

PUBLIC DISCLOSURE

December 11, 2000

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Unified Banking Company
Docket #: 16115**

**2424 Harrodsburg Road, Suite 100
Lexington, KY 40504**

**Office of Thrift Supervision
Central Region
1 South Wacker Drive, Suite 2000, Chicago, IL 60606**

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

Central

1 South Wacker Drive, Suite 2000, Chicago, IL 60606
Telephone: (312) 917-5000 • Fax: (312) 917-5001

January 8, 2001

Board of Directors
Unified Banking Company
2424 Harrodsburg Road, Suite 100
Lexington, KY 40504

Members of the Board:

Enclosed is your institution's first written Community Reinvestment Act (CRA) Performance Evaluation prepared by the Office of Thrift Supervision as of December 11, 2000. Pursuant to the provisions of the CRA and OTS regulations (12 C.F.R. 563e), this evaluation, and your institution's CRA rating as contained therein, must be made available to the public by your institution.

This evaluation is being transmitted separately from the Compliance Report of Examination to alleviate the potential for any misunderstanding regarding which document your institution must make public. It is the enclosed evaluation that must be publicly available; the Compliance Report of Examination must not be made available to the public.

In accordance with 12 C.F.R. 563e, this written CRA Performance Evaluation must be made available to the public within 30 business days of its receipt by your institution. The evaluation must be placed in your CRA public file located at your home office and each branch within this 30 business day time frame. The evaluation may not be altered or abridged in any manner. At your discretion, previous written CRA Performance Evaluation(s) may be retained with the most recent evaluation in your CRA public file.

Your institution is invited to prepare a response to the evaluation. The response may be placed in each CRA public file along with the evaluation. In the event your institution elects to prepare such a response, please forward a copy of it to this office.

All appropriate personnel, particularly customer contact personnel, need to be aware of the responsibilities that the institution has to the public with regard to making this evaluation available. Consequently, we suggest that your institution review internal procedures for handling CRA inquiries, including those pertaining to the evaluation and other contents of the CRA public file.

Unified Banking Company
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We strongly encourage the Board of Directors, senior management, and other appropriate personnel to review this document and to take an active interest and role in the CRA activities of your institution.

