PUBLIC DISCLOSURE

April 16, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Louisville Community Development Bank
Certificate # 34308

2901 West Broadway
Louisville, Kentucky 40211

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.**

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INSTITUTION RATING

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

Louisville Community Development Bank demonstrates an overall satisfactory responsiveness to the credit needs of its assessment area based on the following findings:

- The institution's lending levels are reasonable and reflect satisfactory responsiveness to the credit needs of the assessment area.

- A majority of loans were extended within the bank's assessment area.

- Overall, the distribution of borrowers reflects, given the demographics of the assessment area and performance context of the institution, reasonable penetration amongst individuals of different income levels (including low- and moderate-income) and businesses of different sizes. The distribution of residential real estate loans to low-income borrowers is adequate. The distribution of residential real estate loans to moderate-income borrowers is weak, but the impact is mitigated by contextual factors discussed within this evaluation. Considering the bank's loan mix, more emphasis is given to the bank's small business lending performance which was reasonable for both 2007 and 2008.

- The performance criterion for the geographic distribution of loans by census tract income level is not analyzed in this evaluation because all but one of the bank's assessment area census tracts are low- and moderate-income census tracts. The majority of loans were extended within these low- and moderate-income census tracts and no loans were made in the bank's one middle-income tract.

- No CRA complaints have been received since the previous examination.

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

SCOPE OF EXAMINATION

Louisville Community Development Bank's performance is assessed under "small bank" guidelines. Under these guidelines, the bank's performance is evaluated based on the following criteria:

- Loan-to-deposit ratio
- Lending in the assessment area(s)
- Lending to borrowers of different income categories and to businesses of different sizes
- Geographic distribution of loans within the assessment area by geography
- Response to consumer complaints

The evaluation of the bank's lending performance is based upon a review of two loan types, commercial and residential real estate loans. These two loan categories were chosen for review because they aggregately represent approximately 90 percent of the bank's total loan portfolio, and are considered the area's greater credit needs. The review period for the evaluation is the eighteen month period between July 1, 2007 and December 31, 2008. All residential loans and all business loans extended over that time period and still outstanding and on the bank's books as of December 31, 2008 (the date of the bank's electronic loan portfolio download) were analyzed. Although the bank is located in a metropolitan statistical area, it is not required to report Home Mortgage Disclosure Act (HMDA) data because it has not met the asset size threshold to report HMDA data since 2005.

As a certified community development financial institution, the bank is required to conduct the majority of its operations in serving the 11 low-, 18 moderate-income tracts which make up its assessment area. There is one middle-income tract within the bank's assessment area, however there were no commercial or residential loans made there in 2007 or 2008, and therefore, an analysis based on the "Geographic Distribution of Loans" criteria was not completed. For the "Lending to Borrowers of Different Incomes and Businesses of Different Sizes" criterion, only those loans extended within the bank's assessment area were chosen for review. Business loans extended within the assessment area were analyzed by "loan amount," as a proxy for the revenue size of the business, under this criterion.

DESCRIPTION OF THE INSTITUTION

Louisville Community Development Bank is a limited-service community development financial institution (CDFI) with total assets of $31,472,000 and total loans of $14,330,000 as of December 31, 2008. The bank is wholly-owned by Louisville Development Bancorp, Inc., Louisville, Kentucky, a one-bank holding company. There have been no office openings or closings since the last CRA evaluation.

Under the CDFI Program established by the Riegle Community Development and Regulatory Improvement Act of 1994, the bank utilizes federal resources to provide economic development, affordable housing and community development financial services to the inner city neighborhoods that make up its assessment area. The bank's stated mission is "to stimulate economic growth within the West End, and Smoketown, Shelby Park and Phoenix Hill neighborhoods of Louisville, Kentucky, by providing an array of financial and development resources" which it accomplishes primarily by providing access to capital for small- and minority-owned businesses and low- and moderate-income homeowners and buyers. These neighborhoods are located in low- and moderate-income census tracts in the Louisville-Jefferson County, KY-IN MSA and are within the bank's assessment area.

