



PUