

PUBLIC DISCLOSURE

May 23, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Sebree Deposit Bank
Certificate Number: 21342

147 West Main Street
Sebree, Kentucky 42455

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

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**.

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate- income (LMI) neighborhoods and businesses of different sizes, in a manner consistent with its resources and capabilities.

Sebree Deposit Bank's (SDB) performance under the Lending Test supports the overall Community Reinvestment Act (CRA) rating. Examiners did not identify any evidence of discriminatory or other illegal credit practices. The following points summarize SDB's Lending Test Performance:

- The loan-to-deposit ratio (LTD) is reasonable given the institution's size, financial condition, and assessment area credit needs.
- The bank made a substantial majority of its home mortgage and small business loans in the assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects reasonable penetration of loans among individuals of different income levels and businesses of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated July 2, 2012, to the current evaluation dated May 23, 2018. Examiners used the Interagency Small Bank Examination Procedures to evaluate SDB's CRA performance. This test evaluates the bank's performance under the criteria noted in the bullet points above.

Loan Products Reviewed

Examiners determined that SDB's major product lines are home mortgage and small business loans. This conclusion considered the bank's business strategy and the number and dollar volume of loans originated during the evaluation period. A review of the March 31, 2018, Consolidated Report of Condition and Income (Call Report), indicates that these products collectively represent 78 percent of the loan portfolio, by dollar volume. The two product lines received equal weight in the analysis because the number and dollar volume of recent originations is similar. No other loan types, such as small farm or consumer loans, represent a major product line. Therefore, they provided no material support for conclusions or ratings and are not presented.

Bank records indicated that the lending focus and product mix remained consistent throughout the evaluation period. Examiners reviewed all home mortgage and small businesses loans originated and renewed during the period of January 1, 2017 through December 31, 2017, and considered this representative of the bank's performance during the entire evaluation period.

During this period, SDB originated or renewed 24 home mortgage loans totaling approximately \$1.2 million. The bank is not a reporter of home mortgage lending under the Home Mortgage Disclosure Act (HMDA); therefore, the 2015 American Community Survey (ACS) U.S. Census (Census) data provided a standard of comparison for these loans. SDB originated or renewed 30 small business loans totaling approximately \$1.3 million. D&B data for 2017 provided a standard comparison for the sampled small business loans.

While number and dollar volume of loans are presented, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of individuals and businesses served.

DESCRIPTION OF INSTITUTION

Background

SDB is a well-established community bank headquartered in Sebree, Kentucky. SDB is owned by Sebree Bankcorp, also located in Sebree, Kentucky. The institution received a “Satisfactory” rating at its previous FDIC Performance Evaluation, dated July 2, 2012, based on Interagency Small Institution Examination Procedures.

Ability and Capacity

Examiners did not identify any financial, legal, or other impediments that affect the bank’s ability to meet assessment area credit needs. Assets totaled approximately \$22.3 million as of March 31, 2018, and included total loans of \$13.5 million. The loan portfolio is illustrated in the following table.

Loan Portfolio Distribution as of March 31, 2018		
Loan Category	\$(000s)	%
Construction and Land Development	885	6.5
Secured by Farmland	188	1.4
1-4 Family Residential	8,296	61.3
Multi-family (5 or more) Residential	379	2.8
Commercial Real Estate	637	4.7
Total Real Estate Loans	\$10,385	76.7%
Commercial and Industrial	1250	9.2
Agricultural	117	0.9
Consumer	1780	13.1
Other	11	0.1
Total Loans	\$13,543	100%
<i>Source: 3/31/18 Call Report.</i>		

Operations

SDB operates a single facility in its assessment area in the western part of Kentucky. SDB offers home mortgage, commercial, agricultural, and consumer loans, primarily focusing on home mortgage lending. Several home mortgage products are offered to customers, including loans for home purchase, refinance, and home improvement. Additionally, the bank offers long-term, fixed-rate home mortgage loans through the secondary market.

The institution also provides deposit services including checking, savings, money market deposit accounts, certificates of deposit (CDs), and Individual Retirement Accounts (IRAs). Alternative banking services include internet banking, electronic bill pay, and a bank-owned automated teller machine (ATM). The bank did not open or close any branches, and no merger or acquisition activities occurred since the previous evaluation.

