PUBLIC DISCLOSURE

May 2, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Reelfoot Bank
RSSD #149253

1491 South First Street
Union City, Tennessee 38261

Federal Reserve Bank of St. Louis

P.O. Box 442
St. Louis, Missouri 63166-0442

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 the 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

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

Overall, Reelfoot Bank's CRA performance is Satisfactory, largely due to satisfactory ratings in the state of Tennessee, which carried the most weight toward the bank's overall institution ratings. The major factors supporting the institution's ratings include:

- The distribution of loans by borrower's income and revenue profile reflects reasonable penetration among customers of different income levels and businesses of different sizes.

- The overall geographic distribution of the loans reflects reasonable penetration throughout the bank's assessment areas.

- The bank has a reasonable loan-to-deposit (LTD) ratio, given the bank's size, financial condition, and the credit needs of its assessment areas.

- A majority of the bank's lending occurred inside its designated assessment areas.

- There have been no CRA-related complaints filed against the bank for this review.

SCOPE OF EXAMINATION

The bank's CRA performance was reviewed using the Federal Financial Institutions Examination Council's (FFIEC's) *Interagency CRA Procedures for Small Institutions.* The period of review spanned from the date of the bank's previous CRA evaluation on April 16, 2012 to May 2, 2016. The small bank procedures entail one performance test, the Lending Test, and bank performance under this test is rated at the institution level and at the state level. Reelfoot Bank maintains operations in two delineated assessment areas within two states, Tennessee and Kentucky. In light of these characteristics, the bank received three sets of ratings: an overall institution rating, a rating for the state of Tennessee, and a rating for the state of Kentucky.

The following table details the number of branch offices and the CRA review procedures applicable to each rated area completed as part of this evaluation.

State	Offices		Assessment Area Reviews		
	#	%	Full Scope	Limited Scope	TOTAL
Tennessee	4	80.0%	1	0	**1**
Kentucky	1	20.0%	1	0	**1**
OVERALL	**5**	**100%**	**2**	**0**	**2**

The bank's institution rating is a blend of the state ratings, which are weighted when making overall rating decisions. In light of branch structure, loan and deposit activity, and the bank's CRA evaluation history, CRA performance in the state of Tennessee was given primary consideration, as it accounts for 91.5 percent of the bank's 2014 lending activity used during this evaluation.

Lending performance was based on the loan products and the corresponding time periods displayed in the following table:

Loan Product	Time Period
1–4 Family Residential Real Estate	January 1, 2014 – December 31, 2014
Small Business	
Consumer Motor Vehicle	

These loan categories are considered the bank's primary lines of business, based on lending volume and the bank's stated business strategy. Therefore, the loan activity represented by these credit products is deemed indicative of the bank's overall lending performance. However, as the bank has a particular emphasis on home mortgage lending and small business lending, performance based on these loan categories carried the most significance toward the bank's overall performance conclusions.

Performance conclusions are based on an evaluation of lending activity in the bank's two delineated assessment areas. The Tennessee assessment area consists of Obion and Weakley Counties in their entireties. The second assessment area, located in Kentucky, is comprised of the entirety of Fulton County. Fulton County, located in extreme southwestern Kentucky, borders the Tennessee assessment area, found in extreme northwestern Tennessee. Both assessment areas are located in nonmetropolitan statistical area (nonMSA) portions of their respective states. The assessment areas were analyzed using full-scope review procedures.

Under the small bank CRA performance criteria, analyses often entail comparisons of bank performance to assessment area demographics and aggregate lending data. Unless otherwise noted, assessment area demographics are based on 2010 U.S. Census data; certain business geodemographics are based on 2014 Dun & Bradstreet data. When analyzing bank performance by comparing lending activity to both demographic data and aggregate lending data, greater emphasis is general placed on the aggregate lending data because it is expected to describe many factors impacting lenders within an assessment area. Aggregate lending datasets are also updated annually and are, therefore, expected to predict more relevant comparisons. In addition, the bank's lending performance was assessed in relation to that of similarly situated banks. Three other banks were identified as similarly situated peers, with asset sizes ranging from $109.1 million to $197.1 million as of March 31, 2016.

To augment this evaluation, four community contact interviews were conducted with members of the local community in order to ascertain specific credit needs, opportunities, and local market conditions within the bank's assessment areas. Key details from these interviews are included in the *Description of Institution's Operations* sections, as applicable to the assessment areas in which the interviews were conducted.

DESCRIPTION OF INSTITUTION

Reelfoot Bank is a full-service retail bank offering commercial and consumer loans, as well as deposit products. The bank is a wholly owned subsidiary of Reelfoot Bancshares, Inc., a one-bank holding company, headquartered in Union City, Tennessee. The bank's branch network consists of the main office and a limited-service facility with drive-through banking services located in Union City, Tennessee, two full-service branch locations in Tennessee (one in Hornbeak and one in Martin), and one full-service branch in Fulton, Kentucky. In addition, the bank has seven freestanding cash-dispensing automated teller machines (ATMs) in the Tennessee assessment area and one in the Kentucky assessment area. Since the last examination, the bank has not opened or closed any branches in its assessment areas. Based on this branch network and other service delivery systems, the bank is well positioned to deliver financial services to its Tennessee and Kentucky assessment areas, which are described in the *Description of Institution* section for each state.

