PUBLIC DISCLOSURE

October 11, 2022

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Community Financial Services Bank
RSSD #698144

221 West Fifth Street
Benton, Kentucky 42025

Federal Reserve Bank of St. Louis

P.O. Box 442
St. Louis, Missouri 63166-0442

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 the institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

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

The Lending Test is rated: Satisfactory
The Community Development Test is rated: Satisfactory

Community Financial Services Bank meets the criteria for a Satisfactory rating based on the evaluation of the bank's lending and community development activities. The factors supporting the institution's rating are as follows:

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.

- A substantial majority of loans and other lending-related activities are in the assessment area.

- The borrower's profile analysis reveals reasonable penetration among businesses of different revenue sizes and individuals of different income levels, including low- and moderate-income (LMI).

- The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area.

- There were no CRA-related complaints filed against the bank since the previous CRA evaluation.

- The bank's overall community development performance demonstrates adequate responsiveness to the community development needs of its assessment area, considering the bank's capacity and the need and availability of such opportunities for community development in its assessment area. The bank has responded to these needs through community development loans, qualified investments, and community development services.

SCOPE OF EXAMINATION

The bank's CRA performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC's) intermediate small bank procedures. The intermediate small bank examination procedures entail two performance tests: the Lending Test and the Community Development Test. Small business and residential real estate loans were used to evaluate the bank's lending performance, as these loan categories are considered the bank's core business lines based on lending volume and the bank's stated business strategy.[1] Therefore, the loan activity represented by these credit products is deemed indicative of the bank's overall lending performance. However, as the bank has a particular emphasis on small business lending, performance based on the small

[1] Small business and 1–4 family residential real estate loans were sampled for this review according to CA Letter 01-8, "CRA Sampling Procedures."

business loan category carried the most significance toward the bank's overall performance conclusions. The following table details the performance criterion and the corresponding time periods used in each analysis.

Performance Criterion	Time Period
LTD Ratio	December 31, 2019 – June 30, 2022
Assessment Area Concentration	January 1, 2020 – December 31, 2020
Geographic Distribution of Loans	
Loan Distribution by Borrower's Profile	
Response to Written CRA Complaints	October 7, 2019 – October 10, 2022
Community Development Activities	

Lending Test analyses often entail comparisons of bank performance to assessment area demographics and the performance of other lenders, based on Home Mortgage Disclosure Act (HMDA) and CRA aggregate lending data. Unless otherwise noted, assessment area demographics are based on 2015 American Community Survey data, and certain business demographics are based on 2020 Dun & Bradstreet data. When analyzing bank performance by comparing lending activity to both demographic data and aggregate lending data, greater emphasis is generally placed on the aggregate lending data, because it is expected to describe many factors impacting lenders within an assessment area. Aggregate lending datasets are updated annually and are, therefore, expected to predict more relevant comparisons. In addition, the bank's lending levels were evaluated in relation to those of comparable financial institutions operating in the same general region. Three other banks were identified as similarly situated peers, with asset sizes ranging from $549.5 million to $835.0 million as of June 30, 2022.

As part of the Community Development Test, the bank's performance was evaluated using the following criteria, considering the bank's capacity and the need and availability of such opportunities for community development in the bank's assessment area.

- The number and dollar amount of community development loans.
- The number and dollar amount of qualified investments and grants.
- The extent to which the bank provides community development services.

The review included community development activities initiated from the date of the bank's previous CRA evaluation to this review date. In addition, investments made prior to the date of the previous CRA evaluation, but still outstanding as of this review date, were considered.

To augment this evaluation, one community contact interview was conducted with members of the local community to ascertain specific credit needs, opportunities, and local market conditions within the bank's assessment area. Information from this interview also assisted in evaluating the bank's responsiveness to identified community credit needs and community development opportunities. Key details from this community contact interview are included in the *Description of Assessment Area* section.

DESCRIPTION OF INSTITUTION

Community Financial Services Bank is a full-service retail bank offering both consumer and commercial loan and deposit products. The bank is wholly owned by Community Financial Services, Inc., a one-bank holding company headquartered in Benton, Kentucky. The bank's branch network consists of eight offices (including the main office). All branch locations provide drive-through services and have interactive teller machines, while four branches also have cash-dispensing-only automated teller machines (ATMs) on site. In addition, the bank operates four stand-alone, cash-dispensing-only ATMs in the assessment area. In March 2020, the bank opened a second full-service branch in Murray, Kentucky. Based on this branch network and other service delivery systems, such as extended banking hours of operation and full-service online banking capabilities, the bank is well positioned to deliver financial services to its entire assessment area.