DESCRIPTION OF ASSESSMENT AREA

CRA requires each financial institution to define one or more assessment areas within which its performance will be evaluated. SDB designated two assessment areas: Henderson County, which is part of the Evansville, IN Metropolitan Statistical Area (MSA), and the Kentucky Non-MSA that includes a portion of Webster County. The bank's assessment area has not changed since the previous evaluation. SDB's assessment area delineation is in conformance with CRA requirements, as it consists of whole contiguous census tracts (CTs) and does not arbitrarily exclude LMI CTs. Please refer to subsequent sections for specific information on each assessment area.

Economic and Demographic Data

SDB's designated assessment areas have a combined 12 CTs in Henderson (11) and Webster (1) counties. For 2017, this includes one low-, five moderate-, and six middle-income CTs. The low- and moderate-income CTs are located in the Evansville, IN MSA assessment area. Information concerning the economic and demographic data specific to each assessment area can be found in the subsequent sections.

Competition

SDB operates from a single location in rural Webster County; however, it faces a variety of competition from banks, credit unions, mortgage companies, and finance companies contending to capture valuable loan and deposit market share. Specific information concerning each assessment area can be found in the subsequent sections.

Community Contact

As part of the evaluation process, examiners conducted third party community contacts within each assessment area to assist in identifying the credit needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit and community development opportunities are available within each assessment area. Please see the individual assessment area descriptions within the evaluation for information regarding credit needs.

OVERALL CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

SDB demonstrated reasonable performance under the Lending Test. Geographic Distribution and Borrower Profile performance primarily support this conclusion.

Loan-to-Deposit (LTD) Ratio

The LTD ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's LTD ratio, calculated from Call Report data, averaged 61.1 percent over

the past 22 calendar quarters from September 30, 2012 to March 31, 2018. The ratio has increased during the evaluation period, ranging from a low of 48.3 percent as of December 31, 2012 to a high of 71.6 percent as of September 30, 2017. This increase is due to a growing loan portfolio. Examiners selected comparable institutions based on asset size, geographic location, and lending focus.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 3/31/18 \$(000s)	Average Net LTD Ratio (%)
Sebree Deposit Bank	\$22,308	61.1
Similarly-Situated Institution #1	\$148,736	34.6
Similarly-Situated Institution #2	\$85,159	28.3
Similarly-Situated Institution #3	\$80,556	85.6
Similarly-Situated Institution #4	\$47,846	91.6
Similarly-Situated Institution #5	\$112,892	68.0
<i>Source: Call Reports.</i>		

Assessment Area Concentration

As shown in the following table, SDB made a substantial majority of home mortgage and small business loans within its delineated assessment areas. Although the dollar volume of small business loans extended fell to 57 percent inside the assessment area, examiners place more emphasis on the number of loans rather than dollar amount of loans. The following table displays lending activity inside and outside the assessment area.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollars Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage	19	79.2	5	20.8	24	915	77.1	272	22.9	1,187
Small Business	27	90	3	10	30	747	57.4	555	42.6	1,302
<i>Source: 2017 Bank Records.</i>										

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas. The performance of this criterion only considers loans extended within SDB's assessment areas and examiners focused on the percentage by number of loans in LMI CTs. Examiners gave equal weight to the bank's performance within LMI CTs. In addition, there are no LMI CTs in the Kentucky Non-MSA. Additional details can be found under the respective sections that follow.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among businesses of different sizes and individuals of different income levels in the assessment areas. Examiners focused on the percentage by number of small business loans to businesses with gross annual revenues (GARs) of \$1 million or less, and on the percentage by number of home mortgage loans to LMI borrowers. Please refer to the conclusions and supporting data for performance in each assessment area.

Response to Complaints

The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the rating.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution's overall CRA rating.

EVANSVILLE, INDIANA - MSA

Examiners performed a full-scope review of SDB's performance in this assessment area (referred to as Evansville MSA), which is comprised of all CTs in Henderson County, Kentucky. Even though SDB does not have a banking facility in Henderson County, its sole facility is located in adjacent Webster County.