For this review period, no legal impediments or financial constraints were identified that would have hindered the bank from serving the credit needs of its customers, and the bank appeared capable of meeting the assessment area's credit needs based on its available resources and financial products. As of March 31, 2016, the bank reported total assets of $155.0 million. As of the same date, outstanding loans and leases were $82.5 million (53.3 percent of total assets), and deposits totaled $137.0 million. The bank's loan portfolio composition by credit category is displayed in the following table:

Distribution of Total Loans as of March 31, 2016

Credit Category	Amount ($000s)	Percentage of Total Loans
Construction and Development	$4,314	5.2%
Commercial Real Estate	$16,133	19.5%
Multifamily Residential	$900	1.1%
1–4 Family Residential	$28,859	35.0%
Farmland	$4,141	5.0%
Farm Loans	$1,871	2.3%
Commercial and Industrial	$17,356	21.0%
Loans to Individuals	$8,933	10.8%
Total Other Loans	$42	0.1%
TOTAL LOANS	**$82,549**	**100%**

As indicated in the table above, a significant portion of the bank's lending resources is directed to loans secured by 1–4 family residential properties, commercial and industrial, commercial real estate, and consumer loans.

The bank received a Satisfactory rating at its previous CRA evaluation conducted by this Reserve Bank on April 16, 2012.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

Reelfoot Bank meets the standards for a Satisfactory rating under the small bank procedures, which evaluate bank performance under five criteria. The borrower's profile analysis reveals reasonable penetration among individuals of different income levels, including low- and moderate-income (LMI) levels and businesses of different sizes. The geographic distribution of loans analysis reflects reasonable dispersion throughout the bank's assessment areas. The bank's LTD ratio is reasonable given the bank's size, financial condition, and assessment areas' credit needs. A majority of the bank's loans and other lending-related activities are in the bank's assessment areas. Lastly, no CRA-related complaints were filed against the bank for this review period.

Rated Area	Lending Test Rating
Tennessee	Satisfactory
Kentucky	Satisfactory
OVERALL	**Satisfactory**

The remaining sections of this evaluation are based on analyses of the bank's lending performance under the five performance criteria.

Loan Distribution by Borrower's Profile

This performance criterion focuses on the bank's lending penetration among borrowers of different income levels, with a specific emphasis on lending to LMI borrowers and businesses with gross annual revenues of $1 million or less. As displayed in the following table, the bank's overall loan distribution by borrower's profile reflects excellent penetration throughout the bank's assessment areas.

Rated Area	Loan Distribution by Borrower's Profile
Tennessee	Excellent
Kentucky	Reasonable
OVERALL	**Excellent**

Additional details regarding the loan distribution by borrower's profile are included later in this evaluation, under the sections applicable to individual assessment area analyses.

Geographic Distribution of Loans

As displayed in the following table, the bank's overall distribution of lending by income level of census tract reflects reasonable penetration throughout the bank's assessment areas in the two states subject to review.

Rated Area	Geographic Distribution of Loans
Tennessee	Poor
Kentucky	Reasonable
OVERALL	**Reasonable**

This performance criterion focuses on the bank's lending penetration among geographies of different income levels, with a specific emphasis placed on lending in LMI geographies. However, while both assessment areas contain moderate-income census tracts, neither of them contain low-income geographies. Furthermore, all middle-income census tracts are classified as distressed middle-income census tracts. Therefore, the geographic distribution of loans analysis was performed as part of this evaluation but carries slightly less weight than the distribution of loans by borrower profile. Although the Tennessee assessment area carries more weight and performance in that census tract was considered poor, the bank made loans in all but three census tracts in the combined assessment area. Therefore, overall loan activity was reasonably dispersed throughout the assessment areas, consistent with demographics and bank structure.

Additional details regarding the loan distribution by geography are included later in this evaluation, under the sections applicable to individual assessment area analyses.

Loan-to-Deposit (LTD) Ratio

One indication of the bank's overall level of lending activity is its LTD ratio. The table below displays the bank's average LTD ratio compared to those of regional peers. The average LTD ratio represents a 17-quarter average, dating back to March 31, 2012.

LTD Ratio Analysis			
Name	**Asset Size ($000s) as of March 31, 2016**	**Headquarters**	**Average LTD Ratio**
Reelfoot Bank	$154,972	Union City, Tennessee	57.7%
Regional Banks	$109,072	Cadiz, Kenntucky	70.4%
	$178,945	Newbern, Tennessee	41.3%
	$197,146	Paris, Tennessee	80.2%

Based on data from the previous table, the bank's level of lending is in line with that of other banks in the region. During the review period, the bank's LTD ratio ranged from a low of 51.7 percent to a high of 62.6 percent, with a slightly increasing trend since 2012. In comparison, the average LTD ratios for the regional peer, headquartered in Paris, Tennessee, had an increasing trend, while the remaining two regional peers' LTDs had decreasing trends. Therefore, compared to data from regional banks, the bank's average LTD ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.

Assessment Areas Concentration

For the loan activity reviewed as part of this evaluation, the following table displays the number and dollar volume of loans inside and outside the bank's assessment areas.

Lending Inside and Outside of Assessment Area ($000s) January 1, 2014 through December 31, 2014						
Loan Type	**Inside Assessment Area**		**Outside Assessment Area**		**TOTAL**	
1–4 Family Residential	56	81.2%	13	18.8%	**69**	**100%**
	$2,898	85.1%	$509	14.9%	**$3,407**	**100%**
Small Business	20	24.1%	63	75.9%	**83**	**100%**
	$469	19.4%	$1,953	80.6%	**$2,422**	**100%**
Consumer	88	86.3%	14	13.7%	**102**	**100%**
	$774	86.2%	$124	13.8%	**$898**	**100%**
TOTAL LOANS	**164**	**64.6%**	**90**	**35.4%**	**254**	**100%**
	$4,141	**61.6%**	**$2,586**	**38.4%**	**$6,727**	**100%**

As shown above, a majority of the loans sampled were extended to borrowers that reside in the bank's assessment area while the majority of lending to small businesses appears to extend to businesses that operate outside of the bank's assessment areas. However, based on an in-depth review of the bank's lending activity, 2 small businesses outside the assessment area were identified as accounting for 54 of the 83 total small business loans reviewed as part of this evaluation. Through discussions with bank management, it was discovered that these small businesses, which are automotive dealerships, periodically replenish their inventory of vehicles and finance them with Reelfoot Bank. As each replenishment is financed individually, these periodic financing opportunites do not represent normal, annual small business lending activity within the assessment areas.

