PUBLIC DISCLOSURE

February 2, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Madison Bank
RSSD: 2552099

1001 Gibson Bay Drive Suite #101
Richmond, Kentucky 40475

Federal Reserve Bank of Cleveland

P.O. Box 6387
Cleveland, OH 44101-1387

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.

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

- The loan-to-deposit 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 in the assessment area;

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

- The distributions of loans to borrowers reflects a reasonable penetration among individuals of different income levels (including low- and moderate-income);

- The distributions of loans to businesses reflects a reasonable penetration among businesses of different sizes given the demographics of the assessment areas; and,

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

SCOPE OF EXAMINATION

The Community Reinvestment Act (CRA) performance evaluation of Madison Bank (Madison) covered the period of October 1, 2007 through September 30, 2008. The lending test was applied in assessing the bank's performance under CRA pursuant to the Interagency Procedures and Guidelines for Small Institutions.

The lending test includes an analysis of:

- The loan-to-deposit ratio;
- The volume of loans extended inside and outside the bank's assessment area;
- The geographic distribution of loans in the assessment area, including low- and moderate-income census tracts;
- The extent of lending to borrowers of different income levels, including low- and moderate-income borrowers, and businesses of different sizes, including small business; and,
- The bank's record of taking action in response to written complaints about its performance in helping to meet the credit needs in its assessment areas.

The loan products reviewed for this evaluation included mortgage loans, consumer loans, and small business loans. Mortgage loans were comprised of refinance, purchase, construction, and home improvement loans. There were not enough mortgage loans of each type to analyze separately; therefore, all four loan types were analyzed under the category of mortgage loans. Consumer loans are comprised of motor vehicle loans, other unsecured, and home equity loans and each loan type will be analyzed separately. Commercial lending is comprised of unsecured, other secured, and real estate-secured commercial loans.

For the purposes of evaluating the geographic distribution of loans, census tracts were classified on the basis of 2000 U.S. Census data. The distribution of loans to borrowers of different income levels was based upon annually adjusted median family income data made available by the U.S. Department of Housing and Urban Development (HUD). The most recent year for which median family income data is available is 2008. All other demographic indices and statistics presented throughout this evaluation are based on 2000 U.S. Census data unless otherwise noted.

Lending activity inside and outside the bank's assessment area was evaluated. In addition, lending inside the assessment area was evaluated based on the geographic and borrower income distribution for each assessment area. The bank's geographic distribution with respect to mortgage loans was compared to the percentage of owner-occupied housing units in each geography type (low-, moderate-, middle-, and upper-income).

The bank's geographic distribution for consumer loans was compared to the percentage of loans made in each geography type to the percentage of households in each geography type. Finally, the bank's geographic distribution with respect to small business loans was compared to the percentage of businesses within each geographic income category regardless of revenue size of the business.

The bank's borrower distribution with respect to mortgage loans was assessed by comparing the percentage of loans made to borrowers in each income category (low-, moderate-, middle-, and upper-income) to the percentage of families in each income category. Consumer loans were assessed by comparing the percentage of loans made to borrowers in each income category to the percentage of households in each income category. Finally, small business loans were assessed by comparing the percentage of loans made to businesses in each revenue category (less than or equal to $1 million or greater than $1 million) to the percentage of total businesses in each revenue category.

For CRA purposes, Madison's market consists of one assessment area within the Commonwealth of Kentucky. The assessment area is located in a Non-Metropolitan Statistical Area (Non-MSA) in Kentucky. Madison's assessment area is compromised of the totality of Madison County.

Consumer loans were reviewed and received the most weight, representing 51.0% of the loans originated, with 21.0% of the total dollars loaned within the bank's assessment area during this evaluation period. Commercial loans represent 31.0% of the loans originated during the sample period and 45.0% by dollar amount. Mortgage loans were given the least amount of weight for the analysis, since they represented only 18.0% of loans originated by volume and 34.0% by dollar volume. A majority of Madison's census tracts are middle- and upper-income tracts; therefore, a majority of the lending would be expected to be in middle- and upper-income tracts. Thus, the borrower income distribution analysis received the greatest weight when rating the bank's overall CRA performance.