For this review period, no legal impediments or financial constraints were identified that would have hindered the bank from serving the credit needs of its customers, and the bank appeared capable of meeting assessment area credit needs based on its available resources and financial products. As of June 30, 2022, the bank reported total assets of $1.4 billion. As of the same date, loans and leases outstanding were $981.4 million (68.7 percent of total assets), and deposits totaled $1.3 billion. The bank's loan portfolio composition by credit category is displayed in the following table.

Distribution of Total Loans as of June 30, 2022		
Credit Category	**Amount ($000s)**	**Percentage of Total Loans**
Construction and Development	$38,778	4.0%
Commercial Real Estate	$223,229	22.7%
Multifamily Residential	$26,790	2.7%
1–4 Family Residential	$237,012	24.1%
Farmland	$30,696	3.1%
Farm Loans	$4,492	0.5%
Commercial and Industrial	$86,056	8.8%
Loans to Individuals	$289,045	29.5%
Total Other Loans	$45,341	4.6%
TOTAL	**$981,439**	**100%**

As indicated by the table above, a significant portion of the bank's lending resources is directed to loans to individuals, loans secured by 1–4 family residential properties, and commercial real estate loans. While representing a significant product offering for the bank by dollar amount, loans to individuals are primarily comprised of lending to finance the purchase of recreation vehicles, a product that is not a credit need for LMI individuals or geographies. As such, this product was not included in the analysis. The bank also originates and subsequently sells a significant volume of loans related to residential real estate. As these loans are sold on the secondary market shortly after origination, this activity would not be captured in the table.

The bank received a Satisfactory rating at its previous CRA evaluation conducted on October 7, 2019, by this Reserve Bank.

DESCRIPTION OF ASSESSMENT AREA

General Demographics

The bank's assessment area, which has a population of 181,591, is located in a nonmetropolitan portion of western Kentucky and is comprised of the entireties of Calloway, Graves, Livingston, Marshall, and McCracken Counties. Forty-three census tracts comprise the five counties, including 1 low-, 6 moderate-, 19 middle-, and 17 upper-income census tracts.

According to the Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report data as of June 30, 2022, there are 16 FDIC-insured depository institutions in the assessment area that operate 67 offices. Community Financial Services Bank (operating eight of the offices in the assessment area (11.9 percent)) ranked first in terms of deposit market share, with 25.4 percent of the total assessment area deposit dollars.

Commercial lending products represent a credit need in the assessment area, along with the need for a standard blend of consumer loan products. More specifically, information gathered from the community contacts revealed a need for access to capital for business owners and affordable housing stock.

Income and Wealth Demographics

The following table summarizes the distribution of assessment area census tracts by income level and the family population within those tracts.

Assessment Area Demographics by Geography Income Level

Dataset	Low-	Moderate-	Middle-	Upper-	Unknown	TOTAL
Census Tracts	1	6	19	17	0	**43**
	2.3%	14.0%	44.2%	39.5%	0.0%	**100%**
Family Population	419	4,166	20,713	21,865	0	**47,163**
	0.9%	8.8%	43.9%	46.4%	0.0%	**100%**

As shown above, 16.3 percent of the census tracts in the assessment area are LMI geographies, but only 9.7 percent of the family population resides in these tracts. These LMI areas are primarily concentrated in and around the cities of Mayfield, Murray, and Paducah. While middle-income geographies constitute 44.2 percent of the census tracts, with 43.9 percent of families in the assessment area residing in these tracts, 7 of the 19 middle-income census tracts are designated as distressed due to poverty or unemployment and are located in Calloway and Livingston Counties. Based on 2015 U.S. Census data, the median family income for the assessment area was $54,793. At the same time, the median family income for nonmetropolitan statistical area (nonMSA) Kentucky was $45,986. More recently, the FFIEC estimates the 2020 median family income for nonMSA Kentucky to be $51,500. The following table displays population percentages of assessment area families by income level compared to the nonMSA family population as a whole.

