



## **PUBLIC DISCLOSURE**

May 23, 2016

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The Murray Bank  
Charter Number 715834

405 South 12th Street  
Murray, Kentucky 42071

Office of the Comptroller of the Currency

10200 Forest Green Blvd  
Suite 501  
Louisville, Kentucky 40223

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

**INSTITUTION'S CRA RATING: Satisfactory**

The Murray Bank's (TMB) lending performance reflects a satisfactory response to community credit needs. This conclusion is based on the following:

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area's (AA) credit needs.
- The institution originated a majority of loans inside its AA.
- The distribution of loans to borrowers of different income levels and businesses of different sizes reflects excellent penetration in its AA.

**SCOPE OF THE EXAMINATION**

This Performance Evaluation is an assessment of TMB's record of meeting the credit needs of the communities in which it operates. TMB was evaluated under the small bank performance criteria, which includes a lending test. The lending test evaluates the federal savings association's (FSA) record of helping to meet the credit needs of its AA through its lending activities. The scope of the CRA evaluation period was May 17, 2011 through May 23, 2016.

The lending test analysis included loans originated from January 1, 2014 through March 31, 2016. We reviewed the FSA's loan originations in 2014, 2015, and year-to-date 2016 to determine its primary loan products. The FSA's primary products were residential and commercial loans. We based this conclusion on the dollar amount of loans extended, as shown in the following table (significant volumes highlighted). Although consumer loans represented the largest number of loans, the dollar volume of these loans was not significant.

<b>The Murray Bank Originations by Loan Type from January 1, 2014 through March 31, 2016</b>				
<b>Loan Category</b>	<b>Dollars (000s)</b>	<b>% of Dollars</b>	<b>Number of Loans</b>	<b>% of Number of Loans</b>
<b>Residential Loans</b>	<b>\$ 44,002</b>	<b>27%</b>	<b>455</b>	<b>18%</b>
<b>Commercial Loans</b>	<b>\$ 86,101</b>	<b>52%</b>	<b>564</b>	<b>23%</b>
Consumer Loans	\$ 17,441	11%	1359	54%
Farm Loans	\$ 17,012	10%	133	5%
Total Originations	\$164,556	100%	2931	100%

TMB was not subject to the Home Mortgage Disclosure Act (HMDA) reporting requirements for the review period. Moreover, TMB is not a Community Reinvestment Act data reporter of small business loans. Therefore, we sampled 20 loans from each primary product to assess TMB's performance.

## DESCRIPTION OF THE INSTITUTION

TMB is an intrastate FSA headquartered in Murray, Kentucky. TMB is wholly-owned by BancKentucky, Inc., a one-FSA holding company located in Murray. The FSA has three offices in Calloway County, Kentucky. The home office and a branch are located in Murray. TMB opened a branch in Hazel, Kentucky in September 2013. In addition, TMB has 10 automated teller machines (ATMs). Four ATMs accept deposits. Three deposit-taking ATMS are located at the offices; one is at the Murray-Calloway County Hospital in Murray. TMB opened a new ATM at the Calloway County Judicial Building in Murray in March 2015.<sup>1</sup> As of March 31, 2016, TMB had total assets of \$287 million, tier 1 capital of \$25 million, and a LTD ratio of 66 percent. There have been no changes in the corporate structure, including merger or acquisition activities, since the last CRA evaluation.

TMB offers traditional bank services and loan products normally associated with a community bank or FSA. As of March 31, 2016, the institution reported \$174 million in outstanding loans and had a net loans and leases to total assets ratio of 60 percent. The loan portfolio consists of the following.

<b>Loan Portfolio Summary by Loan Product March 31, 2016</b>		
<b>Loan Category</b>	<b>\$(000)</b>	<b>%</b>
Commercial Loans	\$ 84,111	48%
Residential Loans	\$ 73,210	42%
Farm Loans	\$ 7,880	5%
Consumer Loans	\$ 8,615	5%
<b>Total Loans</b>	<b>\$173,816</b>	<b>100%</b>

*Source: Call report as of March 31, 2016*

There were no legal or financial impediments to TMB's ability to meet the credit needs in its AA. The FSA was rated Satisfactory at its last CRA evaluation, dated May 16, 2011.