The bank primarily offers commercial and residential loan products. The primary segment of the loan portfolio consists of commercial loans of $9,737,000, followed by residential 1-4 family properties of $3,138,000. Table 1 shows a breakdown of the bank's loan portfolio by amount and by loan type as of December 31, 2008.

Table 1 – Loan Portfolio Composition		
LOAN TYPE	**AMOUNT ($000)**	**PERCENT OF TOTAL**
1 – Construction and Land Development	$1,255	9
2 – Secured by Farmland	0	0
3 – 1-4 Family Residential	3,138	22
4 – Multi-Family (5 or more) Residential	216	1
5 – Commercial	7,398	52
Total Real Estate Loans	**$12,007**	**84**
6 – Commercial and Industrial	2,339	16
7 – Agricultural	0	0
8 – Consumer	7	0
9 – Other	0	0
Less Unearned Income	<23>	<1
Total Loans	**$14,330**	**100**

Source: Report of Condition

Commercial loans comprise by far the largest segment of the portfolio at 68 percent of total loans. One-to-four family residential loans comprise 22 percent of the portfolio. Real estate secured loans, of all types, account for approximately 84 percent of the total portfolio. As shown in the figures above, the majority of the bank's lending efforts focus on commercial credit and loans collateralized by dwellings.

The bank has two affiliates: the Louisville Enterprise Group and the Louisville Real Estate Development Company. The Enterprise Group is a non-profit affiliate that provides services for business start-ups and expansions. These services include consultation on financial management, human resources development, strategic plan development, product services development, bid proposal strategy, strategic partnership development, business mentors, customer service training and business location services. The Louisville Enterprise Group serves the same area as Louisville Community Development Bank.

The Louisville Real Estate Development Company was formed in 1997 as a for-profit developer to support housing revitalization in the same area as Louisville Community Development Bank. One of its primary achievements has been facilitating home ownership opportunities within The Villages of Park DuValle, an internationally recognized model for innovative neighborhood revitalization. This is a mixed-income community of more than 1,000 homes, townhouses and apartments located on 125 acres in western Louisville with a total approximate cost of $200 million split evenly between private and public funding. There are only approximately 35 unsold lots left of the original 450 single-family lots. Eighty-two percent of homes in the Villages of Park Duvalle were sold to first-time home buyers and 57 percent of the homes were purchased by individuals with incomes less than 80 percent of the area median family income.

Louisville Development Bancorp received $40 million dollars in New Market Tax Credits (NMTC) from the United States Department of the Treasury in October 2008. The Bancorp received two other award allocations in 2004 and 2005 totaling $70.5 million. The NMTC stimulates economic grown as well as job creation in low-income communities by attracting investment capital from the private sector. Allocations are used to make subsidized loans or investments in businesses and community development projects in Louisville. Projects receiving funding must be located in qualifying census tracts with poverty levels above 20 percent or median family incomes that are less than or equal to 80 percent of the area median family income. Recent projects approved in April 2009 include a NMTC of $7,647,088 to a non-profit which provides short-term and long-term care for children and families in crisis and a NMTC of $3,480,000 to a partnership which will acquire and renovate an existing building as well as build a new structure which will be part of a project which will enhance a neighborhood's existing plan for a year round public market.

In an attempt to increase its 1-4 family residential lending by attracting more primary-dwelling purchases and refinances, the bank has recently run numerous television commercials advertising its loan products. In the past it has also attempted to form partnerships with the Federal National Mortgage Corporation (Fannie Mae) and the Kentucky Housing Finance Agency to make additional low- and moderate-income home lending products available. However, due primarily to low visibility at its current location, low retail traffic, and an extremely competitive lending environment, the outstanding dollar volume of 1-4 family residential loans as of December 31, 2008 is 32 percent less than the outstanding dollar volume of 1-4 family residential loans as of December 31, 2004. A community contact stated that there has been a noticeable tightening of credit standards from 2007 to 2008 as compared to 2004, 2005 and 2006. He also stated there remains demand for financing of low- to moderate-income housing and due to the large number of banking institutions in the MSA, competition among lenders is considered very strong regardless of current economic conditions.

