DEVELOPMENT TEST

The bank's performance under the Community Development Test is rated Satisfactory.

During the evaluation period, CVNBs overall community development (CD) performance through its record of community development loans, qualified investments, and retail services demonstrates adequate responsiveness to community development needs in its AAs.

### Number and Amount of Community Development Loans

CVNB's community development lending reflects adequate responsiveness considering the community development needs within its AAs. CVNB originated 11 community development loans totaling approximately \$3.1 million during the evaluation period. These loans were distributed among various projects including revitalization and stabilization efforts towards low- and moderate-income communities, rehabilitation of low and moderate income (LMI) homes damaged by a tornado, and providing the financing for a shelter for homeless people.

#### Performance in the Non-MSA AA1

Considering its performance context and the needs and opportunities within the AA, CVNB's community development lending reflects adequate responsiveness within AA1. CVNB originated three loans totaling approximately \$1.85 million in the Madison County AA. Two loans, totaling \$750 thousand, were renewed to help provide local rehabilitation services for mental health, substance abuse, and other medically related

health services. The third loan totaling \$1.1 million was renewed to provide a local health care facility.

Performance in the Non-MSA AA2

Considering its performance context and the needs and opportunities within the AA, CVNB’s community development lending reflects adequate responsiveness within AA2. CVNB originated four loans, totaling \$770 thousand, in the Knox, Laurel, Pulaski, and Whitley Counties. They included multiple loans (up to \$500 thousand) provided to local residents to help revitalize residences damaged by a tornado, two loans totaling \$250 thousand to provide shelter for homeless people, and one loan for \$20 thousand to provide supplies needed to build homes for LMI individuals.

Performance in the Fayette County MSA AA3

Considering its performance context and the needs and opportunities within the AA, CVNB’s community development lending reflects adequate responsiveness within AA3. CVNB originated four loans, totaling \$477 thousand, in the Lexington-Fayette County MSA. The loans were to rehabilitate homes for people with limited income.

**Number and Amount of Qualified Investments**

CVNB’s community development investing demonstrates adequate responsiveness considering the opportunities available in the bank’s AAs. CVNB purchased 13 investments, totaling approximately \$4 million, during the evaluation period. Investments were distributed between eight Small Business Investment Company (SBIC)<sup>3</sup> bonds totaling \$3.1 million and five various county School Revenue Bonds, totaling \$930 thousand located within the AAs.

CVNB did not specifically purchase any investments meeting the community development definition in Madison County (AA1). However, CVNB purchased a \$404 thousand municipal bond for the public library project in Berea, Kentucky.

**Extent to Which the Bank Provides Community Development Services**

The bank shows satisfactory responsiveness to meeting community needs through qualified community services. In evaluating CVNB’s services, consideration was given to the bank’s size in relation to the size of the AA and the needs within the community.

CVNB offers on-line banking to provide customers with additional access to their consumer and business accounts. Through online-banking, customers can check account balances, view statements, transfer funds between accounts, make loan

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<sup>3</sup> A The SBIC Program is one of many financial assistance programs available through the U.S. Small Business Administration (SBA). Only companies defined by SBA as “small” are eligible for SBIC financing. Generally, the SBIC Program defines a company as “small” when its net worth is \$18 million or less and its average after tax net income for the prior two years does not exceed \$6 million.

payments, and initiate stop payments. CVNB also offers free online bill pay to all customers.

CVNB participates in three programs to help meet the housing needs of LMI individuals within the AAs:

- The Resources, Education, and Assistance for Community Housing Program (REACH). REACH is a private, nonprofit organization committed to making housing more affordable for members of the community. The organization offers programs to help low- to moderate-income families and individuals become first-time homeowners;
- Secondary market loans. These loans provide competitive rates to help meet the housing needs of LMI individuals. CVNB offers an array of secondary market loans; and
- Unemployment Bridge Program (UBP) sponsored by the Kentucky Homeownership Protection Center. The program is a forgivable loan option for eligible applicants to assist them in making their mortgage payments. To be eligible, the applicant must have experienced a job loss or reduction in income due to changing economic conditions through no fault of their own, and demonstrate a need for assistance.

### **Responsiveness to Community Development Needs**

CVNB's community development activities, as a whole, demonstrate adequate responsiveness to the needs and opportunities in the AAs. Several bank community development loans promote economic development and provide community services to low- and moderate-income individuals. Investments were purchased to provide assistance to the SBA to promote the economic development of "small" businesses. Donations were also made to local organizations which provide community development services. Although a significant majority of the geographies within the AAs are middle- and upper-income, the bank seeks community development opportunities through their participation in civic, non-profit, and charitable organizations throughout the AAs. Services provided during the review period included a range of organizations that address community development needs including affordable housing, small business development, and social services to low- and moderate-income individuals.

#### Performance in the Non-MSA AA1

CVNB's performance reflects adequate responsiveness to the needs within the AA. CVNB's community development loans, qualified investments, and community development services demonstrate adequate responsiveness to the needs and opportunities in this AA.

Performance in the Non-MSA AA2

CVNB's performance reflects adequate responsiveness to the needs within the AA. CVNB's community development loans, qualified investments, and community development services demonstrate adequate responsiveness to the needs and opportunities in this AA.

Performance in the Fayette County MSA AA3

CVNB's performance reflects adequate responsiveness to the needs within the AA. CVNB's community development loans, qualified investments, and community development services demonstrate adequate responsiveness to the needs and opportunities in this AA.

**Responses to Complaints**

CVNB has not received any complaints about its performance in helping meet the assessment areas' credit needs during the evaluation period.

**Fair Lending or Other Illegal Credit Practices Review**

There was no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.