



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 04, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Muhlenberg County, Kentucky
Charter Number 8229

130 West Broad Street
Central City, KY 42330-0389

Office of the Comptroller of the Currency

Nashville Field Office
The Parklane Building, 5200 Maryland Way, Suite 104
Brentwood, TN 37027-5018

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.

- ◆ When compared to competitor, independent banks, First National Bank of Muhlenberg County's quarterly average loan-to-deposit ratio is reasonable at 85.13% during the evaluation period. FNB's quarterly loan-to-deposit ratio ranged from a low of 80.20% (March 2008), to a high of 89.84 % (September 2009).
- ◆ A majority of FNB's loans are inside the bank's Assessment Area (AA). Approximately 70% by number and 57% by dollar volume of loans were to borrowers within the assessment area during the evaluation period.
- ◆ FNB's loan distribution to borrower's of different income levels (including low-to-moderate income levels) is satisfactory. FNB originated 37.5% of the loans selected for review to families with low-to-moderate incomes. 37.22% of the families within the AA are low-to-moderate income families.
- ◆ FNB has a satisfactory percentage (81.40%) of loans originated by number to small businesses. This exceeds the percentage of small businesses within the bank's assessment area of 78.73%.

SCOPE OF EXAMINATION

This Performance Evaluation (PE) is a full scope review and covers the period of February 15, 2005 through February 28, 2011. Results were consolidated for comparative and analysis purposes and evaluated using 2000 Census demographic information. FNB has no bank owned affiliates.

Conclusions regarding the Lending Test are based on a sample of both residential and commercial loans originated by the bank from January 1, 2008 through February 28, 2011. The residential loans selected for review included home purchase, home improvement and home refinance transactions. FNB is not subject to the data collection and reporting requirements of the Home Mortgage Disclosure Act (HMDA).

DESCRIPTION OF INSTITUTION

First National Bank of Muhlenberg County, Kentucky (FNB) is a community bank with three offices located in Muhlenberg County, Kentucky. The main office is located in Central City and two other full service branches are located in Bremen and Greenville.

FNB is a wholly owned subsidiary of First United, Inc., a one-bank holding company with total assets of \$144 million as of December 31, 2010. First National Bank of Muhlenberg County reported total assets of \$143.6 million with \$118 million in deposits and \$97 million in loans (81% percent of total assets) as of December 31, 2010. There have been no branch openings or closings since the February 15, 2005 examination.

FNB operates in a competitive environment including other community banks, branches of a large regional bank, and credit unions. At June 30, 2010, FNB ranked second in deposit market share in Muhlenberg County, with 26.85 percent of the total deposits, according to FDIC data. The bank's primary lending strategy includes a focus on residential real estate and commercial loans. The loan portfolio composition as of December 31, 2010, is as follows:

| Loan Category | \$ (000s) | Percent |
|-------------------------------------|-----------------|-------------|
| Residential Mortgage Loans | \$52,143 | 53.44% |
| Commercial & Commercial Real Estate | \$30,229 | 30.98% |
| Individuals | \$4,803 | 4.92% |
| Farmland and Agriculture | \$7,745 | 7.94% |
| Construction & Land Development | \$2,092 | 2.14% |
| Obligations | \$559 | 0.57% |
| All Other | \$11 | 0.01% |
| Total | \$97,582 | 100% |

* Data obtained from 12/31/2010 Call Report

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

FNB provides a wide range of traditional deposit and loan products. Branches are generally located in areas that make them accessible to bank customers. Lobby and drive-up hours are set to meet customer needs. Three full-service branches and one non-deposit taking ATM are located in middle-income census tracts. Another non-deposit taking ATM is located at a medical facility in an upper-income tract.

| Distribution of Bank Offices and ATMs by Census Tract | | | | | | |
|---|----------|-------------|---------------------------------|-------------|-------------------------|-------------|
| Census Tract Income Level | Tracts | | Full-Service Branches with ATMs | | Non-Deposit taking ATMs | |
| | # | % | | | | |
| Low | 0 | 0 | 0 | 0 | 0 | 0 |
| Moderate | 0 | 0 | 0 | 0 | 0 | 0 |
| Middle | 8 | 89% | 3 | 100% | 1 | 50% |
| Upper | 1 | 11% | 0 | 0 | 1 | 50% |
| NA | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 9 | 100% | 3 | 100% | 2 | 100% |

(ATM – Automated Teller Machine)

The bank's last CRA examination was performed as of February 15, 2005 and was rated **Satisfactory**.

