



## **PUBLIC DISCLOSURE**

June 03, 2013

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Commonwealth Bank, FSB  
Charter Number 706591

101 Commonwealth Drive  
Mt. Sterling, KY 40353

Office of the Comptroller of the Currency

10200 Forest Green Blvd, Suite 501  
Louisville, KY 40223

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

## **INSTITUTION'S OVERALL CRA RATING: SATISFACTORY**

Commonwealth Bank, FSB (CWB) has a satisfactory record of meeting the credit needs of its community. This conclusion is based on the following.

- A substantial majority of loans were originated to borrowers located inside CWB's assessment area (AA).
- CWB's distribution of loans to low- and moderate-income reflects reasonable penetration.
- CWB's loan-to-deposit (LTD) ratio is reasonable.

## **SCOPE OF THE EXAMINATION**

This Performance Evaluation assesses CWB's record of meeting the credit needs of the communities in which it operates. CWB was evaluated using the Small Bank Examination Procedures. These procedures include a lending test to evaluate CWB's record of meeting the credit needs of its AA through its lending activities.

This Community Reinvestment Act (CRA) evaluation covers the period between March 31, 2008 and March 31, 2013. The lending test included a random sample of loans originated by CWB between January 1, 2010 and December 31, 2011. The scope of the lending test included a review of CWB's primary loan products. We identified one primary loan product, residential real estate mortgages. We determined the primary product line by reviewing available lending reports for the representative timeframe and through discussions with management. To analyze the primary loan product, we selected a random sample from the loan portfolio, using source documents to collect the data.

The institution's overall rating is the aggregate of conclusions reached in the lending test.

## **DESCRIPTION OF THE INSTITUTION**

CWB is a federally chartered savings bank headquartered in Mount Sterling, Kentucky. CWB operates under a mutual ownership structure. As of March 31, 2013, CWB reported \$20.8 million in total assets, \$14.8 million in total loans, \$17.2 million in total deposits, and \$1.9 million in tier 1 capital. CWB operates out of one full-service location in Montgomery County, in the city of Mount Sterling. This main office also features a full-service Automated Teller Machine (ATM). No branches or ATMs have opened or closed within the past two calendar years. CWB is accessible to all members of the community.

CWB is a traditional thrift institution, with lending products primarily focused on owner-occupied, one-to-four family residential mortgage loans for purchase, refinance, improvement, and construction. As of March 31, 2013, net loans represented 72.6 percent of average total assets. The loan portfolio mix is as follows: one-to-four family residential real estate loans (88.7 percent), consumer loans (9.2 percent), owner-

occupied, non-farm non-residential (1.8 percent), and one-to-four family construction loans (less than one percent). In 2010 and 2011, CWB originated and sold 17 loans, totaling approximately \$1.32 million, to US Bank, N.A. The substantial majority of these loans were made to customers in the institution's AA.

CWB received a satisfactory rating at its last CRA examination, dated April 14, 2008.<sup>1</sup> There are no financial circumstances affecting CWB's ability to meet credit needs of its community. The institution entered into a formal agreement with the Office of the Comptroller of the Currency (OCC) on January 8, 2013, due to unsafe and unsound banking practices. The formal agreement did not limit the institution's ability to originate loans.

## **DESCRIPTION OF THE ASSESSMENT AREA**

CWB's AA consists of Montgomery County, Kentucky. The AA conforms to the regulatory requirements of the CRA and does not arbitrarily exclude any low- or moderate-income areas.

Montgomery County is located in central Kentucky, approximately 35 miles east of Lexington, Kentucky, close to the interchange of Interstate 75 and Interstate 64. Mount Sterling is the principal city in Montgomery County. According to the 2000 United States (U.S.) Census, the population of Montgomery County was 22,554, which increased to 26,499 as of the 2010 Census. The level of households in Montgomery County was 8,878 as of the 2000 Census. Of these, 1,860 households were considered low-income and 1,262 were considered moderate-income. Approximately 1,541 of these households fell below the poverty level.

The 2000 U.S. Census divided Montgomery County into five census tracts, with zero low- and moderate-income tracts, three middle-income tracts, and two upper-income tracts. The 2012 Federal Financial Institutions Examination Council (FFIEC)-adjusted median family income for a non-Metropolitan Statistical Area is \$43,600. As of April 2013, the unemployment rate in Montgomery County was 7.4 percent, slightly below the Kentucky unemployment rate of 7.9 percent. The Kentucky Cabinet for Economic Development lists the following companies as the largest employers in the county.

- Nestle Prepared Foods Company employs 1,093 individuals and specializes in producing frozen microwavable sandwiches.
- Cooper Standard Automotive Fluid Systems employs 650 individuals and manufactures molded and extruded automotive rubber products and reinforced rubber hoses.
- Pentair, Inc. employs 450 individuals and manufactures electronic and electrical enclosures.
- Kyosan Denso Manufacturing, LLC employs 424 individuals and assembles automotive fuel systems and fuel pump modules and valves.

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<sup>1</sup> The prior CRA examination was conducted by the Office of Thrift Supervision.

Competition from other financial institutions in the AA is moderate. According to Federal Deposit Insurance Corporation (FDIC) data, there are five financial institutions with 13 branches within the AA. Competition comes from four regional institutions, all of which are headquartered in Kentucky. The total deposits range from \$16 million up to \$287 million. CWB holds the smallest market share in the AA, with approximately 3.2 percent of total deposits.

We spoke with a community contact familiar with the credit needs of the AA. They indicated financial institutions in the AA were meeting the credit needs of the overall community.

The following table presents demographic information about the AA. We obtained information from 2000 U.S. Census data, unless otherwise noted.