Family Population by Income Level						
Dataset	**Low-**	**Moderate-**	**Middle-**	**Upper-**	**Unknown**	**TOTAL**
Assessment Area	7,925	6,646	8,987	23,605	0	**47,163**
	16.8%	14.1%	19.1%	50.0%	0.0%	**100%**
NonMSA Kentucky	115,103	77,548	89,036	200,284	0	**481,971**
	23.9%	16.1%	18.5%	41.6%	0.0%	**100%**

As shown in the table above, 30.9 percent of families within the assessment area were considered LMI, which is lower than LMI family percentages of 40.0 percent in nonMSA Kentucky. The assessment area has a slightly larger middle-income (19.1 percent) and upper-income family population (50.0 percent) compared to nonMSA Kentucky (18.5 percent and 41.6 percent, respectively). Furthermore, the percentage of families living below the poverty threshold in the assessment area (12.2 percent) is below the 18.2 percent level in nonMSA Kentucky. Considering these factors, the assessment area appears more affluent than nonMSA Kentucky as a whole.

Housing Demographics

The median housing value for the assessment area is $111,710, which is above the figure for nonMSA Kentucky of $90,748. In addition, the assessment area housing affordability ratio of 37.4 percent is slightly below the nonMSA Kentucky figure of 39.0 percent. Finally, the median gross rent for the assessment area of $593 per month is slightly higher than the nonMSA Kentucky figure of $578 per month. Therefore, based on housing values, income levels, and rental costs, housing in the assessment area appears to be less affordable than in nonMSA Kentucky as a whole.

Industry and Employment Demographics

According to the community contact, the assessment area economy is focused primarily on manufacturing, education, healthcare, and transportation. As of September 30, 2021, county business patterns indicate that there are 77,684 paid employees in the assessment area. By percentage of employees, the three largest job categories in the assessment area are retail trade (14.1 percent), followed by government (14.0 percent), and healthcare and social assistance (12.7 percent).

The table below details unemployment data from the U.S. Department of Labor, Bureau of Labor Statistics (not seasonally adjusted) for the assessment area compared to nonMSA Kentucky as a whole.

Unemployment Levels for the Assessment Area		
Time Period (Annual Average)	**Assessment Area**	**NonMSA Kentucky**
2019	4.4%	4.8%
2020	6.3%	7.0%
2021	4.8%	5.1%

As shown in the table above, unemployment levels for the assessment area have been slightly lower than nonMSA Kentucky. Both the assessment area and nonMSA Kentucky experienced increases in unemployment in 2020 due to the economic disruption resulting from the COVID-19 pandemic; however, it appears that each have recovered to near pre-pandemic levels of unemployment with the assessment area unemployment rate remaining lower than nonMSA Kentucky.

Community Contact Information

Information from one community contact roundtable interview was used to help shape the performance context in which the bank's activities in this assessment area were evaluated. The community contact interview was conducted with individuals specializing in business and economic development and a community nonprofit organization providing funds to improve education, income, and health conditions in the area. The community contact interviewees shared similar economic characteristics of the counties they serve, although the counties vary in size. The population in McCracken County has remained steady, while Calloway County has experienced slight population growth, due in part to recruitment efforts by a local university. Economic challenges noted by the contacts included the need for skilled workers and higher living wages. Food insecurity and lack of adequate transitional, supportive, and affordable housing were also identified as challenges in the area.

The community contact interviewees indicated that during the COVID-19 pandemic, the small business sectors in McCracken and Calloway Counties fared well, with a limited number of small businesses permanently closing. Businesses adapted delivery of services to continue serving their customers, improved their company culture, and increased wages to attract and retain employees. One community contact stated that some new businesses that opened during the pandemic are flourishing while others have experienced instability. It was noted that existing businesses have encountered similar patterns to those of new businesses. Minority-owned businesses were most affected during the pandemic, due to the lack of access to capital, resources, and technical assistance. Additionally, the community contact interviewees indicated that businesses continue to face labor shortages.

Regarding housing, the contacts indicated the area is affected by a housing shortage, specifically with regard to affordable housing. The current housing prices in Calloway County make finding affordable housing difficult. In McCracken County, there is a shortage of safe and affordable housing and rental units.

