



PUBLIC DISCLOSURE

December 08, 2014

COMMUNITY REINVESTMENT ACT (CRA) PERFORMANCE EVALUATION

Blue Grass Federal Savings and Loan Association
Charter Number 706361

600 High Street
Paris, Kentucky 40361-1811

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, 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

Blue Grass Federal Savings and Loan Association, Paris, Kentucky (Blue Grass) has a satisfactory record of meeting the credit needs of its community. This conclusion is based on the following.

- The average loan-to-deposit (LTD) ratio is more than reasonable given Blue Grass's size, financial condition, and the credit needs of its assessment area (AA).
- A majority of Blue Grass's loans were originated to borrowers within its AA.
- Blue Grass's record of lending to borrowers of different incomes (including low- and moderate-income) reflects reasonable penetration.
- Blue Grass's residential mortgage lending in moderate-income¹ census tracts reflects excellent dispersion.

SCOPE OF THE EXAMINATION

Blue Grass was evaluated under the Office of the Comptroller of the Currency's (OCC) Small Bank Examination Procedures. The lending test evaluated Blue Grass's record of meeting the credit needs of its AA through its lending activities.

The CRA evaluation covers the period between December 7, 2009 and December 8, 2014. The lending test included a random sample of loans originated by Blue Grass between January 1, 2012 and December 31, 2013. The scope of the lending test included a review of Blue Grass's primary loan product, residential real estate mortgages. We also considered Blue Grass's LTD ratio, level of lending in its AA, and distribution of loans to borrowers of different income levels. Our analysis of the borrower distribution of loans compared those originated during the testing period to aggregate percentages for depository lenders that made loans in the AA during the same period. We also considered information from a member of the local community to assess the credit needs in the AA.

DESCRIPTION OF THE INSTITUTION

Blue Grass is a federally-chartered, mutual savings association with a single location in Paris, Bourbon County, Kentucky. Blue Grass's last CRA evaluation was performed by the Office of Thrift Supervision (OTS) on December 7, 2009.² Blue Grass earned a satisfactory rating. There have been no significant changes to Blue Grass's corporate structure, merger and acquisition activities, or branch openings or closing during the review period. As a mutual savings association, Blue Grass continues to focus on residential real estate lending and traditional deposit products.

¹ There were no low-income census tracts in Blue Grass's AA during the evaluation period.

² Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, the OTS was merged into the OCC on July 21, 2011.

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.

Customers have 24-hour access to their accounts through telephone banking and the internet (<http://www.bluegrassfederal.com>). 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.

There are no legal or financial impediments that hinder Blue Grass's ability to meet the credit needs of its AA.

As of September 30, 2014, Blue Grass had total assets of \$40.4 million, of which gross loans comprised 75.94 percent of total assets, deposits totaled \$29.4 million, and equity capital totaled \$10.9 million. The following table reflects the composition of Blue Grass's loan portfolio based on the September 30, 2014 Consolidated Report of Condition and Income (call report).

Loan Type	Dollar (000's)	%
Residential Mortgage	26,807	87.38
Commercial & Industrial Including Commercial Real Estate	1,312	4.28
Construction & Land Development	673	2.19
Individuals	1,887	6.15
TOTAL	30,679	100.00

Source(s): September 30, 2014 call report.

DESCRIPTION OF THE ASSESSMENT AREA(S)

Blue Grass's AA is all of Bourbon County, Kentucky. The area is located in central Kentucky, approximately 18 miles northeast of Lexington. The AA consists of six census tracts: four moderate-income and two-middle income census tracts. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

Paris serves as the county seat of Bourbon County. The population for Bourbon County at the 2010 United States Census (2010 U.S. Census) was 19,985. The AA contains diversified employment opportunities. The 2010 U.S. Census indicates manufacturing was the top industry employing 18.1 percent of the work force, followed by, education, health care, and social services at 17.8 percent, and agriculture at 10.3 percent. According to the Lexington Chamber of Commerce, the two largest employers in Bourbon County are Central Motor Wheel of America, Inc. and Monessen Hearth Systems. Both are manufacturers with 504 and 300 employees, respectively. Additionally, horse farms make up the majority of the agricultural industry with over 50

farms in the county. Bourbon County is one of the leading producers of thoroughbreds in the world.

Income distribution statistics from the 2010 U.S. Census show that 31.99 percent of families in the AA are low-income. This statistic includes 14.91 percent of families that fall below the poverty line. Upper-income families comprised the next largest segment at 30.14 percent, followed by moderate-income families at 22.12 percent, and middle-income families at 15.75 percent.

As of our evaluation date, the local economy was improving. As of September 30, 2014, the unemployment rate for Bourbon County was 5.7 percent. This was lower than the average unemployment rate for the Commonwealth of Kentucky at 5.9 percent and the nation at 6.0 percent. This was also the lowest rate measured during the assessment period dating back to January 1, 2010. Unemployment peaked at 11.0 percent as of January 31, 2011. It has declined each year since.

