



PUBLIC DISCLOSURE

January 6, 2020

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Blue Grass Federal Savings and Loan Association
Charter Number 706361

600 High Street
Paris, Kentucky 40361

Office of the Comptroller of the Currency

10200 Forest Green Boulevard
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, and should not 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.

Table of Contents

OVERALL CRA RATING	2
SCOPE OF THE EVALUATION	4
DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW	4
STATE RATING	5
STATE OF KENTUCKY	5
APPENDIX A: SCOPE OF EXAMINATION	A-1
APPENDIX B: SUMMARY OF MMSA AND STATE RATINGS	B-1
APPENDIX C: DEFINITIONS AND COMMON ABBREVIATIONS	C-1
APPENDIX D: TABLES OF PERFORMANCE DATA	D-1

Overall CRA Rating

Institution’s CRA Rating: This institution is rated Satisfactory.

The lending test is rated: Satisfactory.

Blue Grass Federal Savings and Loan Association (Blue Grass or bank) has a satisfactory record of meeting the credit needs of its community. The major factors that support this rating include:

- Blue Grass’ loan-to-deposit (LTD) ratio is reasonable.
- A majority of the bank’s loans are within its Assessment Area (AA).
- The geographic distribution of loans is excellent, in the moderate-income census tracts within the AA.
- Blue Grass’ record of lending to borrowers of different incomes reflects reasonable distribution.

Loan-to-Deposit Ratio

Considering the bank’s size, financial condition, and credit needs of the AA(s), the bank’s LTD ratio is reasonable.

Blue Grass’ average LTD ratio for the 22 quarters since the last CRA evaluation was 93.1 percent, which is a decrease from the last Community Reinvestment Act (CRA) evaluation where the LTD ratio averaged 113.0 percent. The LTD ranged from a quarterly low of 87.1 to a quarterly high of 103.4 percent. Based on Federal Deposit Insurance Corporation (FDIC) data as of June 30, 2019, four similarly situated institutions averaged LTD ratios ranging from a low of 82.5 percent to a high of 123.0 percent.

Strong competition combined with limited lending opportunities in the market area have created a strain on the bank’s ability to increase their lending portfolio. Consequently, net loans and leases have decreased 22.9 percent or \$6.9 million since the end of our prior evaluation period. Going forward, the Board of Directors (Board) and management are planning to expand further in the Lexington market area to achieve additional loan growth.

Lending in Assessment Area

A majority of the bank’s loans are inside its AA.

Based on a random sample of home mortgage loans, the bank originated 75.0 percent of its total loans inside the bank’s AA during the evaluation period. This analysis is performed at the bank, rather than the AA, level. This reflects satisfactory performance in helping meet the credit needs within the bank’s AA.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage	15	75	5	25	20	1,947	81.9	430	18.1	2,376

Description of Institution

Blue Grass is a federally-chartered, mutual savings association with a single location in Paris, Bourbon County, Kentucky. Blue Grass is centrally located in an area accessible to its entire community. Lobby and drive-up hours are reasonable to meet customer needs. Blue Grass has one automated teller machine (ATM) onsite. The ATM does not take deposits. There have been no significant changes to Blue Grass' corporate structure, merger and acquisition activities, or branch openings or closing during the review period.

Blue Grass serves Bourbon County through an offering of traditional banking products and services. Blue Grass offers a variety of loan products including first and second home mortgages, home equity loans and lines of credit, home improvement loans, interim construction loans, personal secured and unsecured loans, and automobile loans. Blue Grass also offers deposit products for individuals including checking accounts, savings accounts, and certificates of deposit. Customers have 24-hour access to their accounts through telephone banking and the internet. Internet and telephone banking services include access to account balances, transaction history, and loan information, transfers between Blue Grass accounts, and the payment of loans. Blue Grass offers MasterCard debit cards that provide customers with access to their accounts at point-of-sale or ATM locations.