Finally, the contacts characterized the banking environment in the area as largely composed of community banks and noted a reduction in the number of larger banks. Community contact interviewees stated that community banks in the area are more accessible in meeting the needs of LMI individuals and small businesses. The contacts indicated that a majority of banks in the area engage in various sponsorships and are involved in community projects. Financial literacy training, credit recovery classes, small business loan assistance, and community outreach were noted as community development opportunities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

Loan-to-Deposit (LTD) Ratio

One indication of the bank's overall level of lending activity is its LTD ratio. The chart below displays the bank's average LTD ratio in comparison to those of regional peers. The average LTD ratio represents an 11-quarter average, dating back to the bank's last CRA evaluation.

LTD Ratio Analysis			
Name	**Headquarters**	**Asset Size ($000s) as of June 30, 2022**	**Average LTD Ratio**
Community Financial Services Bank	Benton, Kentucky	$1,429,153	76.3%
Regional Banks	Paducah, Kentucky	$834,980	93.4%
	Mayfield, Kentucky	$694,764	77.6%
	Mayfield, Kentucky	$549,531	72.7%

Based on data from the previous table, the bank's level of lending is in line with similar banks in the region. During the review period, the LTD ratio experienced a generally decreasing trend with a high of 87.0 percent in the first quarter of 2020 and a low of 68.9 percent in the fourth quarter of 2021. Most recently, the LTD ratio has increased to 74.0 in the second quarter of 2022. Overall, the bank has an 11-quarter average of 76.3 percent. In comparison, two regional bank peers' average LTD ratios were higher, while the other was lower; however, all three generally evidenced a similar decreasing trend during the review period. Therefore, compared to data from regional banks, the bank's average LTD ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.

Assessment Area Concentration

For the loan activity reviewed as part of this evaluation, the following table displays the number and dollar volume of loans inside and outside the bank's assessment area.

Lending Inside and Outside of Assessment Area
January 1, 2020 through December 31, 2020

Loan Type	Inside Assessment Area		Outside Assessment Area		TOTAL	
Small Business	95	91.3%	9	8.7%	**104**	**100%**
	$15,717	92.7%	$1,245	7.3%	**$16,962**	**100%**
1–4 Family Residential Real Estate	166	92.7%	13	7.3%	**179**	**100%**
	$29,060	88.8%	$3,664	11.2%	**$32,724**	**100%**
TOTAL LOANS	**261**	**92.2%**	**22**	**7.8%**	**283**	**100%**
	$44,777	**90.1%**	**$4,909**	**9.9%**	**$49,686**	**100%**

A substantial majority of loans and other lending-related activities were made in the bank's assessment area. As shown above, 92.2 percent of the total loans were made inside the assessment area, accounting for 90.1 percent of the dollar volume of total loans.

Loan Distribution by Borrower's Profile

Overall, the bank's loan distribution by borrower's profile is reasonable, based on performance from both the small business and 1–4 family residential real estate loan categories reviewed. Both loan categories reflect reasonable penetration.

The following table shows the distribution of 2020 small business loans by loan amount and business revenue size compared to Dun & Bradstreet and aggregate data.

Small Business Loans by Revenue and Loan Size
Assessment Area: Western Kentucky

Business Revenue and Loan Size		2020						
		Count			Dollars			Total Businesses
		Bank		Aggregate	Bank		Aggregate	
		#	%	%	$ (000s)	$ %	$ %	%
Business Revenue	$1 Million or Less	52	54.7%	44.6%	$8,559	54.5%	31.6%	90.8%
	Over $1 Million/ Unknown	43	45.3%	55.4%	$7,158	45.5%	68.4%	9.2%
	TOTAL	**95**	**100.0%**	**100.0%**	**$15,717**	**100.0%**	**100.0%**	**100.0%**
Loan Size	$100,000 or Less	53	55.8%	86.3%	$2,244	14.3%	25.4%	
	$100,001 – $250,000	25	26.3%	6.6%	$4,436	28.2%	16.5%	
	$250,001 – $1 Million	17	17.9%	7.1%	$9,037	57.5%	58.1%	
	Over $1 Million	0	0.0%	0.0%	$0	0.0%	0.0%	
	TOTAL	**95**	**100.0%**	**100.0%**	**$15,717**	**100.0%**	**100.0%**	
Loan Size – Revenue $1 Million or Less	$100,000 or Less	27	51.9%		$1,187	13.9%		
	$100,001 – $250,000	17	32.7%		$3,093	36.1%		
	$250,001 – $1 Million	8	15.4%		$4,279	50.0%		
	Over $1 Million	0	0.0%		$0	0.0%		
	TOTAL	**52**	**100.0%**		**$8,559**	**100.0%**		

The bank's level of lending to small businesses is reasonable. The bank originated the majority of its small business loans (54.7 percent) to businesses with revenues of $1 million or less. In comparison, the aggregate lending level for the assessment area was 44.6 percent, and Dun & Bradstreet data estimates that 90.8 percent of businesses inside the assessment area had annual revenues of $1 million or less. Moreover, the bank originated 51.9 percent of its small business loans in amounts of $100,000 or less, further evidencing the bank's willingness to meet the credit needs of small businesses.

Next, 1–4 family residential real estate loans were reviewed to determine the bank's lending performance to borrowers of different income levels. Borrowers are classified into low-, moderate, middle-, and upper-income categories by comparing their reported income to the applicable median family income figure as estimated by the FFIEC ($51,500 for nonMSA Kentucky as of 2020). The following table shows the distribution of 1–4 family residential real estate loans by borrower income level in comparison to family population income demographics for the assessment area. Additionally, 2020 HMDA aggregate data for the assessment area is displayed.

Borrower Distribution of 1–4 Family Residential Real Estate Loans Assessment Area: Western Kentucky							
Borrower Income Levels	2020						
	Count			Dollar			Families
	Bank		HMDA Aggregate	Bank		HMDA Aggregate	
	#	%	%	$ (000s)	$ %	$ %	%
Low	2	1.2%	3.0%	$54	0.2%	1.2%	16.8%
Moderate	19	11.4%	12.0%	$2,021	7.0%	7.1%	14.1%
Middle	32	19.3%	17.0%	$4,113	14.2%	12.4%	19.1%
Upper	99	59.6%	51.0%	$21,043	72.4%	59.8%	50.0%
Unknown	14	8.4%	16.9%	$1,829	6.3%	19.4%	0.0%
TOTAL	**166**	**100.0%**	**100.0%**	**$29,060**	**100.0%**	**100.0%**	**100.0%**

As displayed in the preceding table, the bank's percentage of lending to low-income borrowers (1.2 percent) is below the low-income family population figure (16.8 percent) and below the aggregate lending level to low-income borrowers (3.0 percent), reflecting poor performance. The bank's level of lending to moderate-income borrowers (11.4 percent) is slightly below the moderate-income family population percentage (14.1 percent) but similar to the aggregate lending level to moderate-income borrowers (12.0 percent), reflecting reasonable performance. When considering performance in both income categories, the bank's overall distribution of loans by borrower's profile is reasonable.

Geographic Distribution of Loans

As noted previously, the assessment area includes one low-income and six moderate-income census tracts, representing 16.3 percent of all assessment area census tracts. Overall, the bank's geographic distribution of loans in this assessment area reflects reasonable penetration throughout these LMI census tracts, based on the small business and 1–4 family residential real estate loan categories reviewed during this evaluation.

The following table displays 2020 small business loan activity by geography income level compared to the location of businesses throughout the bank's assessment area and 2020 small business aggregate data.

Geographic Distribution of Small Business Loans Assessment Area: Western Kentucky							
Tract Income Levels	2020						
	Count			Dollar			Businesses
	Bank		Aggregate	Bank		Aggregate	
	#	%	%	$ 000s	$ %	$ %	%
Low	0	0.0%	1.7%	$0	0.0%	4.3%	1.0%
Moderate	13	13.7%	14.4%	$3,527	22.4%	18.6%	13.5%
Middle	38	40.0%	37.8%	$6,594	42.0%	31.9%	40.8%
Upper	44	46.3%	45.4%	$5,596	35.6%	44.9%	44.6%
Unknown	0	0.0%	0.7%	$0	0.0%	0.2%	0.0%
TOTAL	**95**	**100.0%**	**100.0%**	**$15,717**	**100.0%**	**100.0%**	**100.0%**

While none of the small business loans in the sample were made to borrowers residing in a low-income census tract, this is considered reasonable given the minimal small business lending opportunities within the assessment area's only low-income census tract. As evidence of this fact, only 1.0 percent of small businesses in the assessment area are located in the low-income geography, and aggregate lending in the low-income geography equaled just 1.7 percent.