The bank's assessment area was determined to comply with the requirements of the Community Reinvestment Act and does not arbitrarily exclude low- or moderate-income census tracts.

DESCRIPTION OF INSTITUTION

Madison Bank (Madison) is a subsidiary of Madison Financial Corporation, which owns 100% of the common stock of Madison Bank. The bank's main office is located in Richmond, Kentucky and it has four branches; three are located in Richmond and one in Berea, Kentucky. The main office is a full-service office with an automated teller machine (ATM) and is located in an upper-income tract. In addition, the bank has 21 cash-only ATMs located in Lexington, Kentucky, since a large number of the bank's customers work in Lexington, Kentucky.

As of the bank's last CRA examination in 2003, Richmond, Kentucky was part of the Lexington, Kentucky Metropolitan Statistical Area (MSA) #4280. Shortly after the 2003 examination, Richmond, Kentucky was changed to a micropolitan statistical area; thus, the institution was no longer part of the Lexington MSA and were no longer required to report HMDA data. The bank's assessment area is now a part of Non-MSA Kentucky. Madison's assessment area consists of the entirety of Madison County and is composed of one low-income tract, one moderate-income tract, four middle-income tracts, and eight upper-income tracts.

As of September 30, 2008, Madison Bank has total assets of $148 million, of which 81.2% represent loans. According to the bank's financial data as of September 30, 2008, the bank's loan portfolio is comprised of the following:

Loan Type	Dollar Amount (000's)	Percent of Total Loans
Commercial / Industrial & Non Farm Non-Residential Real Estate	$40,678	33.4%
Loans for Agricultural Production & Secured by Farmland	$7,829	6.4%
Construction & Land Development	$15,408	12.7%
Secured by 1-4 Family Residential Real Estate	$40,991	33.7%
Consumer Loans	$8,527	7.0%
All Other Loans	8,237	6.8%
Total (gross)	121,670	100.0

There are no legal or financial constraints preventing Madison Bank from meeting the credit needs of its assessment area consistent with its asset size, business strategy, resources, and local economy. At the previous CRA examination conducted by the FDIC in October 2003, the bank's CRA performance was rated "Outstanding."

DESCRIPTION OF NON-MSA KENTUCKY MADISON COUNTY

Madison has designated its assessment area as all of Madison County. Madison County is located in central Kentucky, where the bluegrass meets the foothills of the Appalachians. It was established on December 15, 1785 and was named for the Virginia statesman James Madison and the fourth President of the United States. In the early years, Madison County produced corn, hemp, and tobacco. Since World War II, the cities of Richmond and Berea have attracted light manufacturing businesses. Madison County also has a government contract with the Army in which an Army Depot was established in 1941. This depot is located in the central portion of the county and extends across 14,650 acres of land, which are used for storage of materials and ammunitions. The county seat is Richmond and the major cities in the county are Berea and Richmond. The city of Berea is home to Berea College. Berea College began as the first interracial and coeducational college in the South. In the 1890s, a growing national interest in the culture and traditions of Appalachia by writers, academics, missionaries, and teachers led Berea College to begin focusing on these traditions; thus, the city of Berea became the center of arts and crafts in Kentucky.[1]

The bank's assessment area is comprised of 14 tracts and is distributed as follows:

- Low-income: 1
- Moderate-income: 1
- Middle-income: 4
- Upper-income: 8

Therefore, since 86.0% of the bank's assessment area is comprised of middle- and upper-income census tracts, it would be expected that a majority of the bank's lending would be concentrated in those tracts.