Sincerely,

Rose Thomas Pickrum
Compliance Examinations Manager

Enclosure

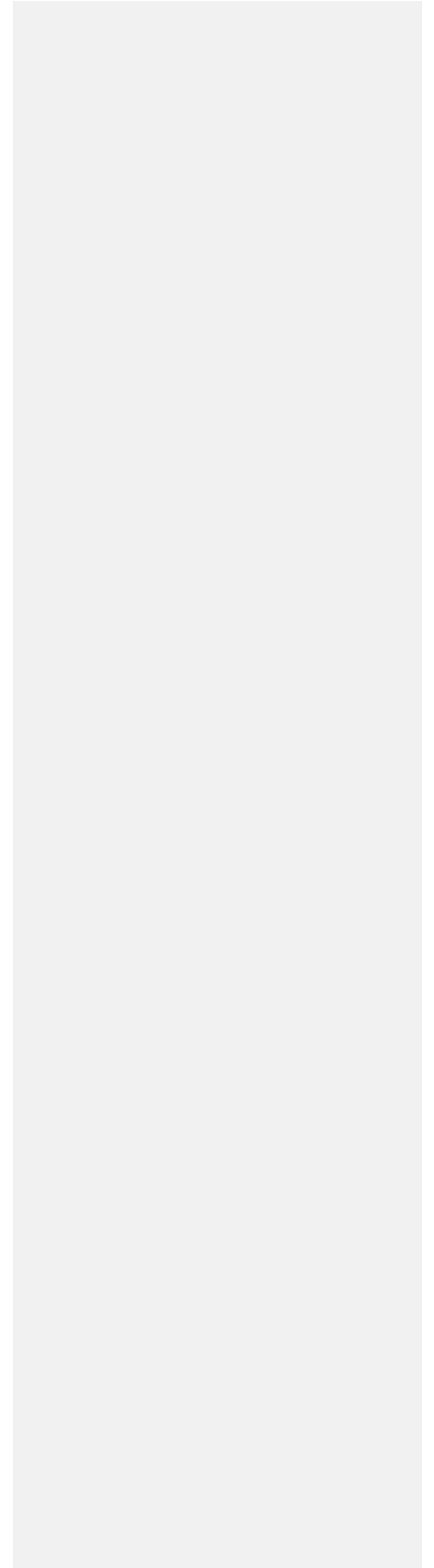


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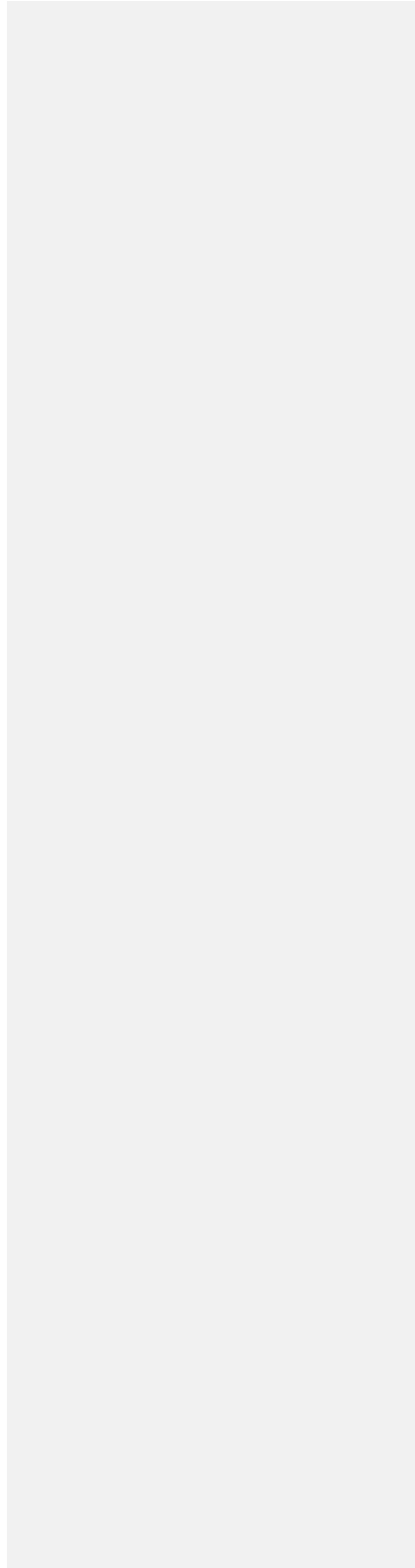
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General Information

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 Unified Banking Company (Unified), Lexington Kentucky, prepared by the Office of Thrift Supervision (OTS), the institution's supervisory agency, as of December 11, 2000. 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 563e.

Institution

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

Unified's highest dollar volume is in commercial loans (including commercial real estate loans). The record of granting small business loans in geographies of all income levels and to businesses of all sizes in the assessment area is excellent. The record of granting residential mortgage loans in geographies of all income levels and to borrowers of all income levels of the assessment area is very good when considering the level of participation in community development small business loans and projects. Unified participated in two community development projects and also financed a multifamily project in a moderate-income area. Unified's lending within their assessment area is considered excellent. Unified's loan to deposit ratio is good. No CRA related complaints have been received during the review period.

Comment [OTS1]: Page: 2

Summarize the major factor supporting the institution's rating. When illegal discrimination or discouragement has been identified and has affected the rating, the summary should include a statement that the rating was influenced by violations of the substantive provisions of the antidiscrimination laws. The summary should not mention any technical violations of the antidiscrimination laws.

Description Of Institution

Unified opened for business November 1, 1999. It is a very small stock chartered Federal Savings Bank with total assets of \$ 31.7 million at September 30, 2000. Unified operates one office in suburban Lexington Kentucky in a middle-income census tract.

Unified is wholly owned by Unified Financial Services, Inc. (Unified Financial). Unified Financial had consolidated total assets of \$54.0 million on September 30, 2000. Unified Financial has 15 other subsidiary companies. Those subsidiaries include Unified Trust Company, National Association, a limited purpose national bank operating in Lexington Kentucky, and a variety of other non banking companies mostly providing securities trading, investment counseling, insurance, and related services. There is also an Internet services company and an aviation operating company.

Unified offers a wide range of deposit and lending services. Deposit programs include business checking, interest bearing checking, money market accounts, regular savings accounts and certificates of deposit. Automated Teller Machine service is available. Loan products include short-term residential financing, construction financing for both residential and non-residential real estate, commercial lending, business and personal lines of credit, home equity lines of credit and other consumer loans. Very few long-term mortgage loans are granted. Unified places long term financing for single-family dwellings with the secondary market.