In total, 64.6 percent of the total loans were made inside the assessment areas, accounting for 61.6 percent of the dollar volume of total loans.This represents a majority of loans made inside the assessment areas.

Review of Complaints

No CRA-related complaints were filed against the bank during this review period (April 16, 2012 through May 2, 2016).

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Based on findings from the Consumer Affairs Examination (including a fair lending analysis performed under Regulation B – Equal Credit Opportunity and the Fair Housing Act requirements) conducted concurrently with this CRA evaluation, no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

TENNESSEE

CRA RATING FOR TENNESSEE: Satisfactory

Major factors supporting the institution's Tennessee rating include the following:

- The distribution of loans by borrower profile reflects excellent penetration among individuals of different income levels (including LMI levels) and businesses of different sizes.

- The geographic distribution of loans reflects poor dispersion throughout the bank's Tennessee assessment area.

SCOPE OF EXAMINATION

Scoping considerations applicable to the review of the Tennessee assessment area are consistent with the overall CRA examination scope as presented in the *Institution, Scope of Examination* section. Reelfoot Bank has one assessment area in the state of Tennessee; therefore, the bank's performance in this assessment area was evaluated using full-scope review procedures. Additionally, since the majority of the bank's operations and loan activity takes place in the Tennessee assessment area, it received primary consideration as part of the overall CRA evaluation assigned to the bank. Two community contact interviews were conducted in order to ascertain specific credit needs, opportunities, and local market conditions. Details from these interviews are included in the *Description of Institution's Operations in Tennessee* section of this evaluation.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN TENNESSEE

Bank Structure

The bank's Tennessee branch network consists of the main office, two full-service branch offices, and a data center with drive-through-only banking services. The main office and data center are located in Union City, Tennessee. The two other branch offices are located in the cities of Hornbeak and Martin. In addition, the bank also has seven other cash-dispensing ATMs in the Tennessee assessment area. Since the last CRA evaluation, the bank has not opened or closed any branches in this assessment area. Furthermore, according to the Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report as of June 30, 2015, there are 10 depository institutions operating 29 branches in the assessment area. Reelfoot Bank ranks fourth, encompassing 7.1 percent of the total assessment area deposit dollars.

General Demographics

The bank's designated Tennessee assessment area for this evaluation is comprised of all 10 census tracts that comprise Obion County and all 11 census tracts that comprise Weakley County, all of which are located in nonMSA Tennessee. Of these 21 census tracts, 3 are moderate-, 13 are middle-, and 5 are upper-income census tracts. Weakley County contains all three moderate-income census tracts, and all six of its middle-income census tracts are distressed due to unemployment and poverty. Furthermore, all seven middle-income census tracts in Obion County are distressed due to unemployment.

This assessment area is located in the northeast corner of Tennessee, along the Tennessee-Kentucky border. Based on 2010 U.S. Census data, the population of this assessment area was 66,828, representing a slight decline since 2000 due to population loss in Obion County. Weakley County has the larger population of the assessment area with 35,021.

Income and Wealth Demographics

The bank's assessment area consists of the 21 census tracts comprising the counties of Obion and Weakley in their entireties. The following table reflects the number and population of these census tracts by income level.

Assessment Area Demographics by Geography Income Level						
Dataset	**Low-**	**Moderate-**	**Middle-**	**Upper-**	**Unknown**	**TOTAL**
Census Tracts	0	3	13	5	0	**21**
	0.0%	14.3%	61.9%	23.8%	0.0%	**100%**
Family Population	0	1,389	12,249	3,904	0	**17,542**
	0.0%	7.9%	69.8%	22.3%	0.0%	**100%**

Based on 2010 U.S. Census data, the median family income for the assessment area was $46,189, which is above the entire nonMSA Tennessee median family income of $44,386. More recently, the FFIEC estimates the 2014 nonMSA Tennessee median family income to be $47,100.

The following table displays population percentages of assessment area families by income level compared to the nonMSA Tennessee family population as a whole.

Family Population by Income Level					
Dataset	**Low-**	**Moderate-**	**Middle-**	**Upper-**	**TOTAL**
Assessment Area	3,654	2,790	3,657	7,441	**17,542**
	20.8%	15.9%	20.8%	42.4%	**100%**
NonMSA Tennessee	85,065	71,924	83,703	163,968	**404,660**
	21.0%	17.8%	20.7%	40.5%	**100%**

Based on the data in the preceding table, the assessment area is more affluent than nonMSA Tenneessee as a whole. This table reveals that 36.7 percent of assessment area families are considered LMI. This LMI family population figure is below the 38.8 percent found in nonMSA Tennessee. Additionally, the assessment area has a larger upper-income family population than nonMSA Tennessee. Lastly, the level of assessment area families living below the poverty level (12.9 percent) is also below that of all nonMSA Tennessee families (14.6 percent).