DESCRIPTION OF OPERATIONS IN EVANSVILLE MSA

Economic and Demographic Data

According to the 2015 ACS Community Survey, the Evansville MSA portion of SDB's assessment area includes 11 CTs with the following income designations: one low-, five moderate-, and five middle-, and no upper-income geographies. The percent of families in the assessment area with incomes below the poverty level was 14 percent. There are approximately 20,421 housing units within this assessment area. Of these, 58.1 percent were owner-occupied, 33.7 percent were renter-occupied, and 8.2 percent were vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units. The following table provides additional demographic data.

Demographic Information of the Evansville MSA Assessment Area					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	11	9.1	45.5	45.5	--
Population by Geography	46,396	5.3	28.2	66.5	--
Housing Units by Geography	20,421	6.2	28.2	65.6	--
Owner-Occupied Units by Geography	11,863	3.8	20.9	75.4	--
Occupied Rental Units by Geography	6,879	10.2	39.6	50.2	--
Vacant Units by Geography	1,679	6.8	34.0	59.2	--
Businesses by Geography	2,388	12.6	31.2	56.2	--
Farms by Geography	186	2.7	10.8	86.6	--
Family Distribution by Income Level	12,505	25.0	19.2	21.6	34.2
Household Distribution by Income Level	18,742	29.7	17.0	17.2	36.1
Median Family Income Evansville MSA		\$65,500	Median Housing Value		\$104,104
Families Below Poverty Level		14%	Median Gross Rent		\$595

Source: 2015 ACS Census and 2017 D&B Data. Due to rounding, totals may not equal 100%.

According to 2017 D&B data, 2,388 businesses were located within this assessment area. As illustrated above, approximately 12.6 percent of businesses are located in low-income CT, which may limit the bank’s ability to lend in these geographies. The analysis of small business loans under the Geographic Distribution Criterion compares the distribution of businesses by tract income level. Additionally, approximately 77.2 percent of businesses have GARs of \$1 million or less, 6.5 percent have GARs more than \$1 million, and 16.3 percent have unknown revenues. The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR level.

Service industries represent the largest portion of businesses at 41.3 percent followed by retail trade at 12.9 percent. In addition, 64.8 percent of area businesses have four or fewer employees, and 84 percent operate from a single location; illustrating the opportunity to lend to small businesses. According to the Kentucky Cabinet for Economic Development, the major employers within the Evansville, IN assessment area are Gibbs Die Casting Corporation, Tyson Foods Inc., and Century Aluminum Sebree.

The FFIEC median family income (MFI) level is used to analyze home mortgage loans under the Borrower Profile criterion. As illustrated above, the percent of families in the assessment area with income below the poverty level was 14 percent. The income categories for the review period follow.

MFI Ranges for Evansville MSA Assessment Area				
MFI	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2017 (\$65,500)	<\$32,750	\$32,750 to <\$52,400	\$52,400 to <\$78,600	≥\$78,600
<i>Source: FFIEC.</i>				

Competition

SDB operates in a moderately- competitive environment, with many competing banks, credit unions, as well as non-traditional financial service providers, such as finance companies. The FDIC's Deposit Market Share data, as of June 30, 2017, provides some measurement of the competition. Within the Evansville MSA assessment area, there are six FDIC-insured financial institutions operating 11 offices, including both locally chartered financial institutions as well as larger, regional financial institutions. However, because SDB does not have a location in the Evansville MSA assessment area, it does not register a deposit market share presence in this area.

Although SDB was not subject to CRA data collection and reporting requirement for small business loan activity, the market share data provides a measurement of the moderate level of competition for small business loans in this assessment area. Aggregate data for 2016 is the most recently available small business lending data and reflects 40 lenders originated approximately 615 small business loans in the Evansville MSA assessment area. The top three lenders originated over 48 percent of the loans, with two of the top lenders large national institutions.

Aggregate HMDA data also provides insight into competition within the Evansville MSA assessment area. Review of the 2016 aggregate data reaffirms the level of competition, with 106

lenders reporting 1,233 home mortgage loans originated or purchased. As SDB is not required to report home mortgage data, and has not elected to do so, it does not register a market share percentage in this dataset. However, the three most prominent home mortgage lenders accounted for over 36 percent of total market share, indicating a competitive market for home mortgages.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit opportunities are available.