At September 30, 2000 Unified had 4.2 percent of its total assets in cash and investments, 35.2 percent in mortgage pool securities, 9.4 percent in loans secured by one- to four-family dwellings, 1.4 percent in loans secured by multifamily dwellings, 17.3 percent in loans secured by non-residential

Comment [OTS2]: Page: 3

Briefly describe the institution's ability to meet various credit needs based on its financial condition and size, product offerings, prior performance, legal impediments and other factors. Information that may be important includes relationships with a holding company and its affiliates, total assets, asset/loan portfolio mix, primary business focus, branching network, and any merger or acquisition activity.

Institution (continued)

real estate, 12.2 percent in commercial loans, 17.5 percent in consumer loans, and 2.9 percent in office premises, equipment and other assets. These ratios do not include the \$550,000 construction loan for Serenity Place, a community development multi-family project that was granted October 31, 2000. This loan amount is 1.7 percent of assets.

During the review period Unified granted 243 loans (\$29.0 million). This total excludes renewals and refinancing of loans granted during the review period. Of these loans, 67 (\$15.3 million) were commercial loans, 2 (\$1.0 million) were multifamily dwelling loans, 29 (\$4.5 million) were closed end loans secured by one- to four-family dwellings, 56 (\$4.8 million) were home equity lines of credit, and 89 (\$3.4 million) were consumer loans. Sixty-four of the commercial loans qualify as small business loans.

This is Unified’s first CRA evaluation.

Description Of Assessment Area

The review period for this assessment is November 1, 1999 through November 30, 2000. Unified has defined its assessment area as Fayette County Kentucky. Fayette County is part of the Lexington MSA that also contains six other counties. Unified’s management feels that the institution is not large enough to serve more than Fayette County.

During 1999, the Lexington MSA median family income was \$48,800 while for 2000, it was \$52,700. For analysis purposes the definitions of income levels applied both to census tracts and to individuals are listed in the table below:

Definitions of Income Levels of Borrowers and Geographies	
Low-income	Less than 50% of the MSA Median Family Income
Moderate-income	At least 50% but less than 80% of the MSA Median Family Income
Middle-income	At least 80% but less than 120% of the MSA Median Family Income
Upper-income	At least 120% of the MSA Median Family Income

Fayette County is fairly affluent with the largest portion of its 55 census tracts being upper-income. The population and income characteristics of the census tracts are given in the table below.

Comment [OTS3]: Page: 3
 Briefly describe the assessment area(s) under review by including appropriate information (and any trends) on the population, median income, employment including major employers, and community credit needs and business opportunities identified through outreach activities. Include, as appropriate, a discussion of the number and kinds of CRA-related community contacts that were consulted and relevant information obtained and used, if any, in the CRA evaluation.

Institution (continued)

Population and Tract Characteristics of Fayette County Census Tracts					
Tract Income Level	Number of Tracts	Population	% Of Total Population	Number of Families	% Of Total Families
Low-income	4	12,969	5.7%	2,932	5.2%
Moderate-income	12	46,761	20.8%	9,760	17.2%
Middle-income	17	71,615	31.8%	19,026	33.4%
Upper-income	21	93,738	41.6%	25,155	44.2%
Income NA (1)	1	283	0.1%	0	0.0%
Totals	55	225,366	100.0%	56,873	100.0%

(1) The entire population of this tract consisted of residents of a long-term care facility.

Unemployment rates have been very low in Fayette County. The October 2000 rate was 1.7 percent and the 1999 average rate was 1.9 percent. This compares favorably with the statewide rates of 3.8 and 4.5 percent, respectively.

The proportion of families that are upper-income closely reflects the proportion of tracts that are upper-income. However, the proportion of low-income families considerably exceeds the proportion of low-income tracts.

Income Distribution of Families in Fayette County		
Family Income Levels	Number of families	Percentage of Families
Low-income	10,908	19.2%
Moderate-income	8,592	15.1%
Middle-income	11,640	20.5%
Upper-income	25,733	45.3%
Totals	56,873	100.0%

Employment information from the Lexington Chamber of Commerce (the Chamber) indicates that the University of Kentucky is the largest employer in the county and the Toyota plant in Georgetown Kentucky (Scott County) is second. Other top employers listed by the Chamber are Lexmark International (manufacturing computer and business equipment), the Fayette County Public Schools, the University of Kentucky Hospital, the Lexington-Fayette County Urban Government, two other hospitals and the Kentucky Utilities Company. The Chamber also states that nearly one third of the area's businesses are service oriented.

One community contact was made during this examination and nine others were reviewed. The contacts included three with local government officials, one with a federal government agency, two with non-profit small business development agencies and four with non-profit housing development agencies.