Housing Demographics

Based on housing values and rental costs, housing in the assessment area appears to be more affordable than in nonMSA Tennessee as a whole. The median housing value for the assessment area was $84,925, which is below the figure for nonMSA Tennessee ($100,004). Similarly, housing appears to be relatively affordable, considering income levels. The assessment area housing affordability ratio of 42.7 percent is above the nonMSA Tennessee figure of 35.0 percent. Lastly, the median gross rent for the assessment area of $512 per month is more affordable compared to $544 per month for nonMSA Tennessee. Based on this data, home ownership appears to be in reach of the LMI population.

Industry and Employment Demographics

The local economy is diverse and is supported by a mixture of manufacturing and service-oriented sectors. According to the U.S. Census Bureau 2014 County Business Patterns, by number of paid employees in Obion and Weakley Counties, manufacturing leads with 4,014, followed by retail trade (2,803), and health care and social assistance (2,754). Furthermore, business demographic estimates from Dun & Bradstreet indicate that 88.8 percent of assessment area businesses have gross annual revenues of $1 million or less.

The following table details unemployment data from the U.S. Department of Labor, Bureau of Labor Statistics (not seasonally adjusted) for Obion and Weakley Counties compared to nonMSA Tennessee and the state of Tennessee.

Time Period (Annual Average)	Tennessee	Obion County	Weakley County
2012	7.8%	13.4%	10.9%
2013	7.8%	11.6%	10.4%
2014	6.5%	9.5%	8.5%
2015	5.8%	8.9%	7.0%

Unemployment levels in both counties have consistently been well above statewide levels, most notably in Obion County. As shown in the table above, unemployment levels have shown a decreasing trend since 2012 for both counties and the state of Tennessee.

Community Contact Information

Information from two community contacts was used to help shape the performance context in which the bank's activities in this assessment area were evaluated. Of these interviews, one was conducted with an individual working in an economic development role and another with an individual working in a small business development role. The community contacts categorized the economy as struggling and facing employment challenges; however, current conditions are more stable than they have been in the past several years. One contact indicated that the community is still suffering from the closure of a major manufacturing facility in 2011 but has benefited from new employment opportunities from other manufacturing businesses. Furthermore, one community contact stated that payday lenders saturate the area and adversely affect many LMI individuals who would be considered unbanked or under-banked.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA IN TENNESSEE

The bank's overall distribution of loans by borrower's income/revenue profile reflects reasonable penetration among borrowers of different income levels and businesses of different revenue sizes. In contrast, the overall geographic distribution of loans reflects poor penetration throughout the assessment area.

Loan Distribution by Borrower's Profile

Borrowers are classified into low-, moderate-, middle-, and upper-income categories by comparing their reported income to the applicable median family income figure as estimated by the FFIEC ($47,100 for nonMSA Tennessee as of 2014). The following table shows the distribution of 1–4 family residential real estate loans by borrower income level compared to family population income characteristics and 2014 Home Mortgage Disclosure Act (HMDA) aggregate data for the assessment area.

Distribution of Loans Inside Assessment Area by Borrower Income
January 1, 2014 through December 31, 2014

	Borrower Income Level										TOTAL	
	Low-		Moderate-		Middle-		Upper-		Unknown			
1–4 Family Residential Real Estate	3	5.8%	16	30.8%	13	25.0%	20	38.5%	0	0.0%	**52**	**100%**
Family Population	20.8%		15.9%		20.8%		42.4%		0.0%		**100%**	
2014 HMDA Aggregate	6.4%		15.1%		19.9%		36.0%		22.6%		**100%**	

As indicated in the preceding table, the bank's level of lending to low-income borrowers (5.8 percent) is well below the low-income family population percentage (20.8 percent). However, the bank's level of lending is in line with the aggregate lending level to low-income borrowers (6.4 percent), reflecting reasonable performance. The bank's lending level to moderate-income borrowers (30.8 percent) is excellent, as it is significantly above both the percentage of moderate-income borrowers within the assessment area (15.9 percent) and the aggregate lending level to moderate-income borrowers (15.1 percent). When comparing lending numbers to LMI borrowers, the bank's overall borrower distribution of residential real estate loans is excellent.

Similar to the borrower's profile analysis conducted for the previous loan category, the bank's distribution of small business loans to businesses of various sizes was reviewed. The following table reflects Reelfoot Bank's distribution of small business loans by gross annual business revenue and loan amount compared to Dun & Bradstreet and 2014 CRA aggregate data for businesses with revenues less than or equal to $1 million.

Distribution of Loans Inside Assessment Area by Business Revenue January 1, 2014 through December 31, 2014								
Gross Revenue	**Loan Amounts in $000s**						**TOTAL**	
	<$100		**>$100 and ≤$250**		**>$250 and ≤$1,000**			
$1 Million or Less	17	100.0%	0	0.0%	0	0.0%	**17**	**100.0%**
Greater than $1 Million/Unknown	0	0.0%	0	0.0%	0	0.0%	**0**	**0.0%**
TOTAL	**17**	**100.0%**	**0**	**0.0%**	**0**	**0.0%**	**17**	**100%**
Dun & Bradstreet Businesses ≤ $1MM							**88.8%**	
Small Business Aggregate ≤ $1MM							**61.2%**	

The table above demonstrates that all 17 loans reviewed were made to businesses with gross annual revenues of $1 million or less. In comparison, business geodemographic data indicates that 88.8 percent of business institutions inside the assessment area are small businesses. Additionally, the bank's performance exceeds CRA aggregate data for the assessment area, which indicates that 61.2 percent of small business lending was to small businesses. In addition, the fact that all loans to small businesses reviewed were in amounts of $100,000 or less further indicates the bank's willingness to meet the credit needs of small businesses. Consequently, the borrower's profile performance for the bank's small business loan category is excellent.

Lastly, as with the previous loan categories, the borrower distribution of consumer motor vehicle loans was analyzed by borrower's income profile. The following table shows the distribution of consumer motor vehicle loans by income level of the borrower compared to household population income characteristics.

Distribution of Bank Loans Inside Assessment Area by Income Level of Borrower January 1, 2014 through December 31, 2014												
	Borrower Income Level										**TOTAL**	
	Low-		**Moderate-**		**Middle-**		**Upper-**		**Unknown**			
Consumer Motor Vehicle Loans	14	17.3%	24	29.6%	25	30.9%	18	22.2%	0	0.0%	**81**	**100%**
Household Population	26.5%		14.3%		16.6%		42.5%		0.0%		**100%**	

The bank's performance by number of motor vehicle loans made to low-income borrowers (17.3 percent) is considered poor, as it is below the household population comparison of 26.5 percent. The bank's consumer lending to moderate-income borrowers (29.6 percent) exceeds the household population comparison of 14.3 percent, representing excellent performance. Based on this data, the overall distribution of the bank's consumer motor vehicle loans reflects excellent penetration among individuals of different income levels.

Therefore, the bank's overall borrower's profile performance, based on analyses of all three loan categories, is excellent.

Geographic Distribution of Loans

As noted in the *Description of Institution's Operations in Tennessee* section, the bank's assessment area contains no low-, 3 moderate-, 13 middle-, and 5 upper-income census tracts. Additionally, all 13 middle-income census tracts in the assessment area are distressed due to unemployment and/or poverty (Obion County's 7 middle-income census tracts are distressed due to unemployment; Weakley County's 6 middle-income census tracts are distressed due to unemployment and poverty). The analysis in this section illustrates the distribution of the bank's loan activity across these geographies. Overall, the bank's geographic distribution of loans reflects poor dispersion throughout this assessment area, based on activity analyzed from all three loan categories.

The following table displays the geographic distribution of 1–4 family residential real estate loans compared to owner-occupied housing and aggregate statistics for the assessment area.

Distribution of Loans Inside Assessment Area by Income Level of Geography January 1, 2014 through December 31, 2014												
	Geography Income Level										**TOTAL**	
	Low-		**Moderate-**		**Middle-**		**Upper-**		**Unknown**			
1–4 Family Residential Real Estate	0	0.0%	3	5.8%	36	69.2%	13	25.0%	0	0.0%	**52**	**100%**
Owner-Occupied Housing	0.0%		7.0%		68.8%		24.2%		0.0%		**100%**	
2014 HMDA Aggregate	0.0%		8.2%		67.2%		24.6%		0.0%		**100%**	

The bank's total penetration of moderate-income census tracts by number of loans (5.8 percent) is similar to the percentage of owner-occupied housing units in moderate-income census tracts and aggregate performance (7.0 percent and 8.2 percent, respectively). The bank's lending in distressed middle-income tracts and upper-income census tracts is similar to both owner-occupied housing units and aggregate performance. Therefore, the bank's geographic distribution of 1–4 family residential real estate loans is reasonable.

As with the previous loan category, the bank's geographic distribution of small business loans was also reviewed. The following table displays the results of this review, along with the estimated percentages of business institutions located in each geographic income category and aggregate data used for comparison purposes.

Distribution of Loans Inside Assessment Area by Income Level of Geography January 1, 2014 through December 31, 2014												
	Geography Income Level										TOTAL	
	Low-		Moderate-		Middle-		Upper-		Unknown			
Small Business Loans	0	0.0%	0	0.0%	10	58.8%	7	41.2%	0	0.0%	**17**	**100%**
Business Institutions	0.0%		7.4%		76.4%		16.2%		0.0%		**100%**	
2014 Small Business Aggregate	0.0%		6.6%		72.9%		19.2%		1.3%		**100%**	

As illustrated in the previous table, the bank's level of lending in the moderate-income census tracts is below data used for comparison. The bank originated no small business loans to businesses within moderate-income census tracts. In comparison, 2014 business geodemographic data indicate that 7.4 percent of assessment area businesses reported being located in moderate-income census tracts. The bank's performance also compares less favorably to that of other lenders, based on 2014 CRA aggregate data, which indicates that 6.6 percent of reported small business loans were in moderate-income census tracts. Therefore, the geographic distribution of the bank's small business loans reflects poor dispersion throughout the assessment area.

Similar to the previous two loan categories, the geographic distribution of consumer motor vehicle loan activity is displayed in the following table:

Distribution of Bank Loans Inside Assessment Area by Income Level of Geography January 1, 2014 through December 31, 2014												
	Geography Income Level										TOTAL	
	Low-		Moderate-		Middle-		Upper-		Unknown			
Consumer Motor Vehicle Loans	0	0.0%	3	3.7%	54	66.7%	24	29.6%	0	0.0%	**81**	**100%**
Household Population	0.0%		9.4%		70.7%		19.9%		0.0%		**100%**	

This analysis revealed poor loan distribution throughout the assessment area. In total, 3.7 percent of consumer motor vehicle loans were made to borrowers in moderate-income census tracts, which is below the household population in moderate-income census tracts of 9.4 percent. Based on this data, the geographic distribution of consumer motor vehicle loans reflects poor performance.

KENTUCKY

CRA RATING FOR KENTUCKY: Satisfactory

Major factors supporting the institution's Kentucky rating include the following:

- The distribution of loans by borrower profile reflects reasonable penetration among individuals of different income levels (including LMI levels) and businesses of different sizes.