The bank is unique in that it does not offer traditional deposit products, such as checking or savings accounts—only certificates of deposit are offered. These certificates are held by consumers as well as businesses and other area banks. Some certificates are non-interest bearing and are held by individuals and institutions which are interested in helping the bank meet its community improvement, strategic, and financial goals. Depositing institutions are represented by local banks.

DESCRIPTION OF ASSESSMENT AREA

The assessment area consists of 11 low-income, 18 moderate-income and one middle-income geography in the northwestern portion of the City of Louisville, Kentucky (Jefferson County), which is in the Louisville-Jefferson County, KY-IN Metropolitan Statistical Area (MSA). Louisville is the county seat of Jefferson County and is the largest city in the Commonwealth of Kentucky.

According to the 2000 Census, the population of the assessment area was 89,473. The area contains 20,515 families, of which 6,684 (33 percent) live in poverty. Twenty-eight percent of owner occupied units are in low-income tracts, 69 percent are in moderate-income tracts and three percent are in the middle-income tract. The median age of the housing stock is 52 years and the median housing value is $53,950. In comparison, 12 percent of Jefferson County's residents live in poverty, 60 percent of the county's housing stock is owner occupied, the median age of the housing stock is 30 years, and the median housing value is $80,670.

Assessment area demographic information is summarized in Table 2.

Table 2 – Demographic Information for the Assessment Area

Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	30	37	60	3	0	0
Population by Geography	89,473	38	58	4	0	0
Owner-Occupied Housing by Geography	14,540	28	69	3	0	0
Businesses by Geography	5,720	33	64	3	0	0
Farms by Geography	57	42	56	2	0	0
Family Distribution by Income Level	20,515	52	19	16	13	0
Families Below Poverty Level		33%	Median Housing Value		$53,950	
Unemployment Percentages (March/2009)						
Jefferson County		10.1%				
State of Kentucky		10.3%				
US		9.0%				

Source: 2000 U.S. Census, Workforce Kentucky

According to U. S. Census Bureau data, the 2000 Median Family Income (MFI), adjusted during 2004, was $49,301 for the Louisville-Jefferson County, KY-IN Metropolitan Statistical Area (MSA). The Department of Housing and Urban Development (HUD) estimates the MSA MFI was $57,500 for 2007 and $59,400 for 2008. The HUD estimated income data for 2007 and 2008 was used to analyze lending to borrowers of different incomes. Assessment area income levels are defined in Table 3.

Table 3 – Louisville-Jefferson County, KY-IN MSA Income Levels			
INCOME LEVEL (PERCENT OF MFI)	**2000 Range**	**2007 Range**	**2008 Range**
Low (less than 50%)	Under $24,651	Less than $28,750	Less than $29,700
Moderate (50% to <80%)	$24,651 to < $39,441	$28,750 to < $46,000	$29,700 to < $47,520
Middle (80% to <120%)	$39,441 to < $59,161	$46,000 to < $69,000	$47,520 to < $71,280
Upper (120% or more)	$59,161 or more	$69,000 or more	$71,280 and over

Source: 2000 U.S. Census; 2007 and 2008 HUD estimated Median Family Income

Approximately 63 percent of the low-income families are below the poverty level.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan to Deposit Ratio

The bank's average net loan-to-deposit ratio is reasonable considering the resources available and the nature of the bank's business purpose. The bank's average net loan-to-deposit ratio, based on the 20 quarters since the previous Community Reinvestment Act performance evaluation, was 55 percent which represents a decrease of five percent from the previous exam. The net loan-to-deposit ratio trended slowly upward from the last exam to the quarter ending September 30, 2007, which was the highest since the previous exam at 64 percent, and has trended downward since that time to a low of 53 percent for the quarter ending December 31, 2008. Considering the unique nature of this institution, comparisons to peer institutions were not performed. Additionally, there are no similarly situated institutions, i.e., community development banks, within the state that could be used for comparison purposes.

Lending in Assessment area

A majority of the bank's loans are extended within the assessment area. Eighty-one percent by number and 72 percent by dollar volume of combined 2007 and 2008 residential loans were originated within the assessment area. Sixty-nine percent by number and 70 percent by dollar volume of combined 2007 and 2008 business loans were originated within the assessment area. The inside-outside distribution of these loans is shown in Table 4.

Table 4 - Distribution of Loans Inside and Outside of the Assessment Area										
Loan Category or Type	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total #	Inside		Outside		Total $
	#	*%*	*#*	*%*		*$*	*%*	*$*	*%*	
Residential 2007	6	67	3	33	9	353	53	319	47	672
Residential 2008	7	100	0	0	7	468	100	0	0	468
Total Residential	**13**	**81**	**3**	**19**	**16**	**821**	**72**	**319**	**28**	**1,140**
Small Business 2007	8	62	5	38	13	1,399	69	615	31	2,014
Small Business 2008	14	74	5	26	19	2,698	70	1,167	30	3,865
Total Business	**22**	**69**	**10**	**31**	**32**	**4,097**	**70**	**1,782**	**30**	**5,879**

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Residential Real Estate

Table 5 displays the lending distribution of the residential real estate loans originated during 2007 and 2008. Only loans extended within the bank's assessment area are considered. Based on the analysis of 1-4 family residential portfolio loans extended within the assessment area, Louisville Community Development Bank has an adequate penetration to low-income borrowers but no penetration to moderate-income borrowers. This performance is reasonable given the consideration of mitigating factors.

Table 5 – Distribution of 2007 and 2008 Residential Loans by Income Level						
Income Level	Family Population by Income Level (%)	2007 Aggregate Lending Data (% of #)	Residential Loans			
			2007 #	2007 % of #	2008 #	2008 % of #
Low*	52	18	1	17	2	29
Moderate	19	26	0	0	0	0
Middle	16	22	0	0	2	29
Upper	13	34	5	83	3	42
Total	100%	100%	6	100%	7	100%

*Source: 2000 U.S. Census; Aggregate HMDA Data for 2007; *Includes 33 percent of families below the poverty level, ** Income not reported for the applicant*

In 2007, one of six loans or 17 percent was made to a low-income borrower and the remaining five were made to upper-income borrowers. U.S. Census data indicates that 33 percent of low-income families have incomes below the poverty level. Therefore, due to their limited income, these families experience economic barriers to homeownership resulting in a smaller potential borrowing base to which the bank can extend loans. Reducing the low-income family representation by 33 percent yields a potential borrowing base in this income category of 19 percent. Therefore the banks lending to low-income borrowers in 2007 is within two percent of the adjusted percentage of low-income families and is comparable to 2007 aggregate lending data. Even though the bank is not a HMDA reporter, it is located in the MSA and the aggregate data is a good measure to measure the bank's performance in comparison the lending performance of its peers.

In 2008, two of seven loans or 29 percent were made to low-income borrowers, two to middle-income borrowers and three loans were made to upper-income borrowers. The bank's lending to low-income families represents a twelve percent increase from 2007 and is eleven percent above the adjusted percentage of low-income families. There was no aggregate lending data available for 2008 at the time of this evaluation.

Of the 13 one-to-four family loans the bank made within its assessment area in 2007 and 2008, none were made to moderate-income individuals. However, considering the bank's overall low volume of residential real estate lending and given the following mitigating circumstances, the bank's lending performance is considered reasonable. Census data shows that the owner occupancy rate for the bank's assessment area is low at 35 percent and therefore, real estate lending opportunities are limited within the assessment area. In addition, the bank operates in an extremely competitive market for a relatively small number of loans. Including Louisville Community Development Bank's single office, there are a total of 73 depository institution branches competing within the bank's assessment area. The bank's only office has poor visibility and low retail traffic. Therefore, because of low residential lending volume by which to clearly demonstrate a lending pattern and an extremely competitive lending environment, the bank's lack of loans to moderate-income borrowers is considered reasonable.

