

# **PUBLIC DISCLOSURE**

**October 29, 2018**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Bank of Buffalo  
RSSD# 825940**

**2441 Greensburg Road  
Buffalo, Kentucky 42716**

**Federal Reserve Bank of St. Louis**

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

**NOTE:** This document is an evaluation of this bank'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 bank. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this bank. The rating assigned to this bank does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial bank.

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## CRA RATING

Bank of Buffalo is rated **Satisfactory** and was also rated Satisfactory under the CRA at its August 4, 2014 performance evaluation.

- Bank of Buffalo is meeting the credit needs of its community based on an analysis of lending activity.
- The bank's loan-to-deposit (LTD) ratio is reasonable given the bank's size and financial condition and the assessment area's credit needs.
- A majority of the bank's loans are originated outside the assessment area.
- Lending reflects excellent penetration among individuals of different income levels, including low- and moderate-income (LMI).
- A reasonable dispersion of loans occurs in the bank's assessment area.
- Neither the bank nor this Reserve Bank received any CRA-related complaints since the previous evaluation.

## SCOPE OF EXAMINATION

The Federal Financial Institutions Examination Council's (FFIEC's) Examination Procedures for Small Institutions were used to review the bank's CRA performance. The evaluation considered the CRA performance context, including the bank's asset size, financial condition, market competition, and assessment area demographic, economic, and credit needs. Lending performance was assessed in the bank's single assessment area, which is comprised of LaRue County, Kentucky, one of the three counties making up the Elizabethtown-Fort Knox metropolitan statistical area (MSA). The following criteria were reviewed:

- **LTD Ratio** – A 16-quarter average LTD ratio was calculated for the bank and compared to a sample of similarly situated institutions.
- **Lending in the Assessment Area, Lending to Borrowers of Different Income levels, and Geographic Distribution of Lending in the Assessment Area** – The bank's home mortgage loans and statistical sample of the bank's consumer motor vehicle loans originated from January 1, 2015 through December 31, 2016 were reviewed to determine the:
  - Percentage of loans originated in the assessment area.
  - Distribution among borrowers of different income levels, particularly those considered LMI.

- Extent to which the bank is reasonably disbursing loans throughout the assessment area.
- **Response to Substantiated Complaints** – Neither Bank of Buffalo nor this Reserve Bank received any CRA-related complaints since the previous evaluation.
- **Community Contacts** – Two community representatives, one from a university extension office and one from a social service organization, were contacted to provide insight into the needs of LMI individuals in the assessment area.

## DESCRIPTION OF INSTITUTION

Bank of Buffalo is a community bank headquartered in Buffalo, Kentucky. The bank's characteristics include:

- Total assets of \$74.4 million as of June 30, 2018.
- In addition to its main office in Buffalo, the bank has one other office located in Hodgenville, Kentucky.
- The bank operates a full-service automatic teller machine (ATM) at its Hodgenville branch.
- As of June 30, 2018, the largest portion of the bank's loan portfolio was loans to finance residential real estate, representing 49.4 percent of the bank's total loans.

Composition of Loan Portfolio as of June 30, 2018		
Loan Type	Amount \$ (000s)	Percentage of Total Loans
Construction and Development	\$450	1.1%
Commercial Real Estate	\$5,192	12.7%
Multifamily Residential	\$881	2.2%
Residential Real Estate	\$20,150	49.4%
Farmland	\$7,111	17.8%
Farm Loans	\$720	1.8%
Commercial and Industrial	\$1,549	3.8%
Consumer	\$4,694	11.5%
Total Other Loans	\$27	0.1%
<b>Total Loans</b>	<b>40,774</b>	<b>100.0%</b>
Note: Percentages may not total 100.0 percent due to rounding.		

There are no known legal, financial, or other factors impeding the bank's ability to help meet the credit needs in its communities.

## DESCRIPTION OF ASSESSMENT AREA

The assessment area is comprised of LaRue County in its entirety.

- See Appendix A for an assessment area map.
- The entire assessment area is comprised of four middle-income census tracts.
- As of June 30, 2018, the bank held 18.9 percent of Federal Deposit Insurance Corporation (FDIC)-insured deposits in LaRue County and ranked third of three institutions in the county.
- See Appendix B for demographic information.
- The assessment area has a population totaling 14,149, according to U.S. Census data.
- Population growth rates in the assessment area from 2010 to 2015 were lower than elsewhere in the state of Kentucky based on U.S. Census and American Community Survey (ACS) data. LaRue County lost population between 2010 and 2015. Additionally, the population is trending older due to young people leaving the area, as indicated by a community representative.