- The geographic distribution of loans reflects reasonable dispersion throughout the bank's Kentucky assessment area.

SCOPE OF EXAMINATION

Reelfoot Bank has one assessment area in the state of Kentucky, which was evaluated using full-scope review procedures. The Kentucky assessment area is comprised of one moderate- and one middle-income census tract and does not include any low- or upper-income census tracts. Scoping considerations applicable to the review of the Kentucky assessment area are consistent with the overall CRA examination scope, as presented in the *Institution, Scope of Examination* section; however, the bank did not have sufficient lending activity within the Kentucky assessment area to analyze each product separately. The distribution of loans by borrower's income and revenue and by geographic distribution were reviewed, but conclusions were not made on individual products. Two community contact interviews were conducted in order to ascertain specific credit needs, opportunities, and local market conditions. Details from these interviews are included in the *Description of Institution's Operations in Kentucky* section of this evaluation.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN KENTUCKY

<u>Bank Structure</u>

The bank operates one branch office with drive-through and ATM services and an additional cash-dispensing ATM in Kentucky. Since the last CRA evaluation, the bank has not opened or closed any branches in this assessment area. Furthermore, according to the FDIC Deposit Market Share Report as of June 30, 2015, there are three depository institutions operating five branches in the assessment area. Reelfoot Bank ranks third, encompassing only 14.3 percent of the total assessment area deposit dollars. In comparison, the other two institutions operate two branches each in the county and have market shares of 49.1 percent and 36.6 percent, respectively.

General Demographics

The bank's designated Kentucky assessment area for this evaluation consists of the two census tracts that comprise Fulton County, which is part of nonMSA Kentucky. This assessment area is located in the southwest portion of Kentucky, along the Kentucky-Tennessee border. The census tracts are classified as moderate- and middle-income, with the latter designated as distressed due to poverty, unemployment, and population loss. Based on 2010 U.S. Census data, the population of this assessment area was 6,813, representing a decline of 12.1 percent since 2000.

Income and Wealth Demographics

The bank's assessment area consists of the two census tracts comprising Fulton County in its entirety. The following table reflects the number and population of these census tracts by income level.

Assessment Area Demographics by Geography Income Level

Dataset	Low-	Moderate-	Middle-	Upper-	Unknown	TOTAL
Census Tracts	0	1	1	0	0	**2**
	0.0%	50.0%	50.0%	0.0%	0.0%	**100%**
Family Population	0	1,308	757	0	0	**2,065**
	0.0%	63.3%	36.7%	0.0%	0.0%	**100%**

Based on 2010 U.S. Census data, the median family income for the assessment area was $35,713, which is well below the entire nonMSA Kentucky median family income of $43,402. More recently, the FFIEC estimates the 2014 nonMSA Kentucky median family income to be $45,900. The following table displays population percentages of assessment area families by income level compared to the nonMSA Kentucky family population as a whole.

Family Population by Income Level

Dataset	Low-	Moderate-	Middle-	Upper-	TOTAL
Assessment Area	600	387	474	604	**2,065**
	29.1%	18.7%	23.0%	29.2%	**100%**
NonMSA Kentucky	113,894	81,702	92,223	203,383	**491,202**
	23.2%	16.6%	18.8%	41.4%	**100%**

Based on the data in the preceding table, the assessment area is notably less affluent than nonMSA Kentucky as a whole. This table reveals that a significant portion of assessment area families (47.8 percent) are considered LMI. This LMI family population figure is well above the 39.8 percent found in nonMSA Kentucky. Additionally, the assessment area has a notably smaller upper-income family population than nonMSA Kentucky. Lastly, the level of assessment area families living below the poverty level (24.0 percent) is also well above that of all nonMSA Kentucky families (16.9 percent).

Housing Demographics

Based on housing values and rental costs, housing in the assessment area appears to be more affordable than in nonMSA Kentucky as a whole. The median housing value for the assessment area was $55,300, which is well below the figure for nonMSA Kentucky ($84,511). Similarly, housing appears to be relatively affordable, considering income levels. The assessment area housing affordability ratio of 57.8 percent is well above the nonMSA Kentucky figure of 40.0 percent. Lastly, the median gross rent for the assessment area of $418 per month is more affordable compared to $513 per month for nonMSA Kentucky. Therefore, even though assessment area income characteristics are generally less favorable than comparison data, assessment area housing is still affordable when considering median housing values and rents.

Industry and Employment Demographics

The local economy is diverse and is supported by a mixture of manufacturing and service-oriented sectors. According to the U.S. Census Bureau 2014 County Business Patterns, by number of paid employees in Fulton County, manufacturing leads with 383, followed closely by health care and social assistance (375) and retail trade (194). Furthermore, business demographic estimates from Dun & Bradstreet indicate that 88.9 percent of assessment area businesses have gross annual revenues of $1 million or less.

The table below details unemployment data from the U.S. Department of Labor, Bureau of Labor Statistics (not seasonally adjusted) for Fulton County compared to the state of Kentucky.

Time Period (Annual Average)	Kentucky	Fulton County
2012	8.2%	11.3%
2013	8.1%	10.8%
2014	6.5%	8.3%
2015	5.4%	7.7%

Unemployment levels in Fulton County have consistently been well above statewide levels. However, as indicated in the table above, unemployment levels have shown a decreasing trend since 2012 for Fulton County and the state of Kentucky.