## DESCRIPTION OF THE ASSESSMENT AREA

TMB management has designated all of Calloway County, in southwestern Kentucky, as its AA. The AA is comprised of nine census tracts (CTs). Based on the 2010 United States Census (2010 Census) Median Family Income of \$43,402, CTs 101, 102, 104, 105, and 108 are classified as middle-income. CTs 103.01, 103.02, 106, and 107 are classified as upper-income. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

<sup>1</sup> This ATM replaced an ATM closed due to the demolition of the building in which it was housed.

The 2015 Federal Financial Institution Examination Council's Updated Median Family Income of the AA was \$46,900. Per the 2010 Census, there were 9,108 families in the AA. Thirteen percent of them were considered low-income and 11 percent moderate-income. Over 9 percent of families lived below the poverty level. Nearly 15 percent of the population was age 65 and older. The median home value in the AA was \$108,065. Local housing for the AA was 75.88% one-to-four family units, with 57.06 percent owner-occupied and 16.52 percent vacant.

As of January 31, 2016, Calloway County's unemployment rate was 5.6 percent. This level was slightly below the State of Kentucky's rate of 6.2 percent and above the national rate of 4.9 percent. Major employers in the Calloway County area include Murray State University, Murray-Calloway County Hospital, Briggs & Stratton, and Pella Windows.

As of June 2014, there were 2,491 non-farm businesses in the AA; 78.52 percent were considered small businesses (i.e., businesses with annual gross revenues of less than or equal to one million dollars). The most prevalent type of business in the county was services, making up 45.59 percent of all businesses, with retail trade next at 14.29 percent.

Per Federal Deposit Insurance Corporation deposit data as of June 30, 2015; there were 10 financial institutions with 16 offices in Calloway County; all with a presence in the city of Murray. Major competitors include a mix of community banks and branches of regional and large banks: Branch Banking and Trust Company, Heritage Bank USA, Regions Bank, Community Financial Services Bank, US Bank, FNB Bank, Independence Bank of Kentucky, Bank of Cadiz and Trust Company, and Woodforest National Bank. In Calloway County, TMB held \$237 million in deposits, which amounts to a dominant 30 percent deposit market share in the county. The next closest was Branch Banking and Trust Company with 25 percent market share.

To further our understanding of the community's credit needs, we contacted a local community organization knowledgeable about the areas served by TMB. Our contact did not identify any unmet credit needs.

## **CONCLUSIONS WITH RESPECT TO THE PERFORMANCE CRITERIA**

TMB does a reasonable job of meeting the credit needs of its AA, including those of low- and moderate-income individuals, given the demographics, economic factors, and competitive pressures faced by the FSA.

### **Loan-to-Deposit Ratio**

TMB's LTD ratio was reasonable given the FSA's size, financial condition, and credit needs of the AA. TMB's quarterly LTD ratio averaged 64.70 percent over the 21

quarters since the last CRA evaluation, with a low of 59.27 percent and a high of 72.83 percent.

While TMB's LTD ratio was the lowest of five similarly situated institutions, TMB also holds the largest deposit market share. In addition, TMB is the only similarly situated institution with headquarters in Calloway County. The other four banks, headquartered in neighboring counties, had quarterly LTD ratios averaging 79.87 percent and ranged from 72.13 percent to 92.01 percent over the 21 quarters since the last CRA evaluation. Competition is heavy in the area. Competitor's assets ranged from \$100 million to \$900 million.

**Lending in the Assessment Area**

A majority of the FSA's primary loan products were originated to borrowers within its AA (68 percent by number and 60 percent by dollar). The following table details TMB's lending inside and outside its AA by number and dollar amount of loans originated during the evaluation period.