As of September 30, 2019, Blue Grass reported \$35.6 million in total assets, \$25.0 million in total deposits, \$23.3 million in net loans and leases, and \$8.1 million in tier 1 capital. Loans secured by 1-4 family residential real estate represent the largest percentage of Blue Grass' loan portfolio at 72.2 percent. This includes unused home equity lines of credit commitments. The remainder of the bank's portfolio consists of commercial and industrial including commercial real estate (18.2 percent) loans to individuals (4.8 percent), and loans secured by farmland (4.8 percent).

Blue Grass has designated one AA for CRA purposes. The AA includes all of Bourbon County, Kentucky, which is a part of the Lexington-Fayette metropolitan statistical area (MSA). Bourbon County is located in central Kentucky, approximately 18 miles northeast of Lexington. The AA consists of six census tracts (CTs): four moderate-income and two middle-income CTs. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

Blue Grass faces strong competition for banking services within its AA. Based on June 30, 2019 FDIC data, four financial institutions, with seven offices in Bourbon County, held just over \$444 million in deposits. Blue Grass held the fourth most deposits in the AA at \$25.4 million, or 5.7 percent. Kentucky Bank led the market with \$238 million (53.6 percent), followed by Traditional Bank, Inc. at \$113.7 million (25.6 percent), and Fifth Third Bank at \$67.1 million (15.1 percent).

There are no legal or financial impediments that hinder Blue Grass' ability to meet the credit needs of its AA. The last CRA evaluation was performed by the Office of The Comptroller of the Currency (OCC) on December 8, 2014. The bank received a Satisfactory rating.

Scope of the Evaluation

Evaluation Period/Products Evaluated

We evaluated Blue Grass' CRA performance using the OCC's Small Bank CRA Procedures. These procedures assess an institution's record of meeting credit needs through its lending activities. Blue Grass' CRA evaluation period covers January 1, 2017 through December 31, 2019. Conclusions are based on the bank's primary lending product over the evaluation period, home mortgage loans.

To assess performance, we reviewed a random sample of 20 home mortgage loans originated during the evaluation period. We analyzed the bank's performance in relation to the comparative demographic data from the 2015 American Community Survey (ACS) of the U.S. Census. We compared the bank's performance to 2018 Home Mortgage Disclosure Act (HMDA) data as 2019 HMDA data was not yet available at the time of our review. We also used data from the FDIC market share report as of June 30, 2019.

Selection of Areas for Full-Scope Review

Blue Grass has one AA, Bourbon County, that is located within the Lexington-Fayette, Kentucky MSA. Refer to *Appendix A: Scope of Examination*, for a review of the full-scope AA.

Ratings

The bank's overall rating is based on the full-scope review of home mortgage lending performance within the Bank's single AA.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) or 195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Bureau of Consumer Financial Protection, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

State Rating

State of Kentucky

CRA rating for the State of Kentucky: Satisfactory

The Lending Test is rated: Satisfactory

The major factors that support this rating include:

- Blue Grass' LTD ratio is reasonable given the institution's size, financial condition, and credit needs of the AA.
- A majority of the bank's loans are within its AA.
- The geographic distribution of loans is excellent, including within moderate-income census tracts within the AA.
- Blue Grass' lending to borrowers of different incomes reflects reasonable distribution.

Description of Institution's Operations in Kentucky

As previously noted, Bourbon County in north-central Kentucky comprises the Bank's sole AA. The AA consists of all six CTs in the county. Of these, two are categorized as moderate-income tracts. There are no low-income tracts in Bourbon County. The 2015 ACS Survey and 2019 Dunn & Bradstreet data showed increasing median family incomes in the Lexington-Fayette, Kentucky MSA across the evaluation period. A description of the institution and its operations in Kentucky can be found under *Description of Institution* and *Scope of Evaluation* on pages 3 and 4.

Table A below provides demographic information of Blue Grass' AA. The AA's median family income of \$66,800 is well above that of the State of Kentucky. According to Department of Labor and Statistics data, the unemployment rates for Bourbon County for 2017, 2018, and 2019¹ were 3.6 percent, 3.5 percent, and 3.5 percent, respectively. These figures were below state unemployment rates of 4.0 percent, 3.8 percent, and 3.8 percent during the same time period.