As displayed in the preceding table, the bank's percentage of loans in moderate-income census tracts (13.7 percent) is in line with the aggregate lending level (14.4 percent) and percentage of small businesses operating in moderate-income census tracts (13.5 percent), representing reasonable performance. Therefore, the bank's overall geographic distribution of small business loans is reasonable.

Second, the bank's geographic distribution of 1–4 family residential real estate loans was reviewed. The following table displays the geographic distribution of 2020 1–4 family residential real estate loans compared to owner-occupied housing demographics and aggregate performance for the assessment area.

Geographic Distribution of 1–4 Family Residential Real Estate Loans Assessment Area: Western Kentucky							
Tract Income Levels	2020						
	Count			Dollar			Owner-Occupied Units
	Bank		HMDA Aggregate	Bank		HMDA Aggregate	
	#	%	%	$ (000s)	$ %	$ %	%
Low	1	0.6%	0.3%	$30	0.1%	0.2%	0.4%
Moderate	10	6.0%	5.3%	$1,649	5.7%	5.1%	6.1%
Middle	61	36.7%	37.6%	$10,799	37.2%	36.2%	43.8%
Upper	94	56.6%	56.7%	$16,582	57.1%	58.6%	49.8%
Unknown	0	0.0%	0.0%	$0	0.0%	0.0%	0.0%
TOTAL	**166**	**100.0%**	**100.0%**	**$29,060**	**100.0%**	**100.0%**	**100.0%**

The analysis of 1–4 family residential real estate loans revealed reasonable lending performance to borrowers residing in the only low-income geography. The bank's total penetration of the low-income census tract by number of loans (0.6 percent) is similar to the percentage of owner-occupied housing units in the low-income census tract (0.4 percent). Additionally, the bank's performance in the low-income census tract is similar to other lenders in the assessment area, which indicates that 0.3 percent of aggregate loans inside this assessment area were made to borrowers residing in the assessment area's single low-income census tract.

As displayed in the previous table, the bank's lending levels in moderate-income census tracts are in line with comparison data, reflecting reasonable performance. The bank's total penetration of moderate-income census tracts by number of loans (6.0 percent) is similar to the percentage of owner-occupied housing units in moderate-income census tracts (6.1 percent). Furthermore, the bank's performance in moderate-income census tracts is similar to that of other lenders, which indicates that 5.3 percent of aggregate loans inside this assessment area were made to borrowers residing in moderate-income census tracts. Considering performance in the LMI geographies, the bank's overall geographic distribution of 1–4 family residential real estate loans is reasonable.

Lastly, based on reviews from both loan categories, the bank had loan activity in 95.3 percent of all assessment area census tracts. Additionally, there were no conspicuous lending gaps noted in LMI areas. This information supports the conclusion that the bank's overall geographic distribution of loans is reasonable.

Responses to Complaints

No CRA-related complaints were filed against the bank during this review period.

COMMUNITY DEVELOPMENT TEST

The bank's overall community development performance demonstrates adequate responsiveness to the community development needs of the assessment area, considering the bank's capacity and the need and availability of such opportunities for community development in the assessment area. The bank has addressed the community development needs of the assessment area through community development loans, qualified investments, and community development services.

During the review period, the bank made 92 qualifying loans totaling approximately $41.9 million. Of those loans, several were particularly responsive to the assessment area community development needs, including the following items:

- A $5.4 million loan providing permanent financing of renovation of a historic office building located in a distressed, middle-income census tract. The development will provide commercial office space as well as new loft apartments to attract new businesses and residents.

- A $2.5 million loan to construct a new fiber optic hub in a moderate-income area.

- Numerous loans to industry and retail businesses attracting and retaining jobs in LMI areas and distressed middle-income geographies. For example, the bank made a $5.1 million loan to a marine transportation company retaining jobs in a distressed middle-income area.

Community development investments and donations made in the assessment area totaled $3.75 million. This amount included 8 qualified investments totaling approximately $3.7 million and 35 donations totaling $66,208. The eight investments were composed of school bonds benefitting districts with a majority of students from LMI families, including three new qualified investments totaling $1.9 million. The bank also had five investments totaling $1.8 million that were initially made prior to the current CRA review period, which were still applicable as of this review date. Furthermore, the 35 donations were made to 24 separate community development organizations serving the assessment area. The largest of these donations included annual donations to the local community college foundation's educational opportunities program. The bank also financially sponsored five schools serving a majority of students from LMI families, providing financial education and related course materials.