DESCRIPTION OF ASSESSMENT AREA(S)

FNB's assessment area (AA) meets the legal requirement of the regulation and does not arbitrarily exclude low- and moderate-income geographies. The AA includes all nine census tracts within Muhlenberg County. The county is comprised of eight middle-income and one upper-income census tracts. There are no low- or moderate-income tracts within the AA. Each of the middle-income census tracts has been categorized as Distressed, by the U.S. Census Bureau.

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

| Demographic Information for Muhlenberg County Assessment Area (AA) | | | | | | |
|---|------------|------------|-----------------|----------------------|--------------|------------|
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # | NA* % of # |
| Geographies (Census Tracts/BNAs) | 9 | 0 | 0 | 88.89% | 11.11% | 0 |
| Population by Geography | 31,220 | 0 | 0 | 90.11% | 9.89% | 0 |
| Owner-Occupied Housing by Geography | 10,246 | 0 | 0 | 91.09% | 8.91% | 0 |
| Businesses by Geography | 1,304 | 0 | 0 | 87.33% | 12.67% | 0 |
| Farms by Geography | 74 | 0 | 0 | 86.90% | 13.10% | 0 |
| Family Distribution by Income Level | 9,101 | 22.14% | 14.87% | 23.06% | 39.93% | 0 |
| Distribution of low- and moderate income families throughout AA geographies | 3,388 | 0 | 0 | 94.16% | 5.84% | 0 |
| Medium Family Income | = \$34,085 | | | Median Housing Value | = \$52,398 | |
| HUD Adjusted Median Family Income for 2010 | = \$42,500 | | | | | |
| Households below the Poverty Level | = 19.77% | | | Unemployment Rate | = 10.5% | |

(*) The NA category consists of geographies that have not been assigned an income classification. Source: 2000 U.S. Census and 2010 HUD updated MFI.

Greenville serves as the county seat of Muhlenberg County. Service related industry is the largest sector of business (57.16 percent) in Muhlenberg County. The local employment base is not well diversified, with principal industries being small manufacturing and agriculture. The largest provider of jobs is the trade, transportation and utilities sectors. The major employers are Gourmet Express, LLC, a frozen meal manufacturer, and Plastic Products Co. Inc, which produces products using plastic injection molding. Lumber related industries also provide jobs in this area. Some of the other major employers in the county include the Green River Correctional Facility, Muhlenberg County school system, and the Tennessee Valley Authority. The County has a high unemployment rate of 10.8 percent. This rate elevates Muhlenberg County above the state average of 9.9 percent and the US average of 9.5 percent as of December 31, 2010. This high unemployment rate can be partly attributed to the continuing decline in the coal mining industry during the last decade or so. The 2010 updated median family income for Kentucky was \$42,500. With 19.77% of the households below the income poverty level, it would be difficult for these families to afford the median housing cost of \$52,398.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance, under the Lending test, has demonstrated a reasonable level of lending within its Muhlenberg County AA. Based on a full-scope review, the bank's performance in the AA is satisfactory.

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is reasonable. The LTD ratio meets the standard for satisfactory performance with consideration given to the credit needs of the AA, the bank's size, and financial condition. The quarterly average loan-to-deposit ratio for the twenty-four quarters ending December 31, 2010 was 85.13%. The ratio has ranged from a low of 80.20 percent at March 31, 2008 to a high of 89.84 percent at September 30, 2009. We compared this LTD ratio to five other similarly situated community banks with offices in Muhlenberg County. As of December 31, 2010, FNB's quarterly average LTD ratio of 85.13 percent compared favorably with the other banks with a quarterly LTD average ratio of 79.85 percent.

