

PUBLIC DISCLOSURE

July 7, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Community First Bank
240 S Main St
Madisonville, KY 42431
Docket #: 04705**

**Office of Thrift Supervision
Southeast Region
1475 Peachtree Street, N.E.
Atlanta, GA 30309**

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.



Office of Thrift Supervision

Department of the Treasury

Southeast Region

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September 12, 2003

Board of Directors
Community First Bank
240 S Main Street
Madisonville, Kentucky 42431

Members of the Board:

In accordance with 12 C.F.R. Section 563.170, the Office of Thrift Supervision (OTS) performed a compliance examination of Community First Bank, beginning July 28, 2003. The review period was October 1, 2000 to July 28, 2003.

The comments that follow summarize conditions, policies, practices, and trends that reflect the institution's compliance with, and performance relative to, statutes and regulations pertaining to consumer protection and other areas of public interest. All matters of criticism, violations of laws and regulations, and other matters of concern identified within this Compliance Report of Examination require the Board of Directors' and management's prompt corrective action.

The examiner's comments and conclusions contained in this report are based upon an analysis of information obtained from the institution's books, records, and policy manuals, and from other authoritative sources. This report has been prepared for supervisory purposes and should not be considered an audit report.

Please review the report in its entirety at your next meeting and note your review in the minutes of that meeting. You need not prepare or send the OTS a written response to the report.

If you have any questions, please call me at (404) 888-8092. If I am unavailable, please call Rick Marlin, at (404) 888-8487.

Joel T. Palmer
Assistant Regional Director

Signatures of Directors

We, the undersigned directors of Community First Bank, have personally reviewed the contents of the compliance report of examination.

Signature	Date
_____ William M. Tandy	_____
_____ Ralph W. Teague	_____
_____ Michael D. Wortham	_____
_____ Paul W. Arison	_____
_____ Charlotte E. Baldwin	_____
_____ Steven A. Carson	_____
_____ Charles G. Ramsey	_____
_____ Craig J. Riddle	_____
_____ Charles B. Vaughn	_____

Note: This form should remain attached to the report of examination and be retained in the institution's file for review during subsequent examinations. The signature of committee members will suffice only if the committee includes outside directors and a resolution has been passed by the full board delegating the review to such committee.

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General Information

The Community Reinvestment Act (CRA) requires the OTS to use its authority when examining savings association subject to its supervision, to assess the SA'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 SA. Upon conclusion of such examination, the OTS must prepare a written evaluation of the SA's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of Community First Bank prepared by the OTS, as of July 7, 2003. The OTS evaluates performance in assessment area(s), as they are delineated by the SA, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the SA's branches. The OTS rates the CRA performance of a SA consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 563e.

Institution

Overall Rating

INSTITUTION'S CRA RATING: The institution is rated "Satisfactory".

Community First Bank (Community First) meets the overall requirements for satisfactory performance. This rating represents no change from the prior CRA examination report.

Community First's loan-to-deposit ratio is reasonable. All of the residential mortgage loans originated during the review period were inside the AA, therefore, Community First exceeds the standards for satisfactory performance for this criterion. No geographic distribution of lending analysis was conducted since there were no low- and moderate-income geographies in the assessment area. Community First's record of lending to low- and moderate-income individuals in its assessment area compared well with both the peer group and the family distribution in the assessment area and meets the standards for satisfactory performance. The institution had no consumer complaints regarding its CRA performance since the prior examination.

Description of Institution

Community First is a \$33 million federally chartered stock owned institution with its only office located in Madisonville, Kentucky. Madisonville is the county seat of Hopkins County and has a population of approximately 25,000 persons. Hopkins County has a population of about 46,000 persons. Madisonville is 50 miles south of Evansville, Indiana, 105 miles north of Nashville, Tennessee and 140 miles west of Louisville, Kentucky. The institution changed its name from Madisonville Building and Loan Association to Community First in 2002. There were no branch office openings or closings since the prior examination. The institution's office has both a drive-up facility and an automated teller machine (ATM).

Community First's business strategy is to operate as a traditional thrift. The institution solicits and accepts deposits from the local community, and originates mortgage and consumer loans and provides banking services in the same local community. Currently, Community First's credit product offerings consist of first mortgage loans, home equity loans, consumer loans (auto, boat, motorcycle, personal watercraft, recreational vehicle, home improvement loans and secured loans) and commercial loans (real estate and small vehicle loans). The institution has 15 full-time employees. The institution's savings products consist of regular and statement savings accounts, checking accounts, money market deposit accounts, Christmas Club accounts, Individual Retirement Accounts (IRAs), and certificates of deposit. In addition to the aforementioned credit and savings products,

Institution (continued)

Community First offers travelers' checks, money orders, cashiers' checks, direct deposit services, online banking services, and notary services.

