# PUBLIC DISCLOSURE

**March 27, 2017**

# COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Citizens Bank**
**RSSD #535641**

**1021 South Main Street**
**Hartford, Kentucky 42347**

**Federal Reserve Bank of St. Louis**

**P.O. Box 442**
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**INSTITUTION'S CRA RATING: This institution is rated SATISFACTORY.**

Citizens Bank meets the criteria for a Satisfactory rating based on the evaluation of the bank's lending activity. The factors supporting the institution's rating include:

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

- A majority of loans and other lending-related activities are in the assessment areas.

- Distribution of loans to borrowers reflects reasonable penetration among individuals of different income levels, including low- and moderate-income (LMI), and businesses of different revenue sizes.

- Geographic distribution of loans reflects a reasonable dispersion throughout the assessment areas.

- There were no CRA-related complaints filed against the bank since the previous CRA evaluation.

## SCOPE OF EXAMINATION

The bank's CRA performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC's) small bank procedures. The small bank procedures entail one performance test, the Lending Test, and bank performance under this test is rated at the institution level. The bank maintains operations in two delineated assessment areas within the state of Kentucky.

The following table details the number of branch offices, breakdown of deposits, and the CRA review procedures applicable to each assessment area completed as part of this evaluation. Deposit information in the following table, as well as deposit information throughout this evaluation, is taken from the Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report data as of June 30, 2016.

| Assessment Area | Offices | | Deposits as of 6/30/16 | | Assessment Area Reviews | | |
|---|---|---|---|---|---|---|---|
| | # | % | $ (000s) | % | Full Scope | Limited Scope | TOTAL |
| Ohio County | 1 | 50.0% | $24,451 | 52.7% | 1 | 0 | **1** |
| Hart County | 1 | 50.0% | $21,931 | 47.3% | 1 | 0 | **1** |
| **OVERALL** | **2** | **100%** | **$46,382** | **100.0%** | **2** | **0** | **2** |

In light of branch structure, loan and deposit activity, and the bank's CRA evaluation history, CRA performance in the Ohio County assessment area was given primary consideration, as the bank only recently entered the Hart County assessment area.

Furthermore, 1–4 family residential real estate, small business, and consumer motor vehicle loans were used to evaluate the bank’s lending performance, as these loan categories are considered the bank’s core business lines 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 placed a particular emphasis on growing its real estate and commercial loan portfolio since Hartland Financial, Inc.’s acquisition of Citizens Bank in October 2014, performance based on the 1–4 family residential real estate and small business products carried the most significance toward the bank’s overall performance conclusions and were relatively equal in determining conclusions. The following table details the performance criterion and the corresponding time periods used in each analysis.

| Performance Criterion | Time Period |
|---|---|
| LTD Ratio | March 31, 2012 – December 31, 2016 |
| Assessment Area Concentration | January 1, 2016 – December 31, 2016 |
| Geographic Distribution of Loans | January 1, 2016 – December 31, 2016 |
| Loan Distribution by Borrower’s Profile | January 1, 2016 – December 31, 2016 |
| Response to Written CRA Complaints | March 19, 2012 – March 26, 2017 |

Under the small bank CRA performance criteria, analyses often entail comparisons of bank performance to assessment area demographics. Unless otherwise noted, assessment area demographics are based on 2010 U.S. Census Data; certain business geodemographics are based on 2016 Dun & Bradstreet data. In addition, the bank’s lending levels were evaluated in relation to those of comparable financial institutions operating within the same general region. Three other banks were identified as similarly situated peers, with asset sizes ranging from $74.6 million to $115.8 million.

To augment this evaluation, four community contact interviews were conducted with members of the local community 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 Assessment Area* section, applicable to the assessment area in which they were conducted.

## DESCRIPTION OF INSTITUTION

Citizens Bank is a full-service retail bank offering both consumer and commercial loan and deposit products. The bank is wholly owned by Hartland Financial, Inc. (Hartland), a one-bank holding company headquartered in Hartford, Kentucky, which acquired the bank on October 28, 2014. The bank’s branch network consists of two locations (including the main office), both of which have full-service, deposit-taking automated teller machines on site. In addition to being full-service facilities, each location has drive-up accessibility. The bank has one location in each of its designated assessment areas.

The bank closed two branches during the review period and relocated its main office. One of the closed offices was located in Hartford less than a mile from the new location. The second closure was located in the town of Beaver Dam, Kentucky, about 2.5 miles south of the new Hartford consolidated head office. In addition, on April 2, 2016, the bank purchased a branch in Hart County, Kentucky (Munfordville), adding an assessment area and almost doubling bank assets. While not contiguous with Ohio County, Hart County is located east of Ohio County, separated only by Grayson County. Based on the branch network and other service delivery systems, such as extended banking hours of operation and full-service online banking capabilities, the bank is well positioned to deliver financial services to both of its assessment areas.