Examiners reviewed a recent community contact familiar with the real estate market in the assessment area. This contact stated the overall economic conditions of the area are stable and home financing remains the biggest financial need in the area. Additionally, the contact stated that financial institutions appear to be meeting the financial needs of the community.

CONCLUSIONS ON PERFORMANCE CRITERIA IN EVANSVILLE MSA

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the Evansville, IN MSA assessment area. The bank's reasonable performance of home mortgage and small business lending supports this conclusion.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion. The following table represents the bank's lending performance in each CT category.

Geographic Distribution of Home Mortgage Loans within the Evansville MSA Assessment Area					
Tract Income Level	% of Owner-Occupied Housing Units	#	%	\$(000s)	%
Low	3.8	0	--	0	--
Moderate	20.9	1	11.1	36	8.9
Middle	75.4	8	88.9	370	91.1
Total	100%	9	100%	\$406	100%
<i>Source: 2015 ACS Census, Bank Records. Due to rounding, totals may not equal 100%.</i>					

SDB did not extend any home mortgage loans in low-income CTs during the review period. However, there is only one low-income CT containing 3.8 percent of the owner occupied housing units in the assessment area. This area also has more rental housing units than owner occupied units, which may serve to reduce mortgage loan demand. SDB did extend one mortgage loan in a moderate-income tract; however, this level of performance would be considered poor without the following mitigating factors. The location of the low- and moderate-income geographies, are over 25 miles from SDB's sole bank location. The residents of these census tracts have many other lending options located nearby, including several financial institutions with large home mortgage lending divisions. Given the physical distance from these areas to SDB's location, examiners concluded that this level of performance is reasonable.

Small Business Loans

The geographic distribution of small business loans represents reasonable dispersion. The following table displays SDB’s lending performance in each CT category within the Evansville MSA assessment area.

Geographic Distribution of Small Business Loans within the Evansville MSA Assessment Area					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	12.7	1	4.2	75	10.6
Moderate	31.2	3	12.5	174	24.6
Middle	56.2	20	83.3	457	64.8
Total	100%	24	100%	\$706	100%

Source: 2017 D&B Data, and Bank Records. Due to rounding, totals may not equal 100%.

SDB did extend small business loans within the low- and moderate-income CTs, but the lending volume was below the demographic comparator. Again, given the physical distance between SDB’s sole bank location and these CTs, the existence of several other financial institutions with commercial lending departments, mitigates concern over these lower lending levels. The low- and moderate-income CTs are over 25 miles from SDB’s location, which is a significant barrier to generating loans in these areas. The middle-income CTs are adjacent to SDB’s location, which explains the higher volume of loans in those areas. Overall, examiners consider this performance to be reasonable.

Borrower Profile

The distribution of borrowers reflects reasonable penetration of loans throughout the Evansville MSA assessment area. The bank's excellent performance of home mortgage and reasonable small business lending supports this conclusion.

Home Mortgage Loans

The distribution of home mortgage loans to individuals of different income levels, including LMI borrowers, is excellent. The table on the following page, illustrates the bank's home mortgage lending performance by borrower income levels within the assessment area. According to demographic data, approximately 14 percent of families in the area reported income levels below the poverty level. Due to their limited financial resources, families with incomes below the poverty level generally do not have the capacity to support a home mortgage, limiting the opportunity for lending to low-income borrowers. SDB’s level of lending to low-income borrowers is comparable to demographic data. However, given the high level of families below the poverty level, this level of performance is considered excellent.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	25.0	2	22.2	87	21.5
Moderate	19.1	3	33.3	151	37.1
Middle	21.6	3	33.3	142	35.1
Upper	34.2	1	11.1	26	6.3
Total	100%	9	100%	\$406	100%

Source: 2015 ACS Census, and Bank Records. Due to rounding, totals may not equal 100%.

Similarly, the bank’s lending level to moderate-income borrowers at 33.3 percent, is significantly above demographic data, which is commensurate with excellent performance.

