

PUBLIC DISCLOSURE

February 2, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Peoples State Bank
22799**

**637 South Lincoln Boulevard
Hodgenville, Kentucky 42748**

**Federal Deposit Insurance Corporation
Division of Compliance and Consumer Affairs
5100 Poplar Avenue, Suite 1900
Memphis, Tennessee 38137**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The Peoples State Bank, Hodgenville, Kentucky** prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency, as of **February 2, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

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

The bank's CRA performance displays a satisfactory practice of providing for the credit needs of its assessment area. This rating is supported by the following:

- An analysis of loan originations revealed a good penetration among borrowers of different incomes.
- The majority of loan originations are within the bank's assessment area.
- The average loan to deposit ratio reflects reasonable responsiveness to community credit needs.
- The bank has achieved a reasonable dispersion of loans within the assessment area.

DESCRIPTION OF INSTITUTION

The Peoples State Bank, located in Hodgenville, Kentucky, is a full service commercial bank with gross loans of \$23,843,000 and total assets of \$31,959,000 as of September 30, 1998. The bank is wholly-owned by Larue Bancshares, Inc., a one-bank holding company, located in Hodgenville, Kentucky. The bank's primary lending focus is residential mortgage loans, which account for 50 percent of their total loan portfolio. The balance of the portfolio mix includes 21 percent in consumer loans, 18 percent in commercial loans, and 10 percent in agricultural loans.

The bank operates from its main office and from one branch office, both in Hodgenville, Larue County, Kentucky. The branch, which is inside the Houchen's Supermarket, was opened on May 13, 1998. No branches have been closed since the previous evaluation.

The bank's competition in Larue County consists of three financial institutions with a total of six offices. At June 30, 1998, The Peoples State Bank had a 17 percent market share of the deposits inside the county. According to bank management, the bank also receives heavy competition from a credit union and a savings bank, both located in Hardin County.

DESCRIPTION OF LARUE COUNTY AND PORTIONS OF GRAYSON, HARDIN, AND HART COUNTY, KENTUCKY

The bank's assessment area is all of Larue County, Kentucky, which contains three block numbering areas (BNAs), and portions of three adjacent counties. The assessment area includes four BNAs in eastern Grayson County (9501, 9502, 9503 and 9505); three census tracts in southern Hardin County (0010, 0016 and 0017); and two BNAs in northern Hart County (9701 and 9702). The U.S. Census Bureau has designated nine of these BNAs as middle-income geographies and three as upper-income geographies. All of these BNAs are contiguous and mostly rural.

Based on data from the University of Louisville's Kentucky Population Research Department, the assessment area had an estimated population of 52,879 in 1997, a six percent increase since the 1990 census. The largest city in the assessment area is Hodgenville with an estimated 1997 population of 2,935. Other cities in the assessment area are Upton, Clarkson, Bonnieville, and Sonora. The population of these cities range from 289 to 740.

The largest industries, as a percent of total industries, are services (18 percent) and government (18 percent) in Larue County; durable good manufacturing (26 percent) and government (16 percent) in Grayson County; nondurable goods manufacturing (22 percent) and government (17 percent) in Hart County; and military (21 percent) and services (15 percent) in Hardin County. U. S Census Bureau data for 1994 shows that there were 2,659 private non-farm business establishments in the four county area. Only 114 of these businesses employed 50 or more people. According to bank management most of the businesses in their assessment area employ less than 15 people.

Agriculture is a significant component of the assessment area's economy. Principal products include tobacco, dairy, corn, and soy beans.

According to the Bureau of Labor Statistics, the unemployment rate for Larue County was 3.3 percent for the third quarter of 1998, which was down from 3.9 percent for the third quarter of 1997. The average unemployment rate for the first nine months of 1998, 4.0 percent, is better than any year this decade. Larue County's unemployment rate is normally significantly better than the statewide rate which was 4.2 percent for the third quarter of 1998. The unemployment rate in the rest of the bank's assessment area is higher than in Larue County, but it has been improving and was about 4.6 percent for the third quarter of 1998.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The evaluation of the bank's lending performance is based on the review of a random sample of loans from the largest loan category. The sample, derived from residential mortgage loans made since June 30, 1998, consisted of 35 loans totaling \$654,146 from a universe of 135 loans totaling \$3,934,461.

Lending to Borrowers of Different Incomes

The bank has achieved a good penetration to borrowers of different incomes. The 1998 HUD estimated statewide non-metropolitan median family income (MFI) of \$29,800 was used for borrower distribution analysis. The following table provides information on how each income level is defined:

INCOME LEVEL	PERCENT OF MFI	INCOME RANGE
Low	Less than 50%	Less than \$14,900
Moderate	50% to 80%	\$14,900 to less than \$23,840
Middle	80% to 120%	\$23,840 to less than \$35,760
Upper	120% and over	\$35,760 and over

The following table reflects the distribution of the residential mortgage loan sample by borrower income level. For comparison, the table includes the percentage of families within each income level according to the 1990 census. The analysis only includes the sampled loans which were originated within the assessment area.

RESIDENTIAL MORTGAGE LOANS					
INCOME LEVEL	PERCENT OF FAMILIES	NUMBER	PERCENT	DOLLAR AMOUNT	PERCENT
Low	19	9	29	\$104,773	18
Moderate	15	3	10	49,519	8
Middle	20	4	13	107,752	18
Upper	46	15	48	337,671	56
TOTALS	100	31	100	\$599,715	100

Thirty-nine percent of the number and 26 percent of the dollar volume of the residential real estate loans were extended to low- and moderate-income families. In comparison, 34 percent of the assessment area's families have income levels that fall within these ranges. The dollar volume comparison reflects the fact that loans to lower income families would normally be for smaller amounts than those to higher income families.

Lending in Assessment Area

The bank originates a majority of its loans within the assessment area. FDIC geocoding software located 77 percent of the loans made since the prior examination. Of these, 75 percent of the loans and 61 percent of the dollar volume were within the bank's assessment area. The residential mortgage loan sample indicates that a significantly greater portion of the bank's residential mortgage lending is inside the assessment area. Specifically, 89 percent of the number and 92 percent of the dollar volume of sampled loans were originated within the assessment area.

Loan to Deposit Ratio

The bank's loan to deposit ratio indicates reasonable responsiveness to area credit needs. The bank's average loan to deposit ratio, based on the 10 quarters since the last evaluation, was 75 percent. For the same period of time, the Kentucky Commercial Bank peer group average, based on asset size, was 72 percent, and a similarly situated bank had an average ratio of 74 percent.

Geographic Distribution of Loans

The bank has achieved a reasonable dispersion of loans within the assessment area. This dispersion is presented by the following table which includes the percent of families living in the geographies according to the 1990 Census. The loan data represents all loans made since March 12, 1996, where the FDIC's software was able to geocode the borrowers' address. Out of 1,158 total loans, 888 (77 percent) were located. Of these geocoded loans, 664 were within the assessment area. The dispersion of those loans within the assessment area is shown by the following table:

INCOME LEVEL	PERCENT OF FAMILIES	NUMBER	PERCENT	DOLLAR AMOUNT	PERCENT
Middle	75	519	78	\$8,984,134	78
Upper	25	145	22	2,565,361	22
TOTALS	100	664	100	\$11,549,495	100

The bank's lending closely correlates with assessment area population.

Response to Complaints

The bank has not received any CRA-related complaints since the last examination.

Compliance with Anti-discrimination Laws and Regulations

No violations of the substantive provisions of the anti-discriminatory laws and regulations were identified during the examination.