For this review period, no legal impediments or financial constraints were identified that would have hindered this bank from serving the credit needs of its customers, and the bank appeared capable of meeting assessment area credit needs based on its available resources and financial products. As of December 31, 2016, the bank reported total assets of $57.9 million. As of the same date, total loans and leases outstanding were $35.4 million (61.1 percent of total assets), and deposits totaled $51.7 million. The bank's loan portfolio composition by credit category is displayed in the following table:

| Distribution of Total Loans as of December 31, 2016 | | |
|---|---|---|
| **Credit Category** | **Amount ($000s)** | **Percentage of Total Loans** |
| Construction and Development | $1,559 | 4.4% |
| Commercial Real Estate | $7,786 | 22.0% |
| 1–4 Family Residential | $17,102 | 48.3% |
| Farmland | $3,083 | 8.7% |
| Farm Loans | $783 | 2.2% |
| Commercial and Industrial | $1,736 | 4.9% |
| Loans to Individuals | $3,254 | 9.2% |
| Total Other Loans | $85 | 0.2% |
| **TOTAL LOANS** | **$35,388** | **100%** |

As indicated in the above table, a significant portion of the bank's lending resources is directed to loans secured by 1–4 family residential properties and commercial loans, with the third largest category being consumer loans (i.e., loans to individuals). Following its acquisition, the bank began focusing on 1–4 family residential and commercial loans, whereas, previously, consumer loans were the primary focus. When considering the number of loans, small business loans were the most numerous during the review period, with 1–4 family residential loans and consumer loans following. However, 1–4 family residential loans comprise the greatest percentage of loans by volume. Therefore, small business and 1–4 family residential loans were weighted more heavily than consumer loans.

The bank received an Outstanding rating at its previous CRA evaluation conducted by this Reserve Bank on March 19, 2012.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Citizens Bank meets the standards for a Satisfactory rating under the small bank procedures, which evaluate bank performance under five criteria, as applicable.

### Loan-to-Deposit (LTD) Ratio

One indication of the bank's overall level of lending activity is its LTD ratio. The following table displays the bank's quarterly average LTD ratio compared to those of regional peers. The quarterly average LTD ratio represents a 20-quarter average, dating back to the bank's last CRA evaluation.

| LTD Ratio Analysis | | | |
|---|---|---|---|
| **Name** | **Asset Size ($000s) as of 12/31/16** | **Headquarters** | **Average LTD Ratio** |
| Citizens Bank | $57,929 | Hartford, Kentucky | 58.1% |
| Regional Banks | $74,647 | Buffalo, Kentucky | 64.7% |
| | $112,554 | Sacramento, Kentucky | 57.5% |
| | $115,775 | Clarkson, Kentucky | 54.8% |

Based on data from the previous table, the bank's level of lending is on par with that of other banks in the region. During the review period, the bank's LTD ratio ranged from a low of 44.2 percent to a high of 75.0 percent. This figure has shown a generally upward trend, although not consistently. In the second quarter of 2016, the bank acquired a new branch in Hart County, Kentucky, as well as some of that branch's deposit accounts. During this quarter, the bank experienced its lowest LTD ratio (44.2 percent), consistent with the fact that the bank acquired no loans from this branch but did acquire deposits. In comparison, the average LTD ratios for regional peers ranged from 54.8 to 64.7 percent. Two of the regional peers have shown similarly upward but inconsistent trends in LTD ratio, with the third showing a sizable and mostly consistent increase. Therefore, compared to trend data from regional banks and information displayed in the table above, the bank's LTD ratio is reasonable given the bank's size, financial condition, and assessment areas' credit needs.

## Assessment Area Concentration

For the loan activity reviewed as a 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 Areas ($000s) | | | | | | |
|---|---|---|---|---|---|---|
| **Loan Product** | **Inside Assessment Areas** | | **Outside Assessment Areas** | | **TOTAL** | |
| 1–4 Family Residential Real Estate | 68 | 85.0% | 12 | 15.0% | 80 | 100% |
| | 5,941 | 70.3% | 2,508 | 29.7% | $8,449 | 100% |
| Small Business | 72 | 76.6% | 22 | 23.4% | 94 | 100% |
| | 5,115 | 49.7% | 5,176 | 50.3% | $10,291 | 100% |
| Consumer Motor Vehicle | 50 | 90.9% | 5 | 9.1% | 55 | 100% |
| | 461 | 92.9% | 35 | 7.1% | $496 | 100% |
| **TOTAL LOANS** | **190** | **83.0%** | **39** | **17.0%** | **229** | **100%** |
| | **11,517** | **59.9%** | **7,719** | **40.1%** | **$19,236** | **100%** |

As shown above, a majority of loans originated were extended to borrowers and businesses who reside or operate in the bank's assessment areas. In total, 83.0 percent of the bank's loans were made inside the assessment areas, accounting for 59.9 percent of dollar volume of total loans.

