

# **PUBLIC DISCLOSURE**

**March 4, 2010**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First State Financial, Inc.  
Certificate Number 2710**

**101 Virginia Avenue  
Pineville, Kentucky 40977**

**Federal Deposit Insurance Corporation  
Division of Supervision and Consumer Protection  
Chicago Regional Office  
300 South Riverside Plaza, Suite 1700  
Chicago, Illinois 60606**

**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 RATING

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

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

First State Financial, Inc. has demonstrated good responsiveness to the credit needs of its assessment areas based on the following findings.

### Lending

The following statements summarize the institution's overall lending performance:

- The bank's average net loan-to-deposit ratio reflects strong lending responsiveness to assessment areas' credit needs.
- A majority of loans are extended within the institution's assessment areas.
- The distribution of residential real estate loans reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels and in extending commercial loans to small businesses in its assessment areas.
- The geographic distribution of residential real estate and commercial loans reflects excellent dispersion throughout the assessment areas, including in low- and moderate-income areas.
- The institution has not received any complaints about its performance in meeting assessment area credit needs.

### Community Development

First State Financial, Inc. has utilized a blend of community development lending, services and investments to attain an acceptable level of community development activities.

CRA evaluation. The bank has originated affordable housing loans through the Federal Home Loan Bank Welcome Home Program, loans to help revitalize the local community, loans to first-time homebuyers, and loans through the Rural Development and Kentucky Housing low-income individuals. Table 13 provides a breakdown of the bank’s community development lending.

<i>Table 13 – Qualified Community Development Lending Activity</i>		
<b>LOAN DESCRIPTION</b>	<b>NUMBER OF LOANS</b>	<b>DOLLAR VOLUME OF LOANS (000s)</b>
<b>Other Affordable Housing Loans</b> <i>(Construction, rehabilitation, and land development)</i>	13	840
<b>Other Community Development Loans</b> <i>(urban renewal program and revitalization of community centers)</i>	3	2,140
<b>Grand Total</b>	<b>16</b>	<b>\$2,980</b>

In addition to the loans above, the bank made four loans on the secondary market in 2008 totaling \$923,000 and five loans in 2009 totaling \$403,925.

### **Community Development Investments**

First State’s community development investments consist of qualified donations and investments and demonstrate an excellent level of responsiveness to the community development needs of the assessment area. The bank’s donations totaled around \$36,413. The donations benefited United Way, Bell-Whitley Community Action Agency, Inc., Repair Affair as well as literacy and food programs.

Furthermore, any investment in the assessment area which meets essential community needs is also included. The bank purchased seven local community school bonds for a total of \$1,205,000 which aid and revitalize schools and community buildings in the Non-MSA assessment area and thirty-three school bonds from outside the bank’s assessment area but within Kentucky for a total of \$8,395,000. Since the bonds benefit the moderate- and underserved middle-income tracts and meet the community development purpose, each is included. Furthermore, the bank serves as paying and transfer agent on sixteen school bond issues totaling \$43,670,000. **Lastly, the bank made the following investments: Senior Housing Crime Prevention \$250,000, Louisville Community Bank \$100,000 and Bell County General Obligation project \$350,000.**

### **Community Development Services**

First State’s level of qualified community development services demonstrates excellent responsiveness to the community development service needs of the assessment area. The bank