There is a significant amount of competition throughout the bank's assessment area. As of June 30, 2008, The Federal Deposit Insurance Corporation's (FDIC) Summary of Deposits reported that there are eleven FDIC-insured financial institutions operating 34 offices within Madison County. According to this report, Madison Bank is ranked second in market share of deposits with 14.0%. Peoples Bank and Trust Company of Madison County ranked first with 36.2% of the market share of deposits with ten offices. JP Morgan Chase Bank NA ranked third with 11.1% market share with 2 offices and National City Bank ranked fourth with 10.6% of the market share with two offices. Madison Bank identified their major competitors in terms of targeting the same customer base and offering similar type products as Peoples Bank and Trust Company of Madison County, Central Bank, and Cumberland Valley National Bank.

1 www.berea.com

Population

According to data provided by the 2000 U.S. Census report, the total population living in Madison's assessment area was 70,872. Of the total population, 21.9% are 17 years and younger, 18.8% are 18 to 24 years, 49.5% are 25 to 64 years, and 9.8% are 65 and over.

Income Characteristics

For purposes of evaluating the loan distribution to borrowers of different income levels, incomes were classified based upon annually adjusted median family income data made available by the Department of Housing and Urban Development (HUD). According to the 2008 data, the median family income for this assessment area was $41,000, which is slightly higher than the median family income for the Commonwealth of Kentucky at $40,939. From an income distribution standpoint, 15.5% of families living in the assessment area were designated as low-income, 14.0% of families were moderate-income, 18.0% were considered middle-income, and 52.5% were considered upper-income families. According to the 2000 Census data, 12.0% of families living in the assessment area live below the poverty level. The assessment area's percentage of families living below the poverty level is slightly lower than the Commonwealth of Kentucky at 12.7% of families.

In addition, the county has a large number of households receiving public assistance. According to the 2000 U.S. Census Data, 12.0% of households in moderate-income tracts receive public assistance, 44.0% of households living in middle-income tracts receive public assistance, and 44.0% of households living in upper-income tracts receive public assistance.

Housing

According to 2000 U. S. Census data, there were 29,595 housing units in the bank's assessment area. The majority of these units (54.8%) were owner-occupied, while 36.9% were rental units. Vacant units accounted for 8.3% of the assessment area's total housing units.

The percentage of one-to-four family housing units for the assessment area was 72.3% of all housing units. Multi-family properties accounted for 15.2% of total housing units and mobile homes accounted for 12.5%. Of the total housing units in the assessment area, 1.3% is located in low-income tracts, 3.4% are located in moderate-income tracts, 32.0% are situated in middle-income tracts and 63.3% are in upper-income tracts. As a result, the majority of Madison's mortgage and home equity lending would be expected in middle- and upper-income geographies. According to 2000 U.S. Census Data, the median age of the housing stock is 20 years and the median housing value is $87,528. According to the Census data, middle- and upper-income tracts have the newest housing, with the average age of housing at 19 and 20 years, respectively; whereas low-and moderate-income tracts have much older housing at 30 and 45 years, respectively.

Combined Demographics Report

Madison Bank

Assessment Area(s): NonMSA KY

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	1	7.1	174	1.0	54	31.0	2,829	15.5
Moderate-income	1	7.1	382	2.1	140	36.6	2,584	14.1
Middle-income	4	28.6	5,460	29.8	837	15.3	3,287	18.0
Upper-income	8	57.1	12,287	67.1	1,173	9.5	9,603	52.5
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	**14**	**100.0**	**18,303**	**100.0**	**2,204**	**12.0**	**18,303**	**100.0**

	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	396	22	0.1	5.6	302	76.3	72	18.2
Moderate-income	1,070	208	1.3	19.4	716	66.9	146	13.6
Middle-income	9,405	4,373	27.0	46.5	4,143	44.1	889	9.5
Upper-income	18,724	11,613	71.6	62.0	5,775	30.8	1,336	7.1
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	**29,595**	**16,216**	**100.0**	**54.8**	**10,936**	**37.0**	**2,443**	**8.3**