## Loan Distribution by Borrower's Profile

This performance criterion focuses on the bank's lending penetration among borrowers of different income levels, with specific emphasis on lending to LMI borrowers. As displayed in the following table, the bank's overall loan distribution by borrower's profile reflects reasonable performance throughout the bank's assessment areas.

| Assessment Area | Loan Distribution by Borrower's Profile |
|---|---|
| Ohio County | Reasonable |
| Hart County | Reasonable |
| **OVERALL** | **Reasonable** |

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

## Geographic Distribution of Loans

As displayed in the following table, the bank's overall distribution of lending by income level of census tracts reflects reasonable penetration throughout the bank's assessment areas.

| Assessment Area | Geographic Distribution of Loans |
|---|---|
| Ohio County | Reasonable |
| Hart County | Poor |
| **OVERALL** | **Reasonable** |

This performance criterion focuses on the bank's lending penetration among geographies of different income levels, with specific emphasis placed on lending in LMI geographies. The Ohio County assessment area contains no LMI geographies; however, the bank's loan dispersion within each census tract of the Ohio County assessment area was reviewed.

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

## Review of Complaints

No CRA-related complaints were filed against the bank during this review period (March 19, 2012 to March 27, 2017).

## FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Based on findings in 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.

# OHIO COUNTY, KENTUCKY ASSESSMENT AREA

*(Full-Scope Review)*

## DESCRIPTION OF THE INSTITUTION'S OPERATIONS IN OHIO COUNTY

### Bank Structure

The bank operates its main office and no branches in this assessment area. As previously noted, the bank closed two branches located at different locations within or near Hartford, Kentucky, and relocated its existing main office to a newly constructed main office that is centrally located within the assessment area in December 2015. All three previous locations were located in the same geography as the new main office. This geography is a middle-income census tract.

According to the FDIC Deposit Market Share Report as of June 30, 2016, the bank ranked last out of the five FDIC-insured depository institutions with a branch presence in this assessment area, encompassing 7.7 percent of the total assessment area deposit dollars.

### General Demographics

The bank's Ohio County assessment area, which had a population of 23,842 as of the 2010 U.S. Census, is located in west central Kentucky and contains seven census tracts. The largest cities in Ohio County are Beaver Dam (3,409) and Hartford (2,672). No other cities or towns have over 1,000 people per the 2010 U.S. Census.

Credit needs in the area are varied and include a blend of consumer and small business products. Information gathered from community contacts suggests that the housing market in Ohio County could benefit from some moderate- and middle-income housing (defined as somewhat larger homes that are valued in the $100,000 to $150,000 range). The contacts did not believe this shortage in supply was due to a lack of credit extension on the part of local banks; rather, the contacts believed the county governance needed to work on attracting and retaining residents with higher educational attainment who could afford mid-priced housing options.

### Income and Wealth Demographics

The following table reflects the number and population of the census tracts within the assessment area in each income category.

| Assessment Area Demographics by Geography Income Level | | | | | | |
|---|---|---|---|---|---|---|
| **Dataset** | **Low-** | **Moderate-** | **Middle-** | **Upper-** | **Unknown** | **TOTAL** |
| Census Tracts | 0 | 0 | 6 | 1 | 0 | **7** |
| | 0.0% | 0.0% | 85.7% | 14.3% | 0.0% | **100%** |
| Family Population | 0 | 0 | 5,105 | 926 | 0 | **6,031** |
| | 0.0% | 0.0% | 84.6% | 15.4% | 0.0% | **100%** |

The table demonstrates that the largest portion of Ohio County is middle-income, with the assessment area containing no LMI geographies. The family population by percentage aligns almost exactly with the percentage of geographies that are middle- and upper-income. Further, none of the middle-income geographies are either distressed or underserved, based on FFIEC definitions.

Based on 2010 U.S. Census data, the median family income for the assessment area was $43,797. At the same time, the median family income for nonmetropolitan statistical area (nonMSA) Kentucky was $43,402. More recently, the FFIEC estimates the 2016 median family income for nonMSA Kentucky to be $46,400. The following table displays population percentages of assessment area families by income level compared to the nonMSA Kentucky family populations.

| Family Population by Income Level | | | | | |
|---|---|---|---|---|---|
| **Dataset** | **Low-** | **Moderate-** | **Middle-** | **Upper-** | **TOTAL** |
| Assessment Area | 1,128 | 1,140 | 1,283 | 2,480 | **6,031** |
| | 18.7% | 18.9% | 21.3% | 41.1% | **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's income balance is generally more affluent than nonMSA Kentucky as a whole. NonMSA Kentucky has a higher percentage of both low- and upper-income families, while Ohio County reports more moderate- and middle-income families. A total of 37.6 percent of the assessment area is comprised of LMI families compared to 39.8 percent for nonMSA Kentucky. Lastly, the level of assessment area families living below the poverty level (13.5 percent) is below that of nonMSA Kentucky as a whole (16.9 percent).