<b>Demographic Information for Montgomery County, KY</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	5	0.00%	0.00%	60.00%	40.00%	0.00%
Population by Geography	22,554	0.00%	0.00%	56.00%	44.00%	0.00%
Owner-Occupied Housing by Geography	6,361	0.00%	0.00%	58.12%	41.88%	0.00%
Businesses by Geography	2,508	0.00%	0.00%	45.53%	54.47%	0.00%
Farms by Geography	125	0.00%	0.00%	40.80%	59.20%	0.00%
Families by Income Level	6,425	17.95%	14.89%	19.38%	47.78%	0.00%
Distribution of Low- and Moderate-Income Families throughout AA Geographies	2,110	0.00%	0.00%	58.10%	41.90%	0.00%
Median Family Income	\$38,309					
FFIEC Median Family Income for 2012	\$43,600	Median Housing Value				\$76,894
Households Below the Poverty Level	17.36%	Unemployment Rate				7.4%

(\*) The NA category consists of geographies not assigned an income classification.  
 Source: 2000 U.S. Census and 2012 U.S. Department of Housing and Urban Development (HUD) updated Median Family Income. These figures were obtained directly from U.S. Census data and may or may not total exactly 100 percent.

## CONCLUSIONS WITH RESPECT TO THE PERFORMANCE CRITERIA

### Lending Test

CWB's performance under the lending test is satisfactory. The average LTD ratio is reasonable, and a substantial majority of loan originations went to borrowers located inside CWB's AA. CWB's borrower distribution reflects reasonable penetration among borrowers of different incomes. There were no complaints regarding CWB's performance in meeting the credit needs of its community.

### Loan-to-Deposit Ratio

CWB's LTD ratio is reasonable given its size and financial condition. The average LTD ratio over the 21 quarters since the previous CRA evaluation was 110.76 percent. The average LTD ratio decreased since the previous CRA evaluation in 2008, when it was 118.4 percent.

Since December 31, 2011, CWB's LTD ratio declined from 112.6 percent to 85.72 percent as of March 31, 2013. The decline in the LTD ratio is consistent with a decline in overall lending activity during the last half of 2012 and the first quarter of 2013. The institution originated three loans from the third quarter of 2012 through the first quarter of 2013. There are no legal circumstances inhibiting the institution's ability to originate loans to the community.

We compared CWB's LTD ratio to two similarly situated institutions. These institutions included a bank headquartered in Montgomery County, Kentucky and a thrift headquartered in Clark County, Kentucky. These institutions are comparable to CWB in AA coverage and major lending products. The table below shows the average LTD ratios of the other institutions range from approximately 89 percent to 142 percent.

Institution	Average
Commonwealth Bank, FSB	110.76%
Bank 1	89.02%
Thrift 1	149.68%

### Lending in the Assessment Area

A substantial majority of CWB's primary loan product was originated to borrowers inside CWB's AA. Table 1 shows that 88 percent of the loans and approximately 88 percent of the dollar of loans were made to borrowers in the AA. To reach this conclusion, the OCC analyzed a random sample of 25 residential real-estate loans originated between January 1, 2010 and December 31, 2011.

<b>Table 1 - Lending in Montgomery County</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate Loans	22	88.00%	3	12.00%	25	3,439	88.13%	463	11.87%	3,902
<b>Total</b>	<b>22</b>	<b>88.00%</b>	<b>3</b>	<b>12.00%</b>	<b>25</b>	<b>3,439</b>	<b>88.13%</b>	<b>463</b>	<b>11.87%</b>	<b>3,902</b>

*Source: Random sample of one-to-four family residential real estate and business loans originated between January 1, 2010, and December 31, 2011.*

## **Lending to Borrowers of Different Incomes**

### *Income Distribution of Residential Real Estate Loans*

The distribution of residential real estate loans reflects reasonable penetration to borrowers of different income levels, including low- to moderate-income families. The following table demonstrates the distribution of CWB's lending activity from January 1, 2010 to December 31, 2011 by borrower incomes within the AA. The institution's performance is compared to the distribution of families within the AA.

To evaluate the institution's performance for borrower distribution, we focused on performance to low- and moderate-income families. Table 2 shows CWB's distribution of loans to low-income borrowers was well below the demographic comparator. Within our sample, CWB originated four percent of loans to low-income borrowers; the demographic comparator was 17.95 percent. However, the distribution of loans to moderate-income borrowers exceeds the standard. CWB originated 16 percent of loans to middle-income borrowers, exceeding the demographic comparator of 14.89 percent.

While the institution's performance in originating loans to low-income families is below the demographic comparator, low-income borrowers may have difficulty meeting the credit standards of residential real estate credit markets. Low-income borrowers may also rent a home as opposed to own. According to 2000 U.S. Census figures for Montgomery County, Kentucky, approximately 17.36 percent of families had an income below that of the poverty level. Approximately 30.36 percent of housing units were rental properties.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Montgomery County</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Loan Type</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>
<b>1-4 Family Residential Real Estate</b>	17.95%	4.00%	14.89%	16.00%	19.38%	16.00%	47.78%	64.00%

*Source: Random sample of one-to-four family residential real estate and business loans originated between January 1, 2010, and December 31, 2011.*

**Geographic Distribution of Loans**

The focus of this analysis is to assess CWB’s geographic distribution of lending among low- and moderate-income geographies. Since the AA consists of five census tracts (three middle-income tracts, two upper-income tracts, and no low- or moderate income tracts), an examination of loan distribution by geographies would not provide a meaningful analysis.

**Responses to Complaints**

CWB has not received any CRA complaints during this evaluation period.

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

Pursuant to 12 CFR 195.28(c), the OCC must consider in its CRA ratings evidence of discriminatory or other illegal credit practices in any geography by CWB or in any AA by an affiliate whose loans have been considered as part of CWB’s lending performance.

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