One community contact in Blue Grass' assessment area described the Bourbon County economy as stable with limited growth. The contact indicated local banks exhibit a willingness to provide services to community development organizations. Further, the most pressing need of the AA is affordable housing.

¹ It is to be noted that we utilized data as of November for 2019 as data for the full year was not yet available during our review period.

Bourbon County

Table A - Demographic Information of the Assessment Area

Assessment Area: Bourbon County: 2015 ASC Census and 2019 D&B Data

Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	6	0.0	33.3	66.7	0.0	0.0
Population by Geography	20,013	0.0	31.7	68.3	0.0	0.0
Housing Units by Geography	8,990	0.0	34.2	65.8	0.0	0.0
Owner-Occupied Units by Geography	4,866	0.0	31.7	68.3	0.0	0.0
Occupied Rental Units by Geography	3,001	0.0	33.7	66.3	0.0	0.0
Vacant Units by Geography	1,123	0.0	46.2	53.8	0.0	0.0
Businesses by Geography	1,194	0.0	35.0	65.0	0.0	0.0
Farms by Geography	217	0.0	21.2	78.8	0.0	0.0
Family Distribution by Income Level	5,281	29.0	18.6	19.7	32.6	0.0
Household Distribution by Income Level	7,867	29.2	16.5	18.3	36.0	0.0
Median Family Income MSA - 30460 Lexington-Fayette, KY MSA		\$66,800	Median Housing Value			\$147,223
			Median Gross Rent			\$709
			Families Below Poverty Level			12.2%

Source: 2015 ACS Census and 2019 Dunn & Bradstreet Data
 Due to rounding, totals may not equal 100.0
 (*) The NA category consists of geographies that have not been assigned an income classification.

Scope of Evaluation in Kentucky

The bank operates solely in the State of Kentucky. We conducted a full-scope review of the bank’s activities in its single-state AA as depicted in *Appendix A: Scope of Examination*.

Lending Test

The bank’s performance under the Lending Test in Kentucky is rated Satisfactory.

Based on a full-scope review, the bank’s lending performance in the State of Kentucky is Satisfactory.

Distribution of Loans by Income Level of the Geography

The bank exhibits excellent geographic distribution of loans in the AA.

Home Mortgage Loans

Refer to Table O of *Appendix D: Tables of Performance Data* for the facts and data used to evaluate the geographic distribution of the bank’s home mortgage loans across geographies in the bank’s AA. Our analysis found excellent dispersion of home mortgage loans across geographies in the bank’s AA.

There are no low-income CTs in the bank's AA. During the evaluation period, the bank's home mortgage loan originations in moderate-income CTs compared favorably to both the demographic and aggregate comparators.

Distribution of Loans by Income Level of the Borrower

The bank exhibits a reasonable distribution of loans to individuals of different income levels, given the product lines offered by the bank.

Home Mortgage Loans

Refer to Table P of *Appendix D: Tables of Performance Data* for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loans. Our analysis found reasonable penetration across low- and moderate-income borrowers.

During the evaluation period, the bank's percentage of home mortgage loans made to low-income borrowers by dollar and number was less than the demographic comparator. However, by dollar the bank was on par with the aggregate comparator, and by number exceeded it. The bank's percentage of home mortgage loans made to moderate-income borrowers by dollar exceeded both the demographic and aggregate comparators. As a percentage by number, the bank was on par with both comparators.

Responses to Complaints

The bank received no written complaints related to its CRA performance during the evaluation period.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the MSAs and non-MSAs that received comprehensive examination review, designated by the term “full-scope,” and those that received a less comprehensive review, designated by the term “limited-scope”.