## Housing Demographics

Based on housing values and rental costs, housing in the assessment area is more affordable than nonMSA Kentucky as a whole. The median housing value for the assessment area was $77,983, which is lower than the figure for nonMSA Kentucky of $84,511. The housing affordability ratio of the assessment area is 46.1, higher than the nonMSA Kentucky figure of 40.0. Finally, renters paying more than 30 percent of their income on rental costs constitute 32.0 percent of the assessment area compared to 39.2 percent of nonMSA Kentucky.

## Industry and Employment Demographics

The local economy leans toward manufacturing, which accounts for nearly half of its total employment. Per 2014 County Business Patterns data from the U.S. Census Bureau, the number of paid employees in the assessment area is 7,958. Of that amount, 47.1 percent are employed in the manufacturing industry. The assessment area and its surrounding counties have significant employment concentrations in coal mining and other natural resources and agriculture.

Transportation is the second largest industry in the assessment area (22.0 percent). Healthcare and social assistance is third (13.8 percent).

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

| Unemployment Data | | |
|---|---|---|
| **Time Period (Annual Average)** | **Kentucky** | **Ohio County, Kentucky** |
| 2013 | 8.1% | 9.3% |
| 2014 | 6.5% | 7.7% |
| 2015 | 5.4% | 6.4% |
| 2016 | 5.1% | 6.7% |

As shown in the table above, unemployment levels for the assessment area, as well as the state of Kentucky, have shown a decreasing trend since 2013, although Ohio County's unemployment rate ticked upward in early 2016, pulling its annual average for that year slightly upward. In general, Ohio County's unemployment rate is higher than the Kentucky figures on an annual basis.

## Community Contact Information

Information from two community contact interviews 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 working in a joint community and economic development role and the other was with an individual working in an economic development capacity. Both contacts characterized Ohio County as a stable and steadily growing community in population and economic growth. One contact stated that coal mine closures have affected the community in the past, but that employment was nevertheless steadily growing, bolstered by a strong manufacturing sector. The contact noted that Ohio County's economic competitiveness was enhanced by its central location, good transportation infrastructure, low energy costs, and a multitude of higher education options in the vicinity. Weaknesses in the market were noted as low post-secondary degree attainment, lack of jobs for advanced degree holders, and a need to expand current programs to retain businesses. One contact stated that many potential borrowers in Ohio County lacked the necessary collateral and credit history to secure commercial loans but that local financial institutions were willing to work with these individuals, even if they could not underwrite the loans in question. Both contacts mentioned that a "mid-grade" housing option appealing to moderate- and middle-income homebuyers was needed but that this was a housing supply issue rather than an unmet credit need.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN OHIO COUNTY

### 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 ($46,400 for nonMSA Kentucky as of 2016). The bank's overall borrower's profile performance, based on analyses of all three loan categories, is reasonable.

The bank's distribution of 1–4 family residential real estate lending to borrowers by income level was reviewed. The following table reflects the bank's distribution of 1–4 family residential loans by income level of borrower compared to the family population by income level.

| Distribution of Loans Inside Assessment Area by Borrower Income<br>January 1, 2016 through December 31, 2016 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Borrower Income Level | | | | | | | | | | TOTAL | |
| | Low- | | Moderate- | | Middle- | | Upper- | | Unknown | | | |
| 1–4 Family Residential Real Estate | 3 | 10.7% | 1 | 3.6% | 9 | 32.1% | 15 | 53.6% | 0 | 0.0% | **28** | **100%** |
| Family Population | 18.7% | | 18.9% | | 21.3% | | 41.1% | | 0.0% | | **100%** | |

The bank's total percentage of lending to low-income borrowers (10.7 percent) falls short of the low-income family population demographic benchmark (18.7 percent), representing poor performance. The bank's total percentage of lending to moderate-income borrowers (3.6 percent) is also considered poor, falling well below the family population figure (18.9 percent). Overall, borrower distribution of 1–4 family residential real estate loans is considered poor.

The bank's distribution of small business loans was also reviewed. The following table reflects the bank's distribution of small business loans by gross annual business revenue and loan amount compared to Dun & Bradstreet data.

| Distribution of Loans Inside Assessment Area by Business Revenue<br>January 1, 2016 through December 31, 2016 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Gross Revenue | Loan Amounts in $000s | | | | | | TOTAL | |
| | ≤$100 | | >$100 and ≤$250 | | >$250 and ≤$1,000 | | | |
| $1 Million or Less | 17 | 77.3% | 3 | 13.6% | 2 | 9.1% | **22** | **100%** |
| Greater than $1 Million/Unknown | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% | **0** | **0.0%** |
| **TOTAL** | **17** | **77.3%** | **3** | **13.6%** | **2** | **9.1%** | **22** | **100%** |
| Dun & Bradstreet Businesses ≤ $1MM | | | | | | | **90.9%** | |

Based on the analysis of small business loans, the bank is doing an excellent job of meeting the credit needs of small businesses. The table above demonstrates that the bank made all of its 22 loans to businesses with gross annual revenues of $1 million or less, exceeding the percentage of small business institutions in the assessment area that fall within this revenue range (90.9 percent). The fact that 77.3 percent of 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 requiring smaller loans.