Institution (continued)

The contacts all agreed that Fayette County is in good economic condition. Rapid growth cited during 1998 and 1999 seems to have slowed down according to the most recent interviews; however, the economy is still strong and unemployment is still very low.

Most of the contacts also felt that the strong economy hasn't benefited the lowest-income segments of the community as well as it has benefited the middle- and upper-income segments. The contacts agreed that job opportunities in Lexington are mostly either for high-paying professional positions or for lower-paying service and retail jobs. There is little manufacturing for a city of this size and few opportunities for persons who lack higher education to work their way into higher-paying positions.

The contacts also generally agreed that there is a demand for more affordable housing in Lexington. Much of the older housing stock is substandard and in need of repair. There is also demand for small business loans and for various kinds of consumer credit.

Contacts also identified Lexington's Northside as an area that is particular in need of assistance. This area north of Main Street and within New Circle Road contains three of the four low-income census tracts and five of the nine moderate-income census tracts.

Conclusions With Respect To Performance Tests

Unified has done a very good job of meeting the credit needs of its assessment area. Overall, Unified's record of meeting the credit needs of persons of all income levels and businesses of all sizes is excellent. Unified's record of lending in its assessment is strong. Unified also has significant participations in community development loans and an excellent record regarding multifamily loans. Unified's loan-to-deposit ratio is good for its size and situation.

Lending to Borrowers of Different Incomes

Unified has only granted a limited number of dwelling related mortgage loans to persons who are low- or moderate-income. However, Unified has an exceptionally strong record of lending to businesses of all sizes. Also they have participated significantly in two community development loans.

Unified's residential mortgage loans are mostly short term or unusual financing. Long-term conventional mortgage loans are brokered to the secondary market. Only 24 residential mortgage loans were granted in the assessment area during the review period. Of these, two were granted to low- or moderate-income individuals.

Comment [OTS4]: Page: 3
Discuss the institution's overall CRA performance. The facts, data, and analyses that were used to form a conclusion about the rating should be reflected in the narrative, including institution strengths and areas for improvement. The narrative should clearly demonstrate how the results of each of the performance test analyses and relevant information from the performance context factored into the overall institution rating. Charts and table should be used whenever possible to summarize and effectively present the most critical or informative data used by the examiner in analyzing the institution's performance and reaching conclusions.

Institution (continued)

Record of Lending to Borrowers of All Income Levels in the Assessment Area				
Description	Number of Loans	Percentage of Loans	Dollar Volume of Loans (000's)	Percentage of Dollar Volume
1- 4-Family Dwellings				
Low-Income	1	4%	\$ 22	1%
Moderate-Income	1	4%	\$ 48	1%
Middle-Income	4	17%	\$ 356	10%
Upper-Income	12	50%	\$ 2,100	62%
Income NA	6	25%	\$ 890	26%
Total	24	100%	\$ 2,416	100%

Incomes of the small businesses were not generally available from Unified's records. Many of the business loans are based on guarantees by the owners rather than on the business incomes. The loan size is being used as a proxy to estimate the record of lending to businesses of different sizes. A review of the types of businesses by loan size indicated that the proxy is reasonable. A significant portion of the small business loans granted were for less than \$100,000 with the next largest group of loans being in the \$100,000 to less than \$250,000 group.

Record of Small Business lending by Loan Size in the Assessment Area				
Description	Number of Loans	Percentage of Loans	Dollar Volume of Loans (000's)	Percentage of Dollar Volume
Small Business Loans				
< \$100,000	17	33%	\$ 746	6%
\$100,000 to < \$250,000	14	27%	\$ 1,794	16%
\$250,000 to < \$500,000	11	21%	\$ 2,601	22%
\$500,000 to < \$1,000,000	10	19%	\$ 6,502	56%
Total	52	100%	\$11,643	100%

In addition to the above loans, Unified participated in a loan to build a baseball stadium in Lexington's Northside. The stadium will house a class A professional baseball team. The Stadium is located in census tract 2, the second lowest income tract in Fayette County. The community contact made for this review stated that he felt the stadium would help that community by bringing in jobs and by providing activities for youth to an area that has been very much neglected. Unified's share in this project is \$399,600 out of a total loan of \$6,000,000.

One of Unified's two multifamily loans was a \$550,000 participation in a \$2,950,000 loan to build Serenity Place. This project will provide 40 units of special needs housing in a moderate-income tract. The project has support from the Federal Home Loan Bank, the Kentucky Housing Corporation and a number of Community Development and Housing Development groups in Fayette County. The project will provide affordable housing for low- and moderate-income households headed by single parents in the second phase of a substance abuse rehabilitation program. Unified has taken an 18.6

Institution (continued)

percent share in this participation loan, the same share as was taken by each of four large banks. Two other small banks each took 3.4 percent shares in the project.