	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or = $1 Million		Over $1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low-income	33	1.3	30	1.3	2	1.3	1	1.9
Moderate-income	164	6.3	154	6.5	7	4.6	3	5.7
Middle-income	714	27.6	656	27.5	48	31.8	10	18.9
Upper-income	1,675	64.8	1,542	64.7	94	62.3	39	73.6
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	**2,586**	**100.0**	**2,382**	**100.0**	**151**	**100.0**	**53**	**100.0**
	Percentage of Total Businesses:			**92.1**		**5.8**		**2.0**

Labor, Employment and Economic Characteristics

The top industries by number of individuals employed are manufacturing; education; health and social services; retail trade; and arts, entertainment, recreation, accommodation, and food services. The major employers in the county are The Okonite Company, which makes insulated electrical cable; Richmond Auto Parts Technology Inc., which makes transmission gears and chassis components; Mikron Industries Inc., which manufactures vinyl extrusions; AFG Industries Inc., which manufactures automotive glass; Sherwin Williams Automotive Finishes Corp., which provides automotive coatings and finishes, Kokoku Rubber Inc., which makes rubber syringe stoppers, auto parts, medical pharmaceuticals, business machines and electronics and other automotive parts; Berea College; and Eastern Kentucky University.[2]

The average weekly wage for all industries is $590 per week, which is 16.0% less than the statewide weekly wage rate of $702 and 31.1% less than the overall average weekly wage rate for the United States at $855. Of the major industries for this county, manufacturing pays on average $824 per week, retail trade pays $468, services pays $437, and construction pays $556. Based upon this information, the major industries in the assessment area do not pay more than $43,000 per year.[3]

The unemployment rate for Madison County based on 2000 statistics collected through the U.S. Census Bureau was 4.98%. In 2007, the unemployment rate for the county was 4.8% and the unemployment rate in October 2008 increased to 5.2%. In December 2008, the unemployment rate increased to 6.4%, which is an overall increase of 33.3% from 2000 to 2008. According to Madison Bank, the local economy has experienced one plant closing and several plants who have laid off workers, which contributed to the jump in unemployment for the county. The U.S. unemployment rate for December 2008 is 7.2%, according to the Bureau of Labor and Statistics. By census tract category, there are more unemployed persons living in low- and moderate-income tracts compared to middle- and upper-income census tracts. Specifically, the percentage of unemployed persons over the age of 16 by census tract category is as follows: low-income tracts have 7.4% of the population unemployed; 8.1% of the population in moderate-income tracts is unemployed; 6.4% of the population in middle-income tracts is unemployed; and only 4.1% of individuals residing in upper-income geographies are unemployed.

An article in the *Richmond Register* by Ronica Shannon[4] further substantiates the state's unemployment problems. According to the article dated December 29, 2008, November marks the largest year-over-year drop in the number of jobs in Kentucky since June 2002. The skyrocketing unemployment rates are attributed to job losses in seven of the state's eleven major job sectors, with the professional and business services sector hardest hit with 2,300 jobs lost in November; 2,100 jobs lost in the leisure and hospitality sector; and 1,100 jobs lost in the manufacturing sector. Additionally, the Commerce Department reported that consumer spending has also fallen 0.6%. This drop marked the fifth straight month of decreases in spending, the longest stretch of declines in government records that go back to 1959. Therefore, the economy for the Commonwealth of Kentucky, including Madison County, continues to experience the hardships of this economic downturn.

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2 www.thinkkentucky.com
3 www.thinkkentucky.com
4 www.richmondregister.com

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

A financial institution's loan-to-deposit ratio compares the institution's aggregate loan balances outstanding to its total deposits outstanding. The ratio is a measure of an institution's lending volume relative to its capacity to lend and is derived by adding the quarterly loan-to-deposit ratios and dividing the total by the number of quarters.

Madison Bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank has averaged 96% over the past 20 quarters of operation and is above the peer group average ratio of 80%. The bank's ratios were consistent throughout the evaluation period. Therefore, the bank's lending kept pace with the bank's deposit growth over the sample period.