Community Contact Information

Information from two community contacts was used to help shape the performance context in which the bank's activities in this assessment area were evaluated. Of these interviews, one was with an individual focused on economic development and another was with an individual involved in the government. The community contacts categorized the local economy as depressed with a very poor housing market in Fulton County, with low home appraisal values and homes in need of repair being an obstacle for acquiring financing. According to both contacts, almost no new homes have been constructed in Fulton County, especially within city limits, and residents are more inclined to rent. Additionally, both contacts noted a continuous population decline due to business departures in the county and surrounding region. Further, the city of Fulton is situated on the Kentucky-Tennessee border and Tennessee offers more favorable taxation opportunities for residents. One contact acknowledged the cyclical challenge of losing people and businesses due to a struggling economy and the difficulty of attracting new citizens given the limited amenities and job opportunities. Moreover, one contact noted that the county's primary needs are job and population stability and that credit needs are less important in comparison.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA IN KENTUCKY

The bank's overall distribution of loans by borrower's income/revenue profile reflects reasonable penetration among borrowers of different income levels and businesses of different revenue sizes. Furthermore, the overall geographic distribution of loans reflects reasonable penetration throughout the assessment area. As previously stated, the bank did not have sufficient lending activity within the Kentucky assessment area to analyze each product separately, and an overall conclusion was made in place of individual conclusions by product. However, the bank's level of lending is reasonable given the low population of the county and information from community contacts that did not identify any unmet credit needs.

Loan Distribution by Borrower's Profile

Borrowers are classified into low-, moderate-, middle-, and upper-income categories by comparing their reported income to the applicable median family income figure as estimated by the FFIEC ($45,900 for nonMSA Kentucky as of 2014). Although there was not sufficient lending activity to analyze each product separately, the bank's overall lending reflects reasonable penetration among individuals of different income levels and businesses of different sizes. The following tables show the distribution of loans by income level of the borrower compared to household population income characteristics and aggregate performance.

Distribution of Loans Inside Assessment Area by Borrower Income
January 1, 2014 through December 31, 2014

	Borrower Income Level										TOTAL	
	Low-		Moderate-		Middle-		Upper-		Unknown			
1–4 Family Residential Real Estate	1	25.0%	0	0.0%	2	50.0%	1	25.0%	0	0.0%	**4**	**100%**
Family Population	29.1%		18.7%		23.0%		29.2%		0.0%		**100%**	
2014 HMDA Aggregate	2.2%		13.0%		37.0%		30.4%		17.4%		**100%**	

Distribution of Loans Inside Assessment Area by Business Revenue
January 1, 2014 through December 31, 2014

Gross Revenue	Loan Amounts in $000s						TOTAL	
	<$100		>$100 and ≤$250		>$250 and ≤$1,000			
$1 Million or Less	3	100.0%	0	0.0%	0	0.0%	**3**	**100.0%**
Greater than $1 Million/Unknown	0	0.0%	0	0.0%	0	0.0%	**0**	**0.0%**
TOTAL	**3**	**100.0%**	**0**	**0.0%**	**0**	**0.0%**	**3**	**100%**
Dun & Bradstreet Businesses ≤ $1MM							**88.9%**	
Small Business Aggregate ≤ $1MM							**40.3%**	

Distribution of Bank Loans Inside Assessment Area by Income Level of Borrower January 1, 2014 through December 31, 2014												
	Borrower Income Level										TOTAL	
	Low-		Moderate-		Middle-		Upper-		Unknown			
Consumer Loans	2	28.6%	1	14.3%	3	42.9%	1	14.3%	0	0.0%	**7**	**100%**
Household Population	29.7%		13.2%		18.8%		38.3%		0.0%		**100%**	

Geographic Distribution of Loans

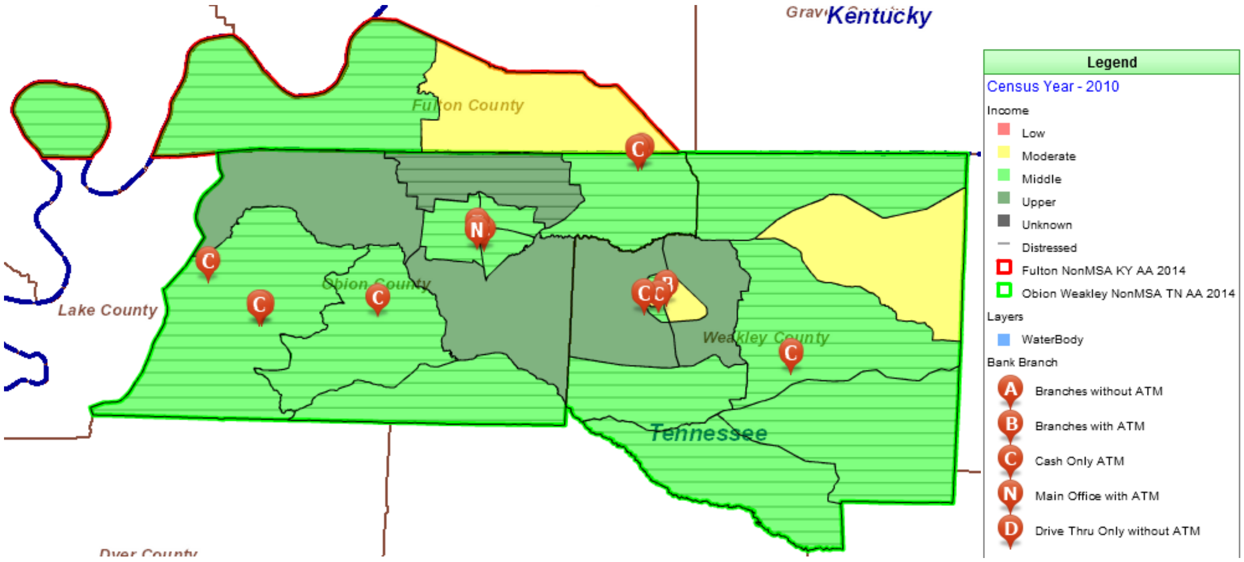
As noted in the *Description of Institution's Operations in Kentucky* section, the bank's assessment area contains no low-, one moderate-, one middle-, and no upper-income census tracts. Furthermore, the middle-income census tract is distressed due to poverty, unemployment, and population loss. As stated previously, there was not sufficient lending activity to analyze each product separately and the geographic distribution of the bank's loans reflects reasonable dispersion throughout the assessment area. The following tables display the geographic distribution of the bank's loans.