Population Change 2010–2015			
Area	2010 Population	2011–2015 Population	Percentage Change (%)
Assessment Area	14,193	14,149	-0.3
Kentucky	4,339,367	4,397,353	1.34
Source: U.S. Census Bureau: Decennial Census and the ACS			

- Based on a comparison between 2010 U.S. Census and 2011–2015 ACS data, median family income decreased in the assessment area, while it increased in the state of Kentucky. Additionally, the median family income of LaRue County remains below that of the state of Kentucky.

Median Family Income Change 2010–2015			
Area	2006–2010 Median Family Income (\$)	2011–2015 Median Family Income (\$)	Percentage Change (%)
Assessment Area	48,982	47,527	-0.9
Kentucky	52,046	55,367	6.4
Source: U.S. Census Bureau: ACS			

- While lower housing and rental costs in the assessment area compared to the state of Kentucky help compensate for the lower median family incomes, a community representative stated that there is a limited supply of affordable housing units available for purchase.

Housing Costs Change 2010–2015						
Area	Median Housing Value (\$)		% Change	Median Gross Rent (\$)		% Change
	2006–2010	2011–2015		2006–2010	2011–2015	
Assessment Area	97,200	110,100	13.3	488	657	34.6
Kentucky	116,800	123,200	5.5	601	675	12.3
Source: U.S. Census Bureau: ACS						

- While the assessment area unemployment rate generally remains low compared to the state of Kentucky and has experienced a decreasing trend, there is a need for higher-wage employment. Many LMI workers in the assessment area must commute to nearby cities, such as Elizabethtown and Fort Knox for meaningful employment, according to a community representative.

Unemployment Rates (%)				
Region	2014	2015	2016	2017
LaRue County	6.6	5.1	4.7	4.8
Kentucky	6.5	5.3	5.1	4.9
Source: Bureau of Labor Statistics: Local Area Unemployment Statistics				

- There are 1,828 employees in the assessment area. The largest industry is manufacturing, and other major industries include health care and social assistance, retail trade, and finance and insurance. Additionally, agriculture (especially grain and cattle) is an important driver in the economy, according to a community contact.

Major Industries in the Assessment Area	
Industry	Approximate # of Employees
Manufacturing	551
Health Care and Social Assistance	353
Retail Trade	201
Finance and Insurance	199
Source: County Business Patterns – U.S. Census Bureau; American Fact Finder 2016	

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

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

The bank's LTD ratio is reasonable given its size, financial condition, assessment area credit needs, and in comparison to several of its local competitor FDIC-insured institutions. The bank's LTD ratio was relatively stable throughout the review period, from an average ratio of 67.8 percent at the last examination to the current figure of 66.4 percent. The most recent quarter's ratio is 65.2 percent.

Comparative LTD Ratios	
Institution	LTD Ratio (%)
	16-Quarter Average
Bank of Buffalo	66.4
Competitors	
Campbellsville, Kentucky	62.0
Lebanon, Kentucky	38.4
Lebanon, Kentucky	63.6

### Assessment Area Concentration

For the products reviewed, a majority of the bank's lending activity is outside of the assessment area. By number, the bank originated 49.3 percent of its loans inside the assessment area, compared to 56.0 percent at the previous evaluation.

Lending Inside and Outside the Assessment Area								
Loan Type	Inside				Outside			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
HMDA	40	49.4	3,397	44.5	41	50.6	4,245	55.5
Consumer Motor Vehicle Loans	32	49.2	441	49.9	33	50.8	442	50.1
<b>Total Loans</b>	<b>72</b>	<b>49.3</b>	<b>3,838</b>	<b>45.0</b>	<b>74</b>	<b>50.7</b>	<b>8,525</b>	<b>55.0</b>
Note: Percentages may not add to 100.0 percent due to rounding.								

### Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes

The bank's lending has an excellent penetration among individuals of different income levels, including LMI.

### *Home Mortgage Lending*

The bank's lending to low-income borrowers, 15.0 percent, is reasonable. Although below the percentage of low-income families (22.8 percent), the bank's lending compares favorably to the 2015 and 2016 aggregate figures of 10.6 percent and 11.9 percent, respectively. However, the bank's home mortgage lending to moderate-income borrowers, 27.5 percent, exceeds the demographic figure of 18.6 percent and also compares favorably to aggregate data (19.9 percent and 19.3 percent for 2015 and 2016, respectively). Therefore, moderate-income lending is excellent. A community representative indicated that for many LMI residents, affordable housing is both a need and a challenge. Considering these factors, the bank's overall level of lending to LMI borrowers (42.5 percent) is excellent.