| Loan-To-Deposit Ratios | | |
|--|-------------------|----------------------|
| Institution | ASSETS* (000s) | Average LTD Ratio |
| First National Bank of Muhlenberg County; Muhlenberg KY | \$143,667 | 85.13 |
| First Kentucky Bank, Inc.; Mayfield, KY | \$362,857 | 94.00 |
| First Security Bank of Kentucky, Inc.; Island KY | \$60,950 | 87.22 |
| Commonwealth Community Bank, Inc.; Hartford KY | \$147,595 | 62.45 |
| Old National Bank; Evansville IN | \$7,121,605 | 75.75 |

*as of 12/31/2010

Lending in Assessment Area

FNB's lending within its AA meets the standard for satisfactory performance. A majority of the number of FNB's loans were originated within the AA. Our sample was comprised of the Bank's two primary loan products, residential real estate and commercial loans. Based on this sample, approximately 70 percent of the total number and 57.27 percent of the total dollar amount were originated in the AA. A substantial majority of mortgage loans were originated in the AA. Commercial loan distribution reflects 59.70 percent of the total number and 50.36 percent of the total dollar amount were originated within the AA. Lending within the AA is detailed in Table 1.

| Table 1 - Lending in Muhlenberg County AA | | | | | | | | | | |
|--|-----------------|-------|---------|-------|------------------|-------------|-------|-------------|-------|--------------|
| Loan Type | Number of Loans | | | | Dollars of Loans | | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| | | | | | | | | | | |
| Mortgage | 41 | 85.42 | 7 | 14.58 | 48 | \$2,294,787 | 78.03 | \$711,088 | 21.97 | \$2,940,731 |
| Commercial | 43 | 59.70 | 29 | 40.28 | 72 | \$3,973,355 | 50.36 | \$6,146,083 | 49.64 | \$7,889,796 |
| Totals | 84 | 70.00 | 36 | 30.00 | 120 | \$6,202,998 | 57.27 | \$4,627,528 | 42.73 | \$10,830,527 |

Source: sampled home mortgage loans and business loans from 2008, 2009, 2010, and ytd 2011.

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

The distribution of loans to borrowers of different incomes and businesses of different sizes reflects a satisfactory performance by the bank. This examination analyzed the bank's loan penetration, the demographics of the AA, and the current economic conditions of the community. FNB demonstrated a reasonable loan penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes within the AA.

The percentage of residential real estate loans to low- and moderate-income families compared to the percentage of low- and moderate-income families in the AA is reasonable. FNB originated 37.5% of the loans selected for review to families with low-to moderate-incomes. This exceeds the overall percentage of families within the AA that are low- to moderate-income families (37.22%). The percentage of loans to low-income families (12.5% by number) is lower than the demographic percentage of 21.39%. The current economic conditions, median housing cost of \$52,398, and the fact that 19.77% of the households are below poverty level help explain this variance. The number of loans to moderate-income families is higher than the percentage of moderate-income families in the AA.

| Table 2 - Borrower Distribution of Residential Real Estate Loans in Muhlenberg County AA | | | | | | | | |
|---|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans |
| Mortgage | 21.39 | 12.5 | 15.83 | 25.00 | 21.01 | 10.42 | 41.76 | 52.08 |

Source: sampled home mortgage loans from 2008, 2009, 2010, and ytd 2011.

The distribution of loans to small businesses is reasonable compared to the number of small businesses in the AA. As shown below, our sample of business loans reveals that 81.40 percent of the loans in the AA were made to small businesses (businesses with \$1 million or less in gross annual revenues). This compares favorably to the reported 78.73 percent of small businesses within the AA.

| Table 2A - Borrower Distribution of Loans to Businesses in Muhlenberg County AA | | | | |
|--|--------------|--------------|-------------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Businesses | 78.73% | 2.30% | 18.97% | 100% |
| % of Bank Loans in AA by # | 81.40% | 18.60% | 0.00% | 100% |
| % of Bank Loans in AA by \$ | 62.84% | 37.16% | 0.00% | 100% |

* Demographic data source: Dunn & Bradstreet

Geographic Distribution of Loans

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

Responses to Consumer Complaints

No complaints have been received by the bank or the OCC regarding the bank's Community Reinvestment Act performance since the prior evaluation of February 15, 2005.

Compliance with Anti-discrimination Laws and Regulations

No violations of the substantive provisions of the anti-discriminatory laws and regulations were identified during this evaluation.

Fair Lending or Other Illegal Credit Practices Review

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