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 income characteristics.

**Distribution of Bank Loans Inside Assessment Area by Income Level of Borrower**
**January 1, 2016 through December 31, 2016**

| | **Borrower Income Level** | | | | | | | | | | **TOTAL** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Low-** | | **Moderate-** | | **Middle-** | | **Upper-** | | **Unknown** | | | |
| Consumer Motor Vehicle Loans | 12 | 30.0% | 7 | 17.5% | 11 | 27.5% | 10 | 25.0% | 0 | 0.0% | **40** | **100%** |
| Household Population | 22.3% | | 15.3% | | 18.3% | | 44.1% | | 0.0% | | **100%** | |

The bank's performance by number of motor vehicle loans made to low-income borrowers (30.0 percent) is considerably higher than the low-income household population figure (22.3 percent), which represents excellent performance. Moderate-income borrowers, representing 17.5 percent of the bank's consumer motor vehicle lending activity, exceed the household population of 15.3 percent, indicating excellent performance. Combined, the bank's borrower distribution of consumer motor vehicle loans to LMI borrowers (47.5 percent) is significantly higher than the household population (37.6 percent). Based on this data, the distribution of the bank's consumer motor vehicle loans reflects excellent penetration among individuals of different income levels.

## Geographic Distribution of Loans

Under the geographic distribution of loans analysis, emphasis is placed on the bank's performance in LMI geographies. However, this assessment area does not include any LMI census tracts, and a detailed geographic distribution of loans analysis would not prove meaningful. Nevertheless, the bank's loan dispersion within each census tract of this assessment area was reviewed. The results of the analysis indicated that the bank's loan activity for all credit products reviewed was reasonably dispersed throughout the assessment area and consistent with demographic and bank structure. Additionally, no conspicuous lending gaps were noted. Therefore, the bank's geographic distribution of loans is reasonable.

# HART COUNTY, KENTUCKY ASSESSMENT AREA

*(Full-Scope Review)*

## DESCRIPTION OF THE INSTITUTION'S OPERATIONS IN HART COUNTY

### Bank Structure

The bank operates a single branch office in this assessment area, within the town of Munfordville, the county seat of Hart County, Kentucky. As previously noted, the bank purchased its Munfordville branch on April 2, 2016, retaining only deposit customers from the previous bank. The branch is located in a distressed and underserved middle-income geography (per FFIEC definitions) and sits approximately one mile north of the assessment area's sole moderate-income geography.

According to the FDIC Market Share Report as of June 30, 2016, the bank ranked third out of the four FDIC-insured depository institutions with a branch presence in this assessment area, encompassing 11.0 percent of total assessment area deposit dollars. This market share was not substantially different from the fourth-place institution in the assessment area, also with 11.0 percent of total assessment area deposits.

### General Demographics

The assessment area, which is comprised of Hart County in its entirety, is located in west central Kentucky. The assessment area contains one moderate-income geography and four middle-income geographies, all of which are distressed for poverty and underserved according to FFIEC definitions. According to 2010 U.S. Census data, the total population of the assessment area is 18,199.

Credit needs in the area are varied and include a blend of consumer and small business products. Information gathered from community contacts suggests that Hart County's economy is growing steadily and its population is rising slowly, leading to some demand for new housing products, especially in the middle-income range, for both owner-occupied and rental properties. The contacts believed that expanding workforce development programs and financial literacy could improve residents' wages and credit histories, allowing for more permanent and sustainable growth in small business activity and entrepreneurship.

### Income and Wealth Demographics

The following table reflects the number and population of census tracts within the assessment area in each income category.

| Assessment Area Demographics by Geography Income Level | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Dataset** | | **Low-** | **Moderate-** | **Middle-** | **Upper-** | **Unknown** | **TOTAL** |
| Census Tracts | | 0 | 1 | 4 | 0 | 0 | **5** |
| | | 0.0% | 20.0% | 80.0% | 0.0% | 0.0% | **100%** |
| Family Population | | 0 | 1,415 | 3,467 | 0 | 0 | **4,882** |
| | | 0.0% | 29.0% | 71.0% | 0.0% | 0.0% | **100%** |

The table demonstrates that the family population distribution is somewhat close to the distribution of geographies by income level. There are no low-income geographies within Hart County. All four of the middle-income geographies in the assessment area are considered underserved, owing to Hart County's largely rural character, low population density, and relative distance to larger population and job centers. Furthermore, all four middle-income geographies are considered distressed under the poverty criterion, per FFIEC definitions.