In addition, Table 5 demonstrates five of six loans in 2007 and three of seven loans in 2008 were made to upper-income borrowers. Five of these eight loans were made to investors whose business it is to purchase and rehabilitate low- and moderate-income residential housing. These investors' incomes are considerably higher than low- and moderate-income homeowners; therefore, the distribution is skewed toward the upper-income-level. Louisville Community Development Bank regularly makes these loans in its assessment area as a means of providing low-cost housing to families that are not yet able or do not want to become homeowners, and as demonstrated by the low (35 percent) owner occupancy rate, there is a strong need for rental property financing.

Commercial Loans

The CRA regulation provides for a definition of a "small business loan" which mirrors the definition for reporting such loans on the bank's Consolidated Reports of Condition and Income. A small business loan is defined as a loan with an original amount of $1 million or less that was reported on the bank's Call Report as either "Loans secured by non-farm or nonresidential real estate" or "Commercial and industrial loans." With this definition in mind, all commercial loans extended within the assessment area during 2007 and 2008 were analyzed by loan amount, with Table 6 and Table 7 presenting the bank's 2007 and 2008 commercial loan distribution.

Table 6 – 2007 Business Loan Distribution By Loan Size					
Loan Size	***% of Businesses by Size**	**Number**	**Percent**	**Dollar Volume ($000s)**	**Percent**
≤$100,000	**50**	3	38	173	12
$100,001 to $250,000	**30**	4	50	726	52
$250,001 to $500,000	**12**	1	12	500	36
$500,001 to ≤$1 million	**8**	0	0	0	0
Total	**100%**	**8**	**100%**	**$1,399**	**100%**

*Source: *2007 Dun & Bradstreet Data, Bank Records*

According to 2007 Dun and Bradstreet business demographic data, 88 percent of assessment area businesses have annual revenues less than or equal to $1 million. As presented in Table 6, all commercial loans extended in 2007 were for amounts of less than $1 million. Thirty-eight percent of loans less than a $1 million were extended in the amount of $100,000 or less and 88 percent were extended in the amount of $250,000 or less. This level of lending is reasonable.

Table 7 – 2008 Business Loan Distribution By Loan Size					
Loan Size	***% of Businesses by Size**	**Number**	**Percent**	**Dollar Volume ($000s)**	**Percent**
≤$100,000	**49**	6	43	332	12
$100,001 to $250,000	**31**	6	43	846	32
$250,001 to $500,000	**12**	0	0	0	0
$500,001 to ≤$1 million	**8**	2	14	1,520	56
Total	**100%**	**14**	**100%**	**$2,698**	**100%**

*Source: *2007 Dun & Bradstreet Data, Bank Records*

As presented in Table 7, all commercial loans extended in 2008 were also for amounts of less than $1 million. Forty-three percent of loans less than $1 million were extended in the amount of $100,000 or less and 86 percent were extended in the amount of $250,000 or less. Using loan size as a proxy for the revenue size of the business demonstrates the bank's record of serving small businesses, especially very small businesses within the assessment area. The bank's performance is reasonable.

Geographic Distribution of Loans

As a certified community development financial institution the bank is required to conduct the majority of its operations in serving the low- and moderate-income tracts which make up its assessment area. As shown in Table 4, “Distribution of Loans Inside and Outside of the Assessment Area” the bank has, in fact, originated the majority of its loans in the 11 low- and 18 moderate-income tracts which make up its assessment area. There is one middle-income tract within the bank’s assessment area; however, there were no commercial or residential loans made there during 2007 or 2008 and therefore, an analysis based on the “Geographic Distribution of Loans” criteria is not necessary as it provides no additional support for the overall conclusions.

Response to Complaints

No CRA complaints have been received since the previous CRA evaluation.

Fair Lending or Other Illegal Credit Practices Review

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