Demographic Information for the Bourbon County, Kentucky Non-MSA Assessment Area					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	6	0	66.67	33.33	0
Population by Geography	19,985	0	72.56	27.44	0
Owner-Occupied Housing by Geography	4,994	0	67.84	32.16	0
Businesses by Geography	1,586	0	67.65	32.35	0
Farms by Geography	316	0	53.80	46.20	0
Family Distribution by Income Level	5,548	31.99	22.12	15.75	30.14
Distribution of Low- and Moderate-Income Families throughout AA Geographies	3,002	0	75.72	24.28	0
Median Family Income (MFI)	= \$46,736		Median Housing Value		= \$141,908
Households Below the Poverty Level	= 17.93%		Unemployment Rate		= 7.47%

Source(s): 2010 U.S. Census

As of June 30, 2014, five financial institutions, with seven offices in Bourbon County, held nearly \$320 million in deposits. Blue Grass held the fourth most deposits in the AA at \$29.7 million, or 9 percent. Kentucky Bank led the market with \$160 million (50 percent), followed by Traditional Bank, Inc. at \$73.3 million (23 percent), Fifth Third Bank at \$54.2 million (17 percent), and Farmers Deposit Bank at \$2.5 million (1 percent).

Based on a community contact familiar with the credit needs of the AAs, Blue Grass is providing satisfactory access to credit in its community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The LTD ratio is more than reasonable given Blue Grass's size, financial condition, and the credit needs of the AA. Blue Grass's average LTD ratio for the 22 quarters since the last CRA Performance Evaluation was 113 percent, which is a decrease from the last CRA Performance Evaluation when the LTD ratio averaged 122 percent.

We compared Blue Grass to other banks in the AA. The table below shows the average LTD ratios of other banks for the period under review ranged from 61 percent to 113 percent. Blue Grass's average of 113 is significantly higher than all other banks in the AA. Blue Grass has maintained a significantly higher LTD ratio in each of the 22 quarters since the previous CRA Performance Evaluation.

Institution	Average LTD Ratio
Blue Grass Federal Savings and Loan Association	112.56%
Fifth Third Bank	90.77%
Traditional Bank, Inc.	86.40%
Kentucky Bank	76.87%
Farmers Deposit Bank	60.92%

Lending in the Assessment Area

A majority of Blue Grass's loans are inside its AA.

Lending in Bourbon County AA										
	Inside Assessment Area				Outside Assessment Area				Total	
	Count	%	Amount	%	Count	%	Amount	%	Count	Amount
Residential Loans Originated in 2012 And 2013	83	62.4 1	\$7,344	56.9 2	55	37.5 9	\$5,558	43.0 8	133	\$12,902

Source(s): All residential real estate loans originated during 2012 and 2013. No 2010 U.S. Census information was used in this table.

Lending to Borrowers of Different Incomes

Given the demographics of the AAs, Blue Grass's record of lending to borrowers of different incomes reflects reasonable penetration.

Lending to low- and moderate-income borrowers in the Bourbon County AA is reasonable. Lending to low- income borrowers appeared poor compared to the number of low-income families in the AA. However, as seen in the table below, compared to peer data in the AA, overall lending to low- and moderate-income borrowers reflects reasonable penetration.

Borrower Distribution of Residential Real Estate Loans in Bourbon County AA												
Census Tract Income Level	Low			Moderate			Middle			Upper		
Loan Type	% of AA Families	% of Number of Loans	% Peer Mortgage Data	% of AA Families	% of Number of Loans	% Peer Mortgage Data	% of AA Families	% of Number of Loans	% Peer Mortgage Data	% of AA Families	% of Number of Loans	% Peer Mortgage Data
Residential	31.99	10.00	10.87	22.12	20.00	22.51	15.75	30.00	25.27	30.14	40.00	30.93

Source(s): Randomly selected sample of residential real estate loans originated within the AA in 2012 and 2013. 2010 U.S. Census

Geographic Distribution of Loans

Blue Grass’s geographic distribution of residential real estate loans in the moderate-income census tracts reflects excellent dispersion in the AA.

Geographic Distribution of Residential Real Estate Loans in Bourbon County AA												
Census Tract Income Level	Low			Moderate			Middle			Upper		
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% Peer Mortgage Data	% of AA Owner Occupied Housing	% of Number of Loans	% Peer Mortgage Data	% of AA Owner Occupied Housing	% of Number of Loans	% Peer Mortgage Data	% of AA Owner Occupied Housing	% of Number of Loans	% Peer Mortgage Data
Residential	0	0	0	67.84	90.00	62.63	32.16	10.00	37.37	0	0	0

Source(s): Randomly selected sample of residential real estate loans originated within the AA in 2012 and 2013. 2010 U.S. Census

Responses to Complaints

Blue Grass did not receive any CRA complaints during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 195.28(c), in determining a federal savings association’s (FSA) 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.

The OCC did not identify evidence of discriminatory or other illegal credit practices with respect to this institution.