The following table shows Madison's quarterly loan-to-deposit ratios for 20 quarters since the previous evaluation, along with the average loan-to-deposit ratio for the same period.

Loan-to Deposit Ratios			
As of Date	**Net Loans (000s)**	**Total Deposits (000s)**	**Ratio**
March 31, 2004	96,313	103,881	93%
June 30, 2004	99,309	103,907	96%
September 30, 2004	100,746	101,951	99%
December 31, 2004	102,739	107,060	96%
March 31, 2005	107,566	110,528	97%
June 30, 2005	107,510	113,043	95%
September 30, 2005	111,688	105,508	106%
December 31, 2005	108,393	105,543	103%
March 31, 2006	104,832	109,915	95%
June 30, 2006	109,822	107,969	102%
September 30, 2006	105,280	111,983	94%
December 31, 2006	105,509	114,702	92%
March 31, 2007	103,361	117,133	88%
June 30, 2007	106,205	123,054	86%
September 30, 2007	105,356	120,553	87%
December 31, 2007	106,345	114,986	92%
March 31, 2008	116,886	119,989	97%
June 30, 2008	115,586	120,028	96%
September 30, 2008	120,115	120,464	100%
December 31, 2008	116,744	118,369	99%
Quarterly Loan-to-Deposit Ratio Average Since the Previous Examination			**96%**

Lending in the Assessment Area

The bank's small business, mortgage, home equity, motor vehicle and other unsecured loans were analyzed to determine the volume of lending inside and outside of the bank's assessment area. A substantial majority of the bank's loans at 89.7% (by loan volume) were made inside the assessment area.

The table below depicts Madison's volume of loans extended inside and outside of its assessment area January 1, 2007 through September 30, 2008.

Lending Inside and Outside the Assessment Area								
Loan Type	**Inside the Assessment Area**				**Outside the Assessment Area**			
	# of Loans	%	$ (000s)	%	# of Loans	%	$ (000s)	%
Small Business	189	89.2	15,410	77.4	23	10.8	4,496	22.6
Mortgage	106	89.8	11,604	91.0	12	10.2	1,146	9.0
Home Equity	73	90.1	5,527	94.6	8	9.9	315	5.4
Motor Vehicle	112	88.9	1,138	88.9	14	11.1	143	11.1
Other - Unsecured	122	91.0	611	94.7	12	9.0	34	5.3
Total	**602**	**89.7**	**34,290**	**84.8**	**69**	**10.3**	**6,133**	**15.2**

Geographic Distribution of Lending

The bank's overall geographic distribution for lending is considered reasonable. The bank's lending of consumer loans, mortgage loans, and small business loans are comparable to the individual proxies used to analyze the bank's lending. In addition, lending in low- and moderate-income tracts was considered poor; however, limited opportunities available to the institution made the lending adequate.

Based upon the analysis of the bank's lending in terms of penetrating the 14 tracts comprising the bank's assessment area, no significant gaps were noted. During 2007, the bank did not originate any loans in the bank's lone low-income tract and in 2008, the bank originated only one loan in this tract. The demographics for the low-income tract based on 2000 U.S. Census data indicate that out of 396 housing units, only 22 units or 5.6% are owner-occupied, with 76.3% being rental and the remaining 18.2% of the units as vacant. Therefore, this very small percentage of owner-occupied housing units severely limits the bank's ability to extend mortgage loans or home equity type loans. Furthermore, the opportunities to make consumer-type loans in this low-income tract are limited because only 1.2% of households in Madison County live in this tract. Therefore, there were no significant gaps noted, as Madison originated loans in 93.0% of its census tracts in 2007 and 100% of its census tracts in 2008.

Consumer Loans

Other Unsecured

The geographic distribution of other unsecured loans was analyzed to determine the dispersion of these loans among different census tracts within the assessment area. Penetration throughout the assessment area was considered reasonable due to the limited opportunities for the bank to lend in low- and moderate-income tracts.

Madison made 122 loans of this type totaling approximately $600,000 for the evaluation period. Of the 122 loans originated, no loans were made in a low-income tract, which is considered poor; however, the percentage of total households within the low-income tract was only 1.2%. The bank originated only one loan (0.8%) in the moderate-income tract and was considered poor; however, the percentage of total households within the moderate-income tract was only 3.4%. In middle-income tracts, the bank originated 27 loans (22.1%), which was comparable to the proxy at 31.4%. Lastly, the bank originated 94 loans (77.0%) in upper-income tracts, which exceeded the proxy at 64.0%.

Motor Vehicle

The geographic distribution for motor vehicle loans is considered reasonable.

Madison originated 112 motor vehicle loans totaling $1.14 million for the evaluation period. Of the 112 loans originated, no loans were originated in a low-income tract, which is considered poor; however, the percentage of total households within the low-income tract was only 1.2%. The bank originated one loan in a moderate-income tract (0.9%) and was considered poor; however, the percentage of total households within the tract is extremely low at 3.4%. The bank originated 30.4% of its loans in middle-income tracts, which almost equaled the proxy at 31.4%. In upper-income tracts, the bank originated 68.8% of its loans, which exceeded the proxy at 64.0%

Home Equity

The geographic distribution of home equity loans is considered reasonable.

Madison originated 73 home equity loans during the evaluation period totaling $5.5 million. Of the 73 loans originated, none were made in low- or moderate-income tracts. While this is considered poor, the percentage of total households in the low- and moderate-income tracts at 1.2% and 3.5%, respectively, limit the bank's ability to originate this type of loan product. In middle-income tracts, the bank originated 27.4% of its loans, which was almost equal to the proxy, and in upper-income tracts, the bank originated 72.6% of its loans, which exceeded the proxy.

Small Business Loans

Madison originated 189 small business loans totaling approximately $15.4 million dollars. Of the 189 loans originated, one loan (0.5%) was originated in a low-income tract, which was considered poor; however, this tract only encompasses 1.3% of small businesses within the assessment area. The bank originated five loans (2.6%) in its moderate-income tract, which is considered poor; however, only 6.5% of the bank's small businesses are found within that tract. In middle-income tracts, the bank originated 24.9% of its loans, which is almost equal to the proxy at 27.5%. In upper-income tracts, the bank originated 72.0% of its loans, which exceeded the proxy at 64.7%. Therefore, the geographic distribution for small business loans is considered reasonable.

Mortgage Loans

The geographic distribution of mortgage loans is considered reasonable.

Madison Bank originated 106 mortgage loans totaling $11.6 million. Of the 106 originated loans, the bank did not originate any mortgage loans in a low-income tract; however, the percentage of owner-occupied housing units by tract is only 0.1% in the low-income tract. In the bank's moderate-income tract, it originated three loans (2.8%), which is considered excellent when compared to the percentage of owner-occupied housing units by tract at 1.3%. In middle-income tracts, the bank originated 19.8% of its mortgage loans, which was comparable to the proxy at 27.0%. In upper-income tracts, the bank originated 77.4% of its mortgage loans, which slightly exceeded the proxy at 71.6%.

Borrower Distribution of Lending

Consumer, mortgage, and small business loans were analyzed in conjunction with the review of the demographic and economic characteristics of the assessment area to determine the extent of lending to borrowers of different income levels and to businesses of different revenue sizes. The percentage of households below poverty in the assessment area is 18.3%, which is higher than the state average of 16.2% and the percentage of families below poverty is 12.0%, which almost equals the state average at 12.7%. High poverty levels have an adverse effect on the institution's ability to lend in its assessment area. In addition, the bank did not collect income or revenue information on large portion of their loans; therefore, these loans could not be analyzed to determine what type of borrowers received those loans. Thus, taking into account the higher-than-average poverty levels for households and families, as well as other factors discussed within the specific products analyzed, the overall borrower distribution of lending is considered reasonable.

Consumer Loans

Other Unsecured

The borrower distribution of lending for this product is considered to be good.