Based on 2010 U.S. Census data, the median family income for the assessment area is $40,717. This figure is lower than the nonMSA Kentucky figure of $43,402. More recently, the FFIEC estimated that the 2016 median family income for nonMSA Kentucky was $46,400. The following table displays population percentages of assessment area families by income levels compared to all nonMSA Kentucky families.

| Family Population by Income Level | | | | | |
|---|---|---|---|---|---|
| **Dataset** | **Low-** | **Moderate-** | **Middle-** | **Upper-** | **TOTAL** |
| Assessment Area | 1,259 | 830 | 1,062 | 1,731 | **4,882** |
| | 25.8% | 17.0% | 21.8% | 35.5% | **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 contains slightly more LMI families than Kentucky's nonmetropolitan portions as a whole, with 25.8 percent and 17.0 percent of Hart County families falling into those income categories, respectively, compared to 23.2 percent and 16.6 percent of nonMSA Kentucky. Therefore, a total of 42.8 percent of the assessment area is comprised of LMI families compared to 39.8 percent for nonMSA Kentucky. Lastly, the level of assessment area families living below the poverty level (20.8 percent) is greater than the figure for nonMSA Kentucky (16.9 percent).

## Housing Demographics

Based on housing values and rental costs, housing in the assessment area is cheaper but not necessarily more affordable to assessment area residents. Median housing value in the assessment area ($80,179) is below that of nonMSA Kentucky ($84,511), although the affordability ratio for owner-occupied housing is 38.9 percent in the assessment area compared to 40.0 percent for nonMSA Kentucky. However, rental housing in the assessment area is both cheaper and more affordable. The median gross rent in the assessment area is $465 compared to $513 in nonMSA Kentucky. Further, cost-burdened renters (those with rental costs amounting to greater than 30 percent of their income) register at 37.2 percent compared to 39.2 percent in nonMSA Kentucky as a whole.

## Industry and Employment Demographics

The local economy is heavily manufacturing-based. According to 2014 County Business Patterns data from the U.S. Census Bureau, the number of paid employees in the assessment area is 3,948. Of that amount, 58.0 percent are employed in the manufacturing industry. Retail trade is the second largest industry in the assessment area (11.4 percent). Healthcare and social assistance is third (10.8 percent).

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

| Unemployment Data | | |
|---|---|---|
| **Time Period (Annual Average)** | **Kentucky** | **Hart County, Kentucky** |
| 2013 | 8.1% | 8.0% |
| 2014 | 6.5% | 6.3% |
| 2015 | 5.4% | 5.2% |
| 2016 | 5.1% | 4.8% |

As shown in the table above, unemployment levels for the assessment area, as well as Kentucky, have shown a decreasing trend since 2013. Hart County's unemployment rate is slightly below that of Kentucky figures on an annual basis during the review period.

## Community Contact Information

Information from two community contact interviews 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 working in a joint community and economic development role and the other was with an individual working in an economic development capacity. Both contacts reported steady industrial growth in Hart County, with some of the larger firms continuing to expand production and hiring. Tourism was noted to be a significant factor in the local economy, with Hart County's location at the entrance to Mammoth Cave National Park. According to one contact, a cable television channel recently filmed a movie in Hart County and is scouting locations for at least four new movies, spurring additional spending and employment related to the film industry.

Regarding housing, one contact stated that needs within the county centered on adding housing for LMI individuals and seniors, nursing home facilities, and rental housing for all family types and income levels. Both contacts believed this to be a housing supply problem and not a problem with credit extension on the part of local financial institutions.

Regarding small business lending, another contact mentioned the difficulty in underwriting loans to small businesses in Hart County due to the poor credit histories of many applicants. Neither contact believed that local financial institutions were unwilling to extend credit to qualified borrowers in the community.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN HART COUNTY

### 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 ($46,400 for nonMSA Kentucky as of 2016). The bank's overall borrower's profile performance, based on analyses of all three loan categories, is reasonable, with little weight placed on consumer motor vehicle loans.

The bank's distribution of 1–4 family residential real estate lending to borrowers by income level was reviewed. The following table reflects the bank's distribution of 1–4 family residential real estate loans by income level of borrower compared to the family population by income level.

**Distribution of Loans Inside Assessment Area by Borrower Income**
**January 1, 2016 through December 31, 2016**

| | Borrower Income Level | | | | | | | | | | TOTAL | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Low- | | Moderate- | | Middle- | | Upper- | | Unknown | | | |
| 1–4 Family Residential Real Estate | 3 | 7.5% | 5 | 12.5% | 19 | 47.5% | 13 | 32.5% | 0 | 0.0% | **40** | **100%** |
| Family Population | 25.8% | | 17.0% | | 21.8% | | 35.5% | | 0.0% | | **100%** | |

The bank's total percentage of lending to low-income borrowers (7.5 percent) is significantly below the percentage of low-income families in the assessment area (25.8 percent), representing poor performance. Lending to moderate-income borrowers (12.5 percent) is also below the percentage of moderate-income families (17.0 percent), representing poor performance. Overall, the bank's borrower distribution of 1–4 family residential real estate loans to LMI borrowers is poor.