Unified has made a significant contribution to community development with the two loans described above. Considering the size of the institution and the length of time the institution has been operational, Unified's record of serving the credit needs of all income levels is considered to be extraordinary.

Geographic Distribution of Loans

Unified also has a very good record of granting loans to small businesses in geographies of all income levels. Its record of granting one- to four-family mortgage loans is only fair, but both the multifamily loans (\$950,000) granted were in moderate-income tracts. Also the participation loan (\$400,000) to develop the baseball stadium is in a low-income tract.

The record of granting small business loans and one to four family mortgage loans by income of tract is detailed below.

Record of Lending in Geographies of All Income Levels in the Assessment Area				
Description	Number of Loans	Percentage of Loans	Dollar Volume of Loans (000's)	Percentage of Dollar Volume
Small Business Loans				
Low-Income Tracts	3	6%	\$ 150	1%
Moderate-Income Tracts	9	17%	\$ 2,270	19%
Middle-Income Tracts	20	38%	\$ 6,827	59%
Upper-Income Tracts	20	39%	\$ 2,396	21%
Total	52	100%	\$11,643	100%
1- 4-Family Dwellings				
Low-Income Tracts	1	4%	\$ 10	0%
Moderate-Income Tracts	3	13%	\$ 338	10%
Middle-Income Tracts	7	29%	\$ 385	11%
Upper-Income Tracts	13	54%	\$ 2,683	79%
Total	24	100%	\$ 3,416	100%

Including the multifamily lending, this is a very good record of lending in geographies of all income levels.

Institution (continued)

Lending in the Assessment Areas

Unified has a very strong record of lending in their assessment area. The majority of one- to four-family loans and small business loans were in the assessment area. Both of the multifamily loans (\$1.0 million) granted were also in the assessment area.

Lending in and Out of the Assessment Area				
Description	Number of Loans	Percentage of Loans	Dollar Volume of Loans (000's)	Percentage of Dollar Volume
Small Business Loans				
In the AA	52	81%	\$11,643	86%
Out of the AA	12	19%	\$ 1,922	14%
Total	64	100%	\$13,566	100%
1- 4-Family Dwellings				
In the AA	24	83%	\$ 3,416	76%
Out of the AA	5	17%	\$ 1,105	24%
Total	29	100%	\$ 4,521	100%

This record shows that the majority of Unified's lending is in their assessment area and is considered to be very good.

Loan-to-Deposit Ratio

Unified's average loan-to-deposit (LTD) for the four quarters ended September 30, 2000 was 57.9 percent; however, this is not very indicative since they have just started business and have not yet built up a loan portfolio. The LTD ratio was 80.6 percent at September 30, 2000 and has improved steadily since Unified's first reporting quarter, December 31, 1999, when the LTD ratio was 36.2 percent.

Unified's peer group (all OTS regulated institutions in the Central region with less than \$50 million in total assets) had an average LTD ratio of 88.9 percent for the same period. Unified's LTD ratio is considered good due to its trend and to the short time Unified has been in business.

Response to CRA Related Complaints

No CRA related complaints were received during the review period.

Institution (continued)

No violations to substantive portion of the antidiscrimination laws or regulations were identified.

Comment [OTSS]: Page: 3

Write a paragraph about the institution's record of complying with the antidiscrimination laws (ECOA, FHA, or HMDA) using the following guidelines.

- When substantive violations involving illegal discrimination or discouragement are found by the OTS or identified through self-assessment(s), state that substantive violations were found, whether they caused the CRA rating to be adjusted downward, and why the rating was or was not adjusted. Identify the law(s) and regulation(s) violated, the extent of the violation(s) (e.g., widespread, or limited to a particular state, office, division, or subsidiary) and characterize management's responsiveness in acting upon the violation(s). Determine whether the institution has policies, procedures, training programs, internal assessment efforts, or other practices in place to prevent discriminatory or other illegal credit practices.

If no substantive violations were found, state that no violations of the substantive provisions of the antidiscrimination laws and regulations were identified. Even if discrimination has not been found, comments related to the institution's fair lending policies, procedures, training programs and internal assessment efforts may still be appropriate. If applicable, technical violations cited in the report of examination should be presented in general terms. Discuss whether management has (proposed/taken) steps that (have/would if implemented) address(ed) the technical violation(s).