Distribution of Loans Inside Assessment Area by Income Level of Geography January 1, 2014 through December 31, 2014												
	Geography Income Level										TOTAL	
	Low-		Moderate-		Middle-		Upper-		Unknown			
1–4 Family Residential Real Estate	0	0.0%	4	100.0%	0	0.0%	0	0.0%	0	0.0%	**4**	**100%**
Owner-Occupied Housing	0.0%		60.5%		39.5%		0.0%		0.0%		**100%**	
2014 HMDA Aggregate	0.0%		78.3%		19.6%		0.0%		2.2%		**100%**	

Distribution of Loans Inside Assessment Area by Income Level of Geography January 1, 2014 through December 31, 2014												
	Geography Income Level										TOTAL	
	Low-		Moderate-		Middle-		Upper-		Unknown			
Small Business Loans	0	0.0%	3	100.0%	0	0.0%	0	0.0%	0	0.0%	**3**	**100%**
Business Institutions	0.0%		60.0%		40.0%		0.0%		0.0%		**100%**	
2014 Small Business Aggregate	0.0%		67.2%		29.9%		0.0%		3.0%		**100%**	

Distribution of Bank Loans Inside Assessment Area by Income Level of Geography January 1, 2014 through December 31, 2014												
	Geography Income Level										**TOTAL**	
	Low-		**Moderate-**		**Middle-**		**Upper-**		**Unknown**			
Consumer Loans	0	0.0%	7	100.0%	0	0.0%	0	0.0%	0	0.0%	**7**	**100%**
Household Population	0.0%		63.1%		36.9%		0.0%		0.0%		**100%**	

ASSESSMENT AREA DETAIL



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.

Assessment area: One or more of the geographic areas delineated by the bank and used by the regulatory agency to assess an institution's record of CRA performance.

Census tract: A small subdivision of metropolitan and nonmetropolitan 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 on 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 contact: Interviews conducted as part of the CRA examination to gather information that might assist examiners in understanding the bank's community, available opportunities for helping to meet local credit and community development needs, and perceptions on the performance of financial institutions in helping meet local credit needs. Communications and information gathered can help to provide a context to assist in the evaluation of an institution's CRA performance.

Community development: An activity associated with one of the following five descriptions: (1) affordable housing (including multifamily rental housing) for low- and moderate-income (LMI) individuals; (2) community services targeted to LMI individuals; (3) 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; (4) activities that revitalize or stabilize LMI geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies; or (5) Neighborhood Stabilization Program (NSP) eligible activities in areas with HUD-approved NSP plans, which are conducted within two years after the date when NSP program funds are required to be spent and benefit low-, moderate-, and middle-income individuals and geographies.

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.

Demographics: The statistical characteristics of human populations (such as age, race, sex, income, etc.) used especially to identify markets.

Distressed nonmetropolitan middle-income geography: A middle-income, nonmetropolitan geography will be designated as distressed if it is in a county that meets one or more of the following triggers: (1) an unemployment rate of at least 1.5 times the national average, (2) a poverty rate of 20 percent or more, or (3) a population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

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 nonrelatives 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 (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., 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 who 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 (e.g., 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: One or more persons who occupy a housing unit. The occupants may be a single family, one person living alone, two or more families living together, or any other group of related or unrelated persons who share living arrangements.

Housing affordability ratio: Is calculated by dividing the median household income by the median housing value. It represents the amount of single family, owner-occupied housing that a dollar of income can purchase for the median household in the census tract. Values closer to 100 percent indicate greater affordability.

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

Median family income: The dollar amount that divides the family income distribution into two equal groups, half having incomes above the median, half having incomes below the median. The median family income is based on all families within the area being analyzed.

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

Nonmetropolitan statistical area (nonMSA): Not part of a metropolitan area. (See metropolitan area.)

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.

Performance context: The performance context is a broad range of economic, demographic, and institution- and community-specific information that an examiner reviews to understand the context in which an institution’s record of performance should be evaluated. The performance context is not a formal or written assessment of community credit needs.

Performance criteria: These are the different criteria against which a bank's performance in helping to meet the credit needs of its assessment area(s) is measured. The criteria relate to lending, investment, retail service, and community development activities performed by a bank. The performance criteria have both quantitative and qualitative aspects. There are different sets of criteria for large banks, intermediate small banks, small banks, wholesale/limited purpose banks, and strategic plan banks.

Performance evaluation (PE): A written evaluation of a financial institution's record of meeting the credit needs of its community, as prepared by the federal financial supervision agency responsible for supervising the institution.

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 businesses/small farms: A small business/farm is considered to be one in which gross annual revenues for the preceding calendar year were $1 million or less.

Small loan(s) to business(es): That is, "small business loans" are included in "loans to small businesses" as defined in the Consolidated Reports 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 secured either 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): That is, "small farm loans" are included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Reports 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.

Underserved middle-income geography: A middle-income, nonmetropolitan geography will be designated as underserved if it meets criteria for population size, density, and dispersion that indicate the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

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.