The bank's distribution of small business loans was also reviewed. The following table reflects the bank's distribution of small business loans by gross annual business revenue and loan amount compared to Dun & Bradstreet data.

**Distribution of Loans Inside Assessment Area by Business Revenue**
**January 1, 2016 through December 31, 2016**

| Gross Revenue | Loan Amounts in $000s | | | | | | TOTAL | |
|---|---|---|---|---|---|---|---|---|
| | ≤$100 | | >$100 and ≤$250 | | >$250 and ≤$1,000 | | | |
| $1 Million or Less | 43 | 86.0% | 2 | 4.0% | 2 | 4.0% | **47** | **94.0%** |
| Greater than $1 Million/Unknown | 1 | 2.0% | 2 | 4.0% | 0 | 0.0% | **3** | **6.0%** |
| **TOTAL** | **44** | **88.0%** | **4** | **8.0%** | **2** | **4.0%** | **50** | **100%** |
| Dun & Bradstreet Businesses ≤ $1MM | | | | | | | **94.9%** | |

Based on the analysis of small business loans, the most numerous product in this assessment area, the bank is doing a reasonable job of meeting the credit needs of small businesses. The table above demonstrates that 47 loans out of the 50 loans reviewed (94.0 percent) were made to businesses with gross annual revenues of $1 million or less, which is nearly equal to the business geodemographic data (94.9 percent of assessment area businesses fall at or under the $1 million revenue mark). Furthermore, the bank extends a significant majority of loans that are in amounts of $100,000 or less (88.0 percent), demonstrating the bank's willingness to meet the credit needs of small businesses with smaller loan products.

Lastly, as with the previous loan categories, the borrower distribution of consumer motor vehicle loans was analyzed by borrower's income profile. The limited number of consumer motor vehicle loans originated within this assessment area during the review period renders this product less indicative of overall performance in the assessment area compared to the small business and 1–4 family residential loan products.

**Distribution of Bank Loans Inside Assessment Area by Income Level of Borrower**

**January 1, 2016 through December 31, 2016**

| | **Borrower Income Level** | | | | | | | | | | **TOTAL** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Low-** | | **Moderate-** | | **Middle-** | | **Upper-** | | **Unknown** | | | |
| Consumer Motor Vehicle Loans | 2 | 20.0% | 1 | 10.0% | 4 | 40.0% | 3 | 30.0% | 0 | 0.0% | **10** | **100%** |
| Household Population | 29.3% | | 15.0% | | 16.7% | | 39.0% | | 0.0% | | **100%** | |

The bank's performance by number of motor vehicle loans made to low-income borrowers (20.0 percent) is lower than the low-income household population figure of 29.3 percent, which is considered poor performance. Likewise, moderate-income borrowers, representing 10.0 percent of consumer motor vehicle loans, falls short of the household population of 15.0 percent, indicating poor performance. Based on this data, the distribution of the bank's consumer motor vehicle loans reflects poor penetration among individuals of different income levels, although this product carries little weight in this assessment area due to the low volume of loans originated.

## Geographic Distribution of Loans

As noted previously, the bank's assessment area contains no low-income geographies, a single moderate-income geography, four underserved and distressed middle-income geographies, and no upper-income geographies. The analysis in this section illustrates the distribution of the bank's loan activity primarily within the moderate-income geography. Overall, the bank's geographic distribution of loans reflects poor dispersion throughout the assessment area, based on activity analyzed from the three loan categories.

The following table displays the geographic distribution of 1–4 family residential real estate loans compared to owner-occupied housing demographics.

| Distribution of Loans Inside Assessment Area by Income Level of Geography<br>January 1, 2016 through December 31, 2016 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Geography Income Level | | | | | | | | | | TOTAL | |
| | Low- | | Moderate- | | Middle- | | Upper- | | Unknown | | | |
| 1–4 Family Residential Real Estate Loans | 0 | 0.0% | 7 | 17.5% | 33 | 82.5% | 0 | 0.0% | 0 | 0.0% | **40** | **100%** |
| Owner-Occupied Housing | 0.0% | | 25.8% | | 74.2% | | 0.0% | | 0.0% | | **100%** | |

The analysis of 1–4 family residential loans reveals poor performance in the assessment area's single moderate-income geography, with 17.5 percent of loans originated in the moderate-income geography compared to 25.8 percent of owner-occupied housing that falls within the same geography.