In addition, 13 employees contributed community development services benefitting 16 different agencies that serve the needs of LMI families and individuals in the bank's assessment area. Most notably, employees conducted financial education classes and lectures to LMI individuals at a local nonprofit organization and high school. Additionally, employees provide financial expertise through their service on the board of local nonprofit organizations.

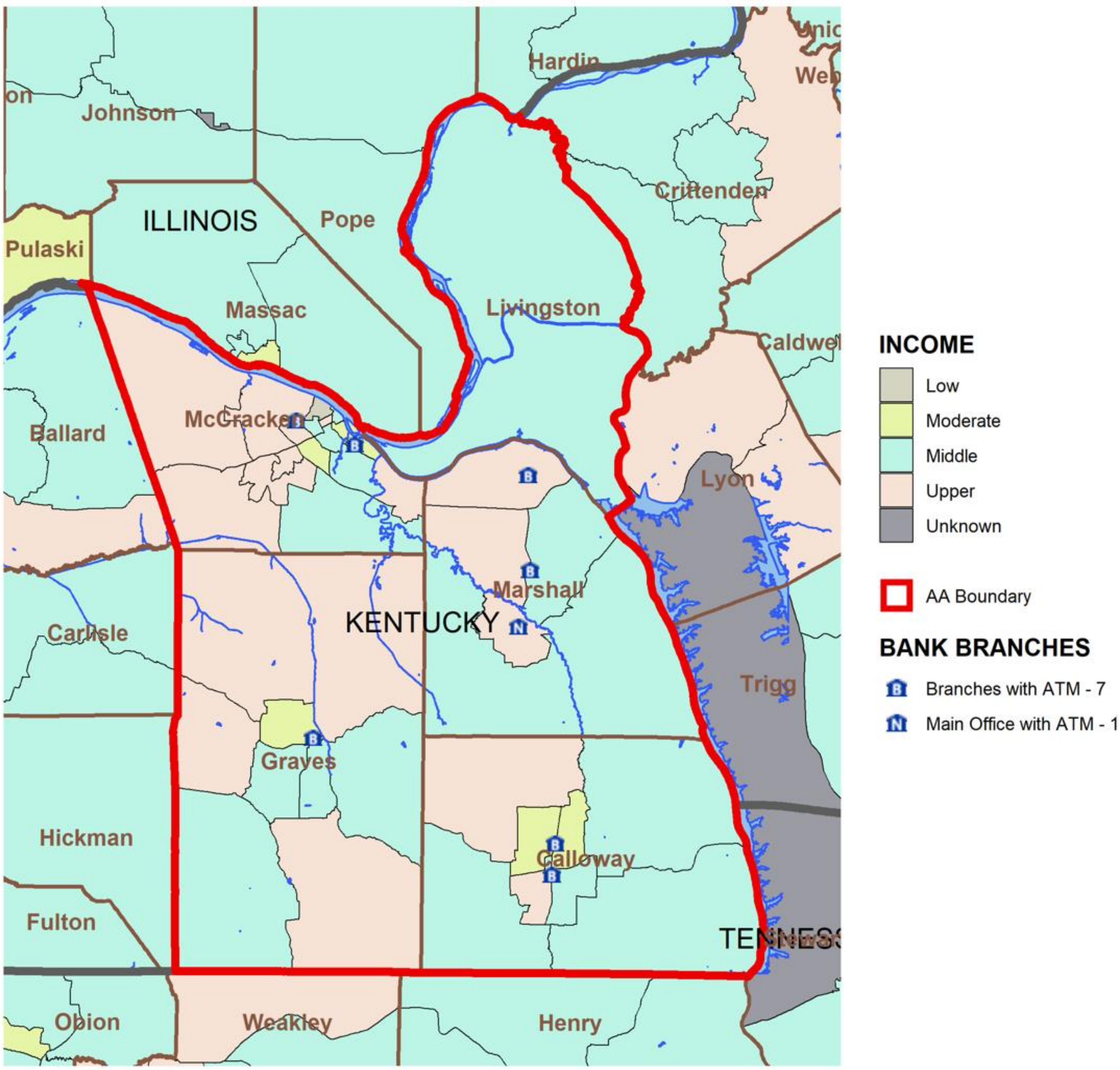
FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Based on findings from the Consumer Affairs examination, including a fair lending analysis performed under Regulation B – Equal Credit Opportunity and the Fair Housing Act requirements, conducted concurrently with this CRA evaluation, no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