Small Business Loans

The distribution of small business loans reflects reasonable penetration of loans to businesses with GARs of \$1 million or less as shown in the following table.

Distribution of Small Business Loans by GAR Category within the Evansville MSA Assessment Area					
GAR Level	% of Businesses	#	%	\$(000s)	%
≤ \$1,000,000	77.2	5	20.8	340	48.2
> \$1,000,000	6.5	19	79.2	366	51.8
Revenue Not Available	16.3	0	--	0	--
Total	100%	24	100%	\$706	100%
<i>Source: 2017 D&B Data, and Bank Records. Due to rounding, totals may not equal 100%.</i>					

The majority of SDB’s small business loans were extended to businesses with GARs over \$1 million (19 loans in total). Further analysis of these loans revealed that 16 of the loans were extended to the same small business. These loans were originated to finance inventory, in a manner that larger financial institutions would frequently use a more complex loan structure to combine the separate loans into one credit facility. Examiners gave consideration to this non-complex product structure, as if these loans were instead combined into one credit facility, only four loans would have been extended to small businesses with GARs over \$1 million.

Further analysis of the five loans extended to small businesses with GARs less than \$1 million revealed that two of the loans were originated to very small businesses with GARs of less than \$100,000. This demonstrates the bank’s willingness to serve the smallest of small business entities, as businesses of this size typically have very small operations and require additional skill in arranging financing. Overall, given these facts, SDB’s distribution of small business loans reflects reasonable penetration.

KENTUCKY NON-MSA

Examiner performed a full-scope review of SDB’s performance in the Kentucky Non-MSA assessment area, which is comprised of one CT in Webster County, Kentucky. The sole banking facility of SDB is located in this CT.

DESCRIPTION OF OPERATIONS IN KENTUCKY NON-MSA

Economic and Demographic Data

According to the 2015 ACS Community Survey, the Kentucky Non-MSA portion of SDB’s assessment area includes one middle-income CT. Approximately 8.5 percent of families in this assessment area have incomes below the poverty level. There are approximately 1,745 housing units within this assessment area, with 60.9 percent being owner-occupied, 27.8 percent are renter-occupied, and 11.3 percent were vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units. The following table provides additional demographic data.

Demographic Information of the Kentucky Non-MSA Assessment Area					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	1	--	--	100	--
Population by Geography	4,264	--	--	100	--
Housing Units by Geography	1,745	--	--	100	--
Owner-Occupied Units by Geography	1,062	--	--	100	--
Occupied Rental Units by Geography	485	--	--	100	--
Vacant Units by Geography	198	--	--	100	--
Businesses by Geography	175	--	--	100	--
Farms by Geography	54	--	--	100	--
Family Distribution by Income Level	1,075	14.2	17.4	22	46.4
Household Distribution by Income Level	1,547	15.3	17.2	19	48.5
MFI - KY Non-MSAs		\$47,800	Median Housing Value		\$93,000
Families Below Poverty Level		8.5%	Median Gross Rent		\$631
<i>Source: 2015 ACS Census and 2017 D&B Data. Due to rounding, totals may not equal 100%.</i>					

According to 2017 D&B data, only 175 businesses were located in this assessment area. The analysis of small business loans under the Geographic Distribution Criterion compares the distribution of businesses by tract income level. Of these businesses, approximately 77.1 percent have GARs of \$1 million or less, 5.7 percent have GARs more than \$1 million, and 17.1 percent have unknown revenues. The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR level.

The FFIEC median family income (MFI) level is used to analyze home mortgage loans under the Borrower Profile criterion. The percent of families in this assessment area with income below the poverty level was 8.5 percent. The income categories for the review period follow.

MFI Ranges for Kentucky Non-MSA Assessment Area				
MFI	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2017 (\$47,800)	<\$23,900	\$23,900 to <\$38,240	\$38,240 to <\$57,360	≥\$57,360
<i>Source: FFIEC.</i>				

Service industries represent the largest portion of businesses at 30.1 percent followed by agricultural firms at 23.6 percent. In addition, over 77 percent of businesses have revenues less than \$500,000, indicating that these are very small business entities. According to the Kentucky Cabinet for Economic Development, the major employers within the Kentucky Non-MSA assessment area are Phoenix Fabricators and Erectors (35 employees), Tyson Foods Feed Mill (26 employees), and Scott Manufacturing (25 employees).