The following table displays the geographic distribution of small business loans compared to business institutions in the assessment area.

| Distribution of Loans Inside Assessment Area by Income Level of Geography<br>January 1, 2016 through December 31, 2016 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Geography Income Level | | | | | | | | | | TOTAL | |
| | Low- | | Moderate- | | Middle- | | Upper- | | Unknown | | | |
| Small Business Loans | 0 | 0.0% | 10 | 20.0% | 40 | 80.0% | 0 | 0.0% | 0 | 0.0% | **50** | **100%** |
| Business Institutions | 0.0% | | 27.7% | | 72.3% | | 0.0% | | 0.0% | | **100%** | |

The analysis of small business loans reveals lending performance is poor when compared to business geodemographics. Small business loans made in the assessment area's sole moderate-income geography represented 20.0 percent of total loans compared to 27.7 percent of businesses located in this geography.

The bank's geographic distribution of consumer motor vehicle loans was also reviewed. The following table displays the geographic distribution of consumer motor vehicle loans compared to household population demographics. The limited number of consumer motor vehicle loans originated within this assessment area during the review period renders this product less indicative of overall performance in the assessment area compared to the 1–4 family residential real estate and small business loan products.

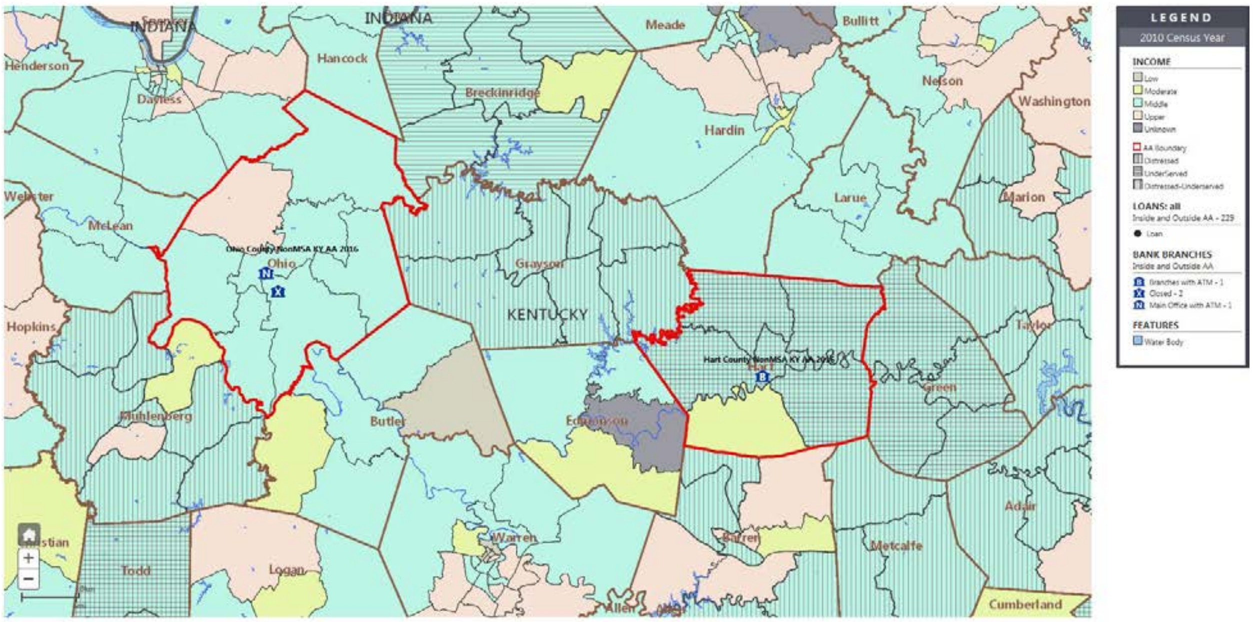
| Distribution of Bank Loans Inside Assessment Area by Income Level of Geography<br>January 1, 2016 through December 31, 2016 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Geography Income Level | | | | | | | | | | TOTAL | |
| | Low- | | Moderate- | | Middle- | | Upper- | | Unknown | | | |
| Consumer Motor Vehicle Loans | 0 | 0.0% | 5 | 50.0% | 5 | 50.0% | 0 | 0.0% | 0 | 0.0% | **10** | **100%** |
| Household Population | 0.0% | | 30.4% | | 69.6% | | 0.0% | | 0.0% | | **100%** | |

As displayed in the preceding table, by number of loans, the bank originated 50.0 percent of its consumer motor vehicle loans to borrowers in the moderate-income geography within the assessment area, significantly above the household population that falls within this geography (30.4 percent), representing excellent performance.

Finally, the bank had lending in all of the census tracts in this assessment area. Therefore, no conspicuous lending gaps were noted.

# ASSESSMENT AREA DETAIL

**Citizens Bank - Hartford, Kentucky**
Ohio and Hart County NonMSA KY AAs




Tract Income Map

## 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 upon 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- or moderate-income individuals; (2) community services targeted to low- or moderate-income 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 low- or moderate-income 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.