Madison originated 13 loans (10.7%) to low-income borrowers, which is considered adequate when compared to the percentage of low-income households at 20.4%. In addition, the assessment area has a high percentage of households living below the poverty level at 18.3%, which also limits the bank's ability to lend. Madison originated 20 loans (16.4%) to moderate-income borrowers, which is considered excellent when compared to the percentage of moderate-income households in the assessment area at 12.4%. Middle-income borrowers received 25.4% of the bank's originations, which exceeded the proxy at 16.5%, and upper-income borrowers received 18.0% of the bank's originations, which was lower than the proxy at 50.7%. In addition, the bank originated 36 loans (29.5%) to borrowers with unknown incomes.

Motor Vehicle

The borrower distribution of lending for this product is considered to be adequate.

The bank originated ten loans (8.9%) to low-income borrowers, which is considered poor when compared to the percentage of low-income households in the assessment area at 20.4%. The bank originated 24 loans (21.4%) to moderate-income borrowers, which is considered excellent when compared to the percentage of moderate-income households of 12.4%. Middle-income borrowers received 18.8% of the bank's originations, which slightly exceeded the percentage of middle-income households in the assessment area at 16.5%. Upper-income borrowers received 25.0% of the bank's originations, which was less than the proxy at 50.7%. In addition, the bank originated 29 loans (25.9%) to borrowers with unknown incomes. Thus, these loans could not be analyzed.

Home Equity

The borrower distribution of lending for this product is considered to be poor.

The bank originated one loan (l.4%) to low-income borrowers, which was considered poor when compared to the percentage of low-income households in the assessment area at 20.4%. The bank originated five loans (6.8%) to moderate-income borrowers, which is considered adequate when compared to the proxy of 12.4%. Middle-income borrowers received 19.2% of the bank's originations, which exceeded the proxy, and upper-income borrowers received 50.7% of the originations, which equaled the proxy. Furthermore, the bank originated 16 home equity loans (21.9%) to borrowers with unknown incomes. Thus, these loans could not be analyzed.

Small Business

An analysis of small business lending data was conducted to ascertain the extent of lending to businesses of different sizes, including small businesses. Of the 189 small business loans originated by the bank, 71 (37.6%) were made to businesses with less than $1 million dollars in revenue compared to 92.1% of small businesses in the assessment area. In addition, ten loans (5.3%) were to businesses with revenues over $1 million dollars. It is also noted that 57.1% of the bank's originated loans did not have revenue information; therefore, this loan data could not be analyzed.

A further analysis of small business lending demonstrates that 145 loans (76.7%) were made in denominations of $100,000 or less. Since smaller-size loans are generally commensurate with the borrowing needs of small businesses, Madison's lending activity is considered adequate for its assessment area.

Mortgage Lending

Madison originated five loans (4.7%) to low-income borrowers, which is considered poor when compared to the percentage of low-income families in the assessment area at 15.5%. The bank originated five loans (4.7%) to moderate-income borrowers, which is considered poor when compared to the percentage of moderate-income families in the assessment area at 14.1%. Middle-income borrowers received 11.3% of the bank's mortgage originations, which was comparable to the percentage of moderate-income families living in the assessment area at 18.0%. Upper-income borrowers received 49.1% of mortgage loan originations, which was slightly less than the percentage of upper-income families living in the assessment area at 52.5%. According to the lending data, 32 mortgage loans (30.2%) were made to borrowers with no reported income; therefore, these loans could not be analyzed.

While the lending to low- and moderate-income borrowers appears poor, it is important to note that 37.0% of the assessment area's housing is rental units, 8.3% of housing is vacant units, and 12.5% is mobile homes. In addition, the median age of the housing stock in the assessment area is only 20 years; therefore, the opportunity to originate home-improvement type mortgage loans is further limited. Lastly, 7.5% of the population is either institutionalized or living in group quarters. Eastern Kentucky University is responsible for 6.7% of the population living in group quarters and correctional institutions and nursing homes make up the remaining 0.80%. These factors combine to limit the bank's opportunities to originate mortgage loans in its assessment area. Therefore, the bank's mortgage lending to borrowers of different income levels is considered adequate.