Competition

SDB operates in a competitive environment, with several competing banks, credit unions, as well as non-traditional financial service providers, such as finance companies. The FDIC's Deposit

Market Share data, as of June 30, 2017, provides some measurement of the competition. Within the Kentucky Non-MSA assessment area, there are three FDIC-insured financial institutions operating three offices. SDB ranks second with 26.2 percent market share of total deposits in this area.

Aggregate HMDA data provides insight into competition within the Kentucky Non-MSA assessment area. In 2016, 29 lenders reported 75 home mortgage loans originated or purchased in this area. However, this likely understates the amount of home mortgages provided, as several smaller institutions in this area extend such loans, but are not required to report this data. SDB is not required to report home mortgage data, and has elected not to do so; therefore, it does not register a market share percentage in this dataset. However, one locally chartered institution dominates the market, originating 40 percent of HMDA reportable home mortgage originations. No other financial institution registers a market share percentage higher than 6 percent.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit and community development needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit opportunities are available.

Examiners reviewed a recent community contact interview, with a real estate agent familiar with the housing market in the assessment area. This contact stated the overall economic conditions of the area are stable and home financing remains the biggest financial need in the area. Also, the contact stated the banks appear to be meeting the financial needs of the community.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE KENTUCKY NON- MSA

Geographic Distribution

Given that the assessment area contains no LMI CTs, analysis of this criterion would not result in meaningful conclusions. Therefore, examiners did not evaluate the Geographic Distribution performance criterion for this assessment area.

Borrower Profile

The distribution of home mortgage and small business loans reflects reasonable penetration of loans throughout the Kentucky Non-MSA.

Home Mortgage Loans

The distribution of home mortgage loans to individuals of different income levels, including LMI borrowers, is reasonable. The table below illustrates the bank's home mortgage lending performance by borrower income levels within the assessment area. According to demographic data, approximately 8.5 percent of families in the area reported income levels below the poverty level. Due to their limited financial resources, families with incomes below the poverty level generally do not have the capacity to support a home mortgage, limiting the opportunity for lending to low-income borrowers. SDB's level of lending to low-income borrowers is

significantly above demographic data, especially when the 8.5 percent of families below the poverty level is taken into consideration. This level of performance is considered excellent.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	14.2	2	20	27	5.4
Moderate	17.4	0	--	0	--
Middle	22.0	2	20	50	9.7
Upper	46.4	6	60	432	84.9
Total	100%	10	100%	\$509	100%
<i>Source: 2015 ACS Census, Bank Records. Due to rounding, totals may not equal 100%.</i>					

The bank did not extend any home mortgage loans to moderate-income borrowers; however, the universe of loans extended during the sample period (10 total) makes drawing conclusions somewhat difficult. In addition, examiners reviewed aggregate HMDA data to better identify if any competing institutions were extending loans to moderate-income borrowers. Examiners found that only 9 home mortgage loans were extended to moderate-income borrowers in this area during 2016, which is also a small universe of loans to draw conclusions upon. A locally chartered financial institution leads this market, but only originated 2 home loans to moderate-income borrowers. This institution is significantly larger than SDB, has 3 branch offices in the area, and has significantly more resources and products to offer borrowers. Given this level of performance by a much larger competitor, examiners concluded that SDB's lending performance is reasonable.

Small Business Loans

The distribution of small business loans reflects reasonable penetration of loans to businesses with GARs of \$1 million or less. All three loans reviewed were extended to small businesses during the review period. This compares favorably to the demographic, at 77.1 percent of businesses having GARs of less than \$1 million.

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.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of CRA.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

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. Other family 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).

Family Income: Includes the income of all members of a family that are age 15 and older.

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower profile, 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 applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

HMDA Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement, and temporary-to-permanent construction loans.

Home Mortgage Loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans to purchase manufactured homes, and refinancings 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.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households are only one person, median household income is usually less than median family income.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

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.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

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 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 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area: All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

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.

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.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in "loans to small farms" as defined in the instructions for preparation of the Call Report. These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

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