Appendix A

ASSESSMENT AREA DETAIL

Community Financial Services Bank, Benton, Kentucky
Western Kentucky Assessment Area



Appendix B

GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Assessment area: One or more of the geographic areas delineated by the bank and used by the regulatory agency to assess an institution's record of CRA performance.

Census tract: A small subdivision of metropolitan and nonmetropolitan counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely, depending on population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community contact: Interviews conducted as part of the CRA examination to gather information that might assist examiners in understanding the bank's community, available opportunities for helping to meet local credit and community development needs, and perceptions on the performance of financial institutions in helping meet local credit needs. Communications and information gathered can help to provide a context to assist in the evaluation of an institution's CRA performance.

Community development: An activity associated with one of the following five descriptions: (1) affordable housing (including multifamily rental housing) for low- or moderate-income individuals; (2) community services targeted to low- or moderate-income individuals; (3) activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of $1 million or less; (4) activities that revitalize or stabilize low- or moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies; or (5) Neighborhood Stabilization Program (NSP) eligible activities in areas with HUD-approved NSP plans, which are conducted within two years after the date when NSP program funds are required to be spent and benefit low-, moderate-, and middle-income individuals and geographies.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Demographics: The statistical characteristics of human populations (e.g., age, race, sex, and income) used especially to identify markets.

Distressed nonmetropolitan middle-income geography: A middle-income, nonmetropolitan geography will be designated as distressed if it is in a county that meets one or more of the following triggers: (1) an unemployment rate of at least 1.5 times the national average, (2) a poverty rate of 20 percent or more, or (3) a population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

Full-scope review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders who do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and income of applicants; the amount of loan requested; and the disposition of the application (e.g., approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancing of home improvement and home purchase loans.

Household: One or more persons who occupy a housing unit. The occupants may be a single family, one person living alone, two or more families living together, or any other group of related or unrelated persons who share living arrangements.

Housing affordability ratio: Calculated by dividing the median household income by the median housing value. It represents the amount of single family, owner-occupied housing that a dollar of income can purchase for the median household in the census tract. Values closer to 100 percent indicate greater affordability.

Limited-scope review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median family income: The dollar amount that divides the family income distribution into two equal groups, half having incomes above the median, half having incomes below the median. The median family income is based on all families within the area being analyzed.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. An MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. An MD is a division of an MSA based on specific criteria including commuting patterns. Only an MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Nonmetropolitan statistical area (nonMSA): Not part of a metropolitan area. (See metropolitan area.)

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Performance context: The performance context is a broad range of economic, demographic, and institution- and community-specific information that an examiner reviews to understand the context in which an institution's record of performance should be evaluated. The performance context is not a formal or written assessment of community credit needs.

Performance criteria: These are the different criteria against which a bank's performance in helping to meet the credit needs of its assessment area(s) is measured. The criteria relate to lending, investment, retail service, and community development activities performed by a bank. The performance criteria have both quantitative and qualitative aspects. There are different sets of criteria for large banks, intermediate small banks, small banks, wholesale/limited purpose banks, and strategic plan banks.

Performance evaluation (PE): A written evaluation of a financial institution's record of meeting the credit needs of its community, as prepared by the federal financial supervision agency responsible for supervising the institution.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small businesses/small farms: A small business/farm is considered to be one in which gross annual revenues for the preceding calendar year were $1 million or less.

Small loan(s) to business(es): That is, "small business loans" are included in "loans to small businesses" as defined in the Consolidated Reports of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of $1 million or less and typically are secured by either nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): That is, "small farm loans" are included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Reports of Condition and Income (Call Report). These loans have original amounts of $500,000 or less and are either secured by farmland or are classified as loans to finance agricultural production and other loans to farmers.

Underserved middle-income geography: A middle-income, nonmetropolitan geography will be designated as underserved if it meets criteria for population size, density, and dispersion that indicate the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

Upper-income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more, in the case of a geography.