Time Period Reviewed:	Lending Test: January 1, 2017 to December 31, 2019	
Financial Institution	Products Reviewed	
Blue Grass Federal Savings and Loan Association	Home Mortgage Loans	
Affiliate(s)	Affiliate Relationship	Products Reviewed
Not applicable	Not applicable	Not applicable
List of Assessment Areas and Type of Examination		
Assessment Areas	Type of Exam	Other Information
Kentucky --Bourbon County within the Lexington-Fayette, Kentucky MSA	Full-scope	

Appendix B: Summary of MMSA and State Ratings

RATINGS	BLUE GRASS FEDERAL SAVINGS AND LOAN ASSOCIATION
Overall Bank:	Lending Test Rating
Blue Grass Federal Savings and Loan Association	Satisfactory
State:	
Kentucky	Satisfactory

Appendix C: Definitions and Common Abbreviations

The following terms and abbreviations are used in this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. For example, a bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending (Aggt.): The number of loans originated and purchased by all reporting lenders (HMDA or CRA) in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

Census Tract (CT): A small, relatively permanent statistical subdivision of a county delineated by a local committee of census data users for the purpose of presenting data. Census tracts nest within counties, and their boundaries normally follow visible features, but may follow legal geography boundaries and other non-visible features in some instances, Census tracts ideally contain about 4,000 people and 1,600 housing units.

Combined Statistical Area (CSA): A geographic entity consisting of two or more adjacent Core Based Statistical Areas with employment interchange measures of at least 15. An employment interchange measure is a measure of ties between two adjacent entities. The employment interchange measure is the sum of the percentage of workers living in the smaller entity who work in the larger entity and the percentage of employment in the smaller entity that is accounted for by workers who reside in the larger entity.

Community Development (CD): Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas.

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its entire community, including LMI areas, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

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, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always

equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, 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 that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: A closed-end mortgage loan or an open-end line of credit as these terms are defined under 12 CFR 1003.2, and that is not an excluded transaction under 12 CFR 1003.3(c)(1) through (c)(10) and (c)(13).

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

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: Individual income that is less than 50 percent of the area median income.

Low Income Geography: A census tract with a median family income that is less than 50 percent.

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 state/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. The median is the point at which half of the families have income above, and half below, a range of incomes. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above, and half below, a range of incomes.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5

million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 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.

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.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rating Area: A rated area is a state or multi-state metropolitan statistical 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 multi-state metropolitan statistical area, the institution will receive a rating for the multi-state metropolitan statistical area.

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

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report 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.

Tier 1 Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

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

Appendix D: Tables of Performance Data

Content of Standardized Tables

A separate set of tables is provided for each state. All multistate metropolitan statistical areas, if applicable, are presented in one set of tables. References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the Lending Test tables, the following are applicable: (1) purchased are treated as originations; and (2) “aggregate” is the percentage of the aggregate number of reportable loans originated and purchased by all HMDA or CRA-reporting lenders in the MMSA/assessment area. Deposit data are compiled by the FDIC and are available as of June 30th of each year. Tables without data are not included in this PE.

The following is a listing and brief description of the tables included in each set:

Table O. Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents aggregate peer data for the years the data is available.

Table P. Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MMSA/assessment area. The table also presents aggregate peer data for the years the data is available.

Table O : Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography																			2017-19		
Assessment Area:	Total Home Mortgage Loans				Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available-Income Tracts				
	#	\$	% of Total	Overall Market	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate		
Bourbon County	20	\$2,311	100	422	0.0	0.0	0.0	31.7	35.0	25.1	68.3	65.0	74.9	0.0	0.0	0.0	0.0	0.0	0.0		
<i>Source: 2015 ASC Census; 01/01/2017 - 12/31/2019 Bank Data, 2018 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>																					

Table P: Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower																			2017-19		
Assessment Area:	Total Home Mortgage Loans				Low-Income Borrowers			Moderate-Income Borrowers			Middle-Income Borrowers			Upper-Income Borrowers			Not Available-Income Borrowers				
	#	\$	% of Total	Overall Market	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate		
Bourbon County	20	\$2,311	100	422	29.0	15.0	11.4	18.6	15.0	18.7	19.7	25.0	20.9	32.6	45.0	31.0	0.0	0	18.0		
<i>Source: 2015 U.S Census; 01/01/2017 - 12/31/2019 Bank Data, 2018 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>																					