Community First's lending focus has been on single-family residential property. Approximately 81 percent of the institution's assets consist of mortgage loans, while nonmortgage loans account for less than five percent of total assets. Residential permanent mortgage loans on one to four family dwelling units represent the vast majority (94 percent) of the mortgage loan portfolio. The only other major asset concentration is cash deposits and investment securities, which make up about nine percent of total assets.

Community First operates in a competitive market, with numerous lenders and depository institutions operating in the same markets. Other than competitive pressures, there are no known impediments limiting the institution's ability to help meet the credit needs of its local community, including low- and moderate-income borrowers.

At the previous CRA examination, dated January 19, 1999, Community First (then known as Madisonville Building and Loan Association) received a rating of "Satisfactory".

Description of Assessment Area

Community First has designated Hopkins County, Kentucky as its assessment area (AA). The AA contains thirteen geographies or Block Numbering Areas (BNAs). BNAs are statistical subdivisions of counties that are assigned by the Bureau of the Census.

According to 1990 U.S. Census data, the population of the AA is 46,126 with 13,394 families and 17,786 households. The area contains 19,325 housing units and 13,358 owner occupied housing units (OOHUs).

For CRA purposes, BNAs and borrowers are categorized by income, based on the median family income (MFI) of the non-metropolitan statistical area portions of the state of Kentucky. BNA data is based on the MFI at the 1990 census, while borrower income characteristics are based on the U. S. Department of Housing and Urban Development (HUD) annual estimates of MFI. These income categories are defined as follows:

- Low-Income: less than 50 percent of MFI
- Moderate-Income: greater than 50 percent, but less than 80 percent of MFI
- Middle-Income: greater than 80 percent, but less than 120 percent of MFI
- Upper-Income: greater than 120 percent of MFI

Institution (continued)

The HUD estimated MFI for the non-metropolitan portions of Kentucky were \$32,200 in 1999, \$34,600 in 2000, \$35,900 in 2001, \$36,300 in 2002, and \$38,600 in 2003.

The following table depicts, by income category, the distribution of census tracts, families, and OOHUs in the AA.

Demographic Data by Income Level of Census Tracts				
Type of Census Tract	Number	Percentage	Percentage of Families	Percentage of OOHUs
Middle-Income	7	54%	47%	48%
Upper-Income	6	46%	53%	52%
Totals	13	100%	100%	100%

The AA is primarily an urban area comprised of both older established residential communities and newer subdivisions. The median housing cost in the AA is about \$40,000 and the median age of the housing stock in the AA is approximately 36 years. The major employers in the AA are local hospitals, the county school district, and a large aircraft engine manufacturing plant.

Of the 13,394 families residing in the AA, 18 percent are considered low-income, 14 percent are moderate-income, 18 percent are middle-income, and 50 percent are upper-income.

The AA has ample lending opportunities. Aggregate Home Mortgage Disclosure Act (HMDA) information for 2001 shows that 91 mortgage lenders (including credit unions and mortgage companies) reported loan activity in the AA. These entities originated 1,803 HMDA reportable loans in 2001.

Community First's office is located in a middle-income census tract.

Conclusions with Respect to Performance Tests

Scope of Examination

The five performance criteria used to determine how the institution is meeting its responsibilities under the CRA are: loan-to-deposit ratio; percentage of lending activity in the AA; geographic distribution of lending in the AA; lending to borrowers of different income levels; and the institution's record of taking action in response to written complaints about its CRA performance.

The examination staff also reviewed Community First's CRA Public File and found that its contents comply with the requirements of the Act.

Institution (continued)

Community First's loan application registers (LARs) and were used in obtaining residential real estate loan data for the analyses conducted during this examination. Community First's mortgage lending activity from January 1999 through December 2002 was used for this evaluation. Management opted not to include consumer or business loans in this evaluation.

Demographic information was extracted from 1990 U.S. Census data, and peer data was taken from 2001 aggregate HMDA information (the most recent year available) for HMDA reporting financial institutions reporting lending activity in the AA. The following presentation discusses Community First's performance relative to the performance criteria.

Loan-to-Deposit Ratio

As part of the CRA performance review, we conducted an analysis of Community First's loan-to-deposit ratio. This ratio is considered an indicator of whether the institution's lending levels are reasonable when viewed in the context of its capacity to lend.

Community First's loan-to-deposit ratio averaged 81 percent for the 12 quarters ended March 31, 2003. The quarterly averages ranged from 74 percent in March 2001 to 92 percent in December 2002. This ratio compares well to the 80 percent average loan-to-value ratio of similarly sized institutions (those with total assets of less than \$50 million) in the OTS Southeast Region during the same period. For the 17 quarters since the institution's last CRA evaluation, Community First's loan-to-deposit ratio averaged 78 percent. Community First's loan-to-deposit ratio has remained fairly constant, it was 80 percent at the prior examination.

Since Community First's loan-to-deposit ratio is comparable to other similarly sized institutions in the Southeast Region, the ratio is considered reasonable and meets the standards for a satisfactory performance in this area.