<b>Lending in the AA (in \$000)</b>										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	14	70%	6	30%	20	\$1,006	68%	\$475	32%	\$1,481
Commercial	13	65%	7	35%	20	\$1,793	56%	\$1,390	44%	\$3,183
Total	27	68%	13	32%	40	\$2,799	60%	\$1,865	40%	\$4,664

*Source: Sample of 20 residential and 20 commercial loans originated in 2014, 2015, and year-to-date 2016*

**Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

The distribution of loans reflects excellent penetration among borrowers of different income levels and to businesses of different sizes.

Residential Loans

TMB exceeds the standard of satisfactory performance in the AA. Even though TMB is not subject to HMDA reporting, its mortgage lending activity was compared to the aggregate lending activity of lenders that originated HMDA reportable loans within the AA. The latest year for which that data is available is 2014. The institution's percentage of residential loans originated to low-income borrowers was above the HMDA peer average. Given the percentage of families living below the poverty level (9.17 percent), the percentage of residential loans originated to low-income borrowers was reasonable, even though it fell well below the percentage of low-income families. The institution's percentage of residential loans originated to moderate-income borrowers significantly exceeds both the HMDA peer average and the percentage of families in that category.

<b>Borrower Distribution of Residential Real Estate Loans in the AA</b>				
Borrower Income	Number of Loans	Percentage of Loans	Percent of Families	HMDA Peer Averages (2014)
Low-Income	1	5.00%	13.47%	2.72%
Moderate-Income	5	25.00%	11.37%	17.51%
Middle-Income	4	20.00%	23.09%	24.32%
Upper-Income	10	50.00%	52.06%	55.45%
<b>Total</b>	<b>20</b>	<b>100.0%</b>	<b>99.99%<sup>2</sup></b>	<b>100.0%</b>

Source: 20 residential loans originated 2014-YTD 2016; 2010 Census Data; 2014 HMDA peer data.

**Business Loans**

TMB exceeded the standard of satisfactory performance in the AA. Even though TMB is not a small business reporter under CRA, its commercial lending activity was compared to the aggregate activity of lenders that originated small business reportable loans within the AA. The latest year for which that data is available was 2014. The institution’s percentage of loans originated to small businesses (gross revenue of less than or equal to \$1 million) significantly exceeds the CRA peer percentage of loans to small businesses. The demographic data shows 78 percent of the businesses in TMB’s AA had gross annual revenues less than or equal to one million dollars.

<b>Borrower Distribution to Businesses in the AA</b>				
Loan Amount Categories	% of Bank Loans in AA by #	% of Bank Loans in AA by \$	CRA Peer 2014 Percentage of Loans	% of AA Businesses
<b>&lt;= \$1,000,000</b>	95.00%	77.66%	46.39%	78.52%
<b>&gt;1,000,000</b>	5.00%	22.34%	53.61%	3.53%
<b>Unavailable</b>	0.00%	0.00%	0.00%	17.94%
<b>TOTAL</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>99.99%<sup>3</sup></b>

Source: 20 commercial loans originated 2014-YTD 2016, 2014 Geo-Demographic Business data, and 2014 small business peer data (CRA reporters)

**Geographic Distribution of Loans**

The AA consists of four upper- and five middle-income CTs. As such, an analysis of the geographic distribution of loans within this AA would not provide meaningful information.

**Responses to Complaints**

<sup>2</sup> The Percent of Families is based on 2010 Census data. Percentages may or may not equal 100.00 percent.

<sup>3</sup> Percent of Businesses by revenue size is based on 2010 Census and Dunn & Bradstreet data. Percentages may or may not equal 100.00 percent.

TMB has not received any complaints about its performance in helping to meet the community credit needs since the last CRA evaluation.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 CFR 195.28(c), in determining an FSA's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the FSA, or in any AA by an affiliate whose loans have been considered as part of the FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.