Community Contacts

Two community contact interviews were conducted in Madison County to discuss affordable housing opportunities for consumers and lenders and small business development.

The affordable housing community contact emphasized the need for lenders to continue to offer down-payment assistance, as well as working with the various agencies in offering affordable home loan products for consumers. The contact also stressed the need for banks to be flexible in terms of working with the customer in the event that they experience financial difficulties to limit the amount of foreclosure in the area.

The small business development contact emphasized that banking institutions were working with this organization to provide the needed resources to current small business owners or potential small business owners.

Response to Consumer Complaints

There were no CRA-related complaints filed against Madison since the previous CRA examination.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

There was no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs were identified.

APPENDIX A

CRA TABLES

Lending Inside and Outside the Assessment Area								
Loan Type	**Inside the Assessment Area**				**Outside the Assessment Area**			
	# of Loans	%	$ (000s)	%	# of Loans	%	$ (000s)	%
Small Business	189	89.2	15,410	77.4	23	10.8	4,496	22.6
Mortgage	106	89.8	11,604	91.0	12	10.2	1,146	9.0
Home Equity	73	90.1	5,527	94.6	8	9.9	315	5.4
Motor Vehicle	112	88.9	1,138	88.9	14	11.1	143	11.1
Other - Unsecured	122	91.0	611	94.7	12	9.0	34	5.3
Total	**602**	**89.7**	**34,290**	**84.8**	**69**	**10.3**	**6,133**	**15.2**

Geographic Distribution of Consumer Loans Assessment Area/Group: NonMSA KY										
	Total Consumer Loans		**Low-Income Geographies**		**Moderate-Income Geographies**		**Middle-Income Geographies**		**Upper-Income Geographies**	
	#	% of Total	% of Hhlds	% Bank Loans	% of Hhlds	% Bank Loans	% of Hhlds	% Bank Loans	% of Hhlds	% Bank Loans
Home Equity	73	23.8%	1.1	0.0	3.5	0.0	31.4	27.4	64.0	72.6
Motor Vehicle	112	36.5%	1.1	0.0	3.5	0.9	31.4	30.4	64.0	68.8
Other - Unsecured	122	39.7%	1.1	0.0	3.5	0.8	31.4	22.1	64.0	0.0

Borrower Distribution of Consumer Loans Assessment Area/Group: NonMSA KY										
	Total Consumer Loans		**Low-Income Borrowers**		**Moderate-Income Borrowers**		**Middle-Income Borrowers**		**Upper-Income Borrowers**	
	#	% of Total	% of Hhlds	% Bank Loans	% of Hhlds	% Bank Loans	% of Hhlds	% Bank Loans	% of Hhlds	% Bank Loans
Home Equity	73	23.8	20.4	1.4	12.4	6.8	16.4	19.2	50.7	50.7
Motor Vehicle	112	36.5	20.4	8.9	12.4	21.4	16.4	18.8	50.7	25.0
Other - Unsecured	122	39.7	20.4	10.7	12.4	16.4	16.4	25.4	50.7	18.0

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.

Census tract: A small subdivision of metropolitan and other densely populated 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 upon 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 development: All agencies have adopted the following language: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; 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; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize:

(i) Low-or moderate-income geographies;
(ii) Designated disaster areas; or
(iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on:
   a. Rates of poverty, unemployment, and population loss; or
   b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

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.

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 non-relatives 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 (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, 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 that 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 the income of applications, the amount of loan requested, and the disposition of the application (for example, 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: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (for example, 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.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A 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. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a 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**.**

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.

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 loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report 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 either secured by 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): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report 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.

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

APPENDIX C

ASSESSMENT AREA MAP

Madison Bank

Assessment Area: NonMSA KY