Lending in Assessment Area

We analyzed the degree to which Community First's lending was concentrated in the AA. This test reflects the institution's commitment of meeting the credit needs of its local community.

Community First originated 487 residential real estate loans totaling \$25.1 million during the review period. All loans were secured by properties located in the AA.

Institution (continued)

According to 2001 Aggregate HMDA data, the institution would have ranked third out of 91 financial institutions in HMDA lending volume, had Community First been a HMDA reporter. This ranking shows a commitment to lending within the AA.

Since the majority of loans originated during the review period were inside the AA, Community First’s performance in this area is considered reasonable.

Geographic Distribution of Lending

Community First does not maintain records of its lending by BNA. Geographic distribution analysis of this performance standard focuses on an institution’s lending penetration in low- and moderate-income geographies. However, since the AA contains no low-or moderate-income BNAs, a geographic distribution analysis was not considered meaningful or necessary.

Lending to Borrowers of Different Incomes

A review was conducted of the distribution of Community First’s loans among borrowers of different income levels in the AA to determine if it was reasonable. This analysis focused on the institution’s record of lending to low- and moderate-income borrowers in the AA. The following table details residential mortgage loans originated by Community First inside the AA, according to the income level of the borrower. The table compares Community First’s performance to the peer group and the distribution of families by income level.

Borrower Income Distribution				
Borrower Income Level	Community First Number of Loans	Community First Percentage of Loans	Peer Group Distribution	Family Distribution
Low-Income	27	5.5%	5.6%	18.0%
Moderate-Income	76	15.6%	13.5%	14.2%
Middle-Income	85	17.5%	23.0%	17.7%
Upper-Income	284	58.3%	48.1%	50.1%
Income Not Available	15	3.1%	9.8%	0.0%
Totals	487	100%	100%	100%

The data above indicates that Community First originated 5.5 percent of its loans to low-income borrowers, which was slightly lower than the peer group, and less than the 12.5 percent of low-income families in the AA. Although a significant disparity exists between the percentage of low-income families residing within the AA and the percentage of residential loans made to this segment of the community, the low-income segment normally does not obtain residential financing in the same proportion of its representation of the population. This is due to this segment having the most difficulty in affording housing and qualifying for loans.

Institution (continued)

Community First made 15.6 percent of its loans to moderate-income borrowers, who make up 14.2 percent of the families in the AA. This percentage is higher than the peer group, which made 13.5 percent of its loans to such borrowers.

Community First's lending ratio to low- and moderate-income individuals (21.1 percent) is higher than that of the peer group (19.1 percent), but lower than the percentage of low- and moderate-income families (32.2 percent) residing in the AA.

A review of lending by dollar amounts indicated that Community First originated \$25.1 million in loans in its AA. The distribution by dollar amount included \$729,000 (2.9 percent), \$2.8 million (11.0 percent), \$4.2 million (16.8 percent), and \$16.5 million (65.9 percent) to low-, moderate-, middle-, and upper-income borrowers respectively (\$857,000 or 3.4 percent were to borrowers whose income was listed as N/A).

The data presented demonstrate that Community First's record of lending to low- and moderate-income individuals in its AA compared well with both the peer group and the family distribution in the AA and meets the standards for satisfactory performance.

Response to Complaints

Community First received no complaints regarding its CRA performance since the previous examination.

Record of Compliance With Antidiscrimination Laws

No violations of the substantive provisions of the antidiscrimination laws and regulations were identified during this examination.

CRA Rating Definitions

There are four separate and distinct CRA assessment methods set forth in the CRA: the lending, investment, and service tests for large, retail institutions; the streamlined examination method for small institutions; the community development test for wholesale and limited purpose institutions; and the strategic plan option for all institutions. OTS will assign an institution one of the four assigned ratings required by Section 807 of the CRA:

1. "Outstanding record of meeting community credit needs."
2. "Satisfactory record of meeting community credit needs."
3. "Needs to improve record of meeting community credit needs."
4. "Substantial noncompliance in meeting community credit needs."

OTS judges an institution's performance under the test and standards in the rule in the context of information about the institution, its community, its competitors, and its peers. Among the factors to evaluate in an examination are the economic and demographic characteristics of the assessment area(s); the lending, investment, and service opportunities in the assessment area(s); the institution's product offerings and business strategy; the institution's capacity and constraints; the prior performance of the institution; in appropriate circumstances, the performance of a similarly situated institution; and other relevant information. An institution's performance need not fit each aspect of a particular rating profile in order to receive that rating, and exceptionally strong performance with respect to some aspects may compensate for weak performance in others. The institution's overall performance, however, must be consistent with safe and sound banking practices and generally with the appropriate rating profile. In addition, OTS adjusts the evaluation of an institution's performance under the applicable assessment method in accordance with §563e.21 and §563e.28, which provide for adjustments on the basis of evidence of discriminatory or other illegal credit practices.