Distribution of 2015–2016 Home Mortgage Loans By Borrower Income Level							
Borrower Income Level	Bank Loans				Aggregate HMDA 2015–2016 Data		Families by Family Income %
	#	%	\$ (000s)	%	# % 2015	# % 2016	
Low	6	15.0	250	7.4	10.6	11.9	22.8
Moderate	11	27.5	714	21.0	19.9	19.3	18.6
Middle	10	25.0	780	23.0	19.6	23.5	26.1
Upper	11	27.5	1,095	32.2	33.6	24.3	32.4
Unknown	2	5.0	558	16.4	16.2	21.0	0.0
<b>Total</b>	<b>40</b>	<b>100.0</b>	<b>3,397</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Source: 2015 and 2016 FFIEC data							
Note: Percentages may not add up to 100.0 due to rounding.							

### *Consumer Motor Vehicle Lending*

Consumer motor vehicle lending to borrowers of different income levels is excellent. Of the 32 motor vehicle loans sampled during the evaluation period, the bank originated 53.1 percent to low-income borrowers, which exceeds the household population of 30.7 percent and is excellent. Similarly, the bank's lending to moderate-income borrowers, 25.0 percent, also exceeds the moderate-income household population (16.4 percent) and is excellent.

Distribution of 2015 – 2016 Consumer Motor Vehicle Loans By Borrower Income Level					
Borrower Income Level	Bank and Demographic Comparison 2015–2016				Households by Household Income %
	#	%	\$ (000s)	%	%
Low	17	53.1	189	43.0	30.7
Moderate	8	25.0	117	26.6	16.4
Middle	3	9.4	46	10.5	19.6
Upper	4	12.5	88	20.0	33.3
Unknown	0	0.0	0	0.0	0.0
<b>Total</b>	<b>32</b>	<b>100.0</b>	<b>440</b>	<b>100.0</b>	<b>100.0</b>
Source: 2015 and 2016 FFIEC data					
Note: Percentages may not add to 100.0 percent due to rounding.					

## Geographic Distribution of Loans

The bank's geographic distribution of loans reflects a reasonable dispersion throughout the assessment area, since all four tracts have a significant amount of lending. As the assessment area is comprised entirely of middle-income census tracts, the analysis of the performance criteria was limited and received less weighting than other criteria of the Lending Test.

## Response to Complaints

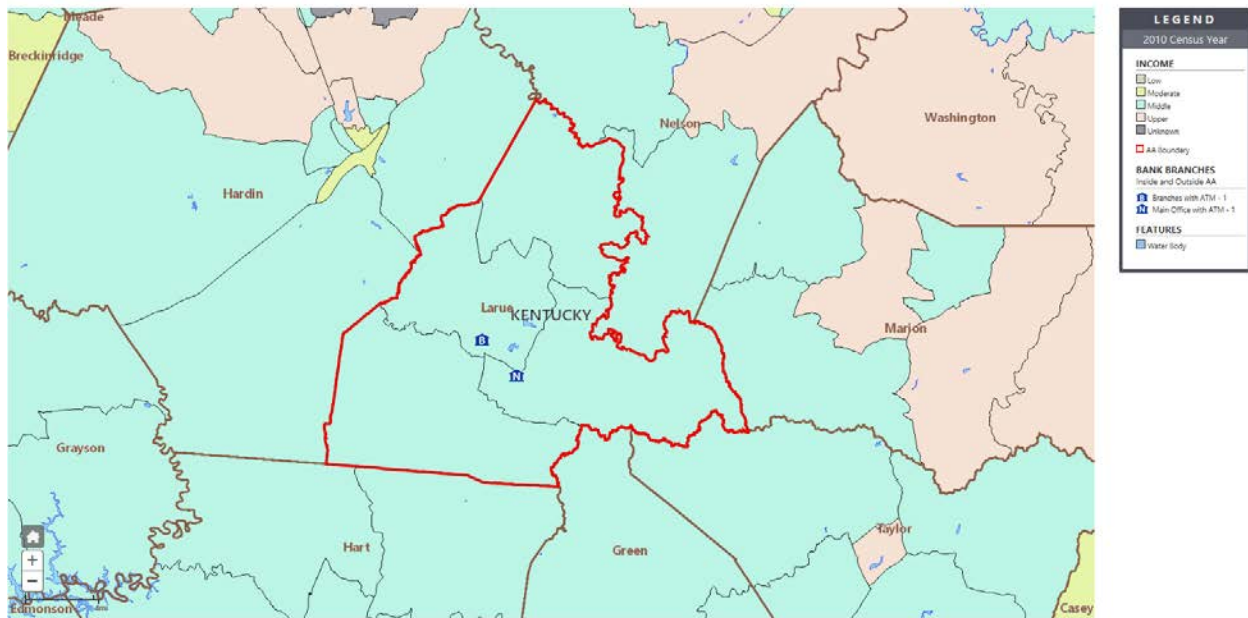
Neither the bank nor this Reserve Bank has received any CRA-related complaints since the previous examination.

## FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

## APPENDIX A – Map of the Assessment Area

Bank of Buffalo - Buffalo, Kentucky  
Tract Income Map



## APPENDIX B – Demographic Information

Assessment Area: LaRue County								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	1,040	27.8
Moderate-income	1	25	1,532	40.9	302	19.7	839	22.4
Middle-income	3	75	2,212	59.1	213	9.6	790	21.1
Upper-income	0	0.0	0	0.0	0	0.0	1,075	28.7
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	4	100.0	3,744	100.0	515	13.8	3,744	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied		Rental		Vacant		
		#	%	%	#	%	#	%
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	2,739	1,549	39.8	56.6	806	29.4	384	14
Middle-income	3,510	2,346	60.2	66.8	627	17.9	537	15.3
Upper-income	0	0	0.0	0.0	0	0.0	0	0.0
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	6,249	3,895	100.0	62.3	1,433	22.9	921	14.7
	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			≤ \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	242	52	213	50	18	66.7	11	91.7
Middle-income	223	48	213	50	9	33.3	1	8.3
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	465	100.0	426	100.0	27	100.0	12	100.0
	Percentage of Total Businesses:			91.6		5.8		2.6
	Total Farms by Tract		Farms by Tract & Revenue Size					
			≤ \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	17	20.7	17	20.7	0	0.0	0	0.0
Middle-income	65	79.3	65	79.3	0	0.0	0	0.0
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	82	100.0	82	100.0	0	0.0	0	0.0
	Percentage of Total Farms:			100.0		0.0		0.0
Source: 2016 FFIEC Census Data and 2016 Dun & Bradstreet information								

## APPENDIX C – Scope of Examination

Scope of Examination			
Time Period Reviewed			
Home mortgage and consumer motor vehicle loans originated from January 1, 2015 – December 31, 2016.			
Financial Institution	Products Reviewed		
Bank of Buffalo	<ul style="list-style-type: none"><li>• Home mortgage loans</li><li>• Consumer motor vehicle loans, statistical sample</li></ul>		
Affiliate(s)	Affiliate(s) Relationship	Products Reviewed	
None	N/A	N/A	
List of Assessment Areas and Type of Examination			
Assessment Area(s)	Type of Examination	Branches Visited	Other Information
LaRue County, Kentucky	Full Scope	None	Partial Elizabethtown-Fort Knox, Kentucky MSA

## APPENDIX D – Glossary

**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. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Affordability ratio:** To determine housing affordability, the affordability ratio is calculated by dividing median household income by median housing value. This ratio allows the comparison of housing affordability across assessment areas and/or communities. An area with a high ratio generally has more affordable housing than an area with a low ratio.

**Aggregate lending:** The number of loans originated and purchased by all lenders subject to reporting requirements as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

**Census tract:** Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They 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.

**Consumer loan(s):** A loan 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 of loans: motor vehicle, credit card, home equity, other secured loan, and other unsecured loan.

**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).

**Fair market rent:** Fair market rents (FMRs) are gross rent estimates. They include the shelter rent plus the cost of all tenant-paid utilities, except telephones, cable, or satellite television service, and internet service. The U.S. Department of Housing and Urban Development (HUD) sets FMRs to assure that a sufficient supply of rental housing is available to their program participants. To accomplish this objective, FMRs must be both high enough to permit a selection of units and neighborhoods and low enough to serve as many low-income families as possible. The level at which FMRs are set is expressed as a percentile point within the rent distribution of standard-quality rental housing units. The current definition used is the 40th percentile rent, the dollar amount below which 40 percent of the standard-quality rental housing units are rented.

The 40th percentile rent is drawn from the distribution of rents of all units occupied by recent movers (renter households who moved to their present residence within the past 15 months). HUD is required to ensure that FMRs exclude nonmarket rental housing in their computation. Therefore, HUD excludes all units falling below a specified rent level determined from public housing rents in HUD's program databases as likely to be either assisted housing or otherwise at a below-market rent, and units less than two years old.

**Geography:** A census tract or a block numbering area delineated by the U.S. Bureau of the Census in the most recent decennial census.

**Home mortgage loans:** Include home purchase and home improvement loans as defined in the Home Mortgage Disclosure Act 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:** 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.

**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 lenders in the MSA/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by The U.S. Department of Housing and Urban Development (HUD) annually 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 it and half below it.

**Metropolitan Area:** 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. An MSA that crosses into two or more bordering states is called a multistate metropolitan statistical area (MMSA). Performance within each MMSA is analyzed separately as a full-scope review and receives its own ratings under the Lending, Investment, and Service Tests provided the financial institution has its main office, branch, or deposit-taking ATM located in each applicable state making up the MMSA.

**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.

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

**Small loans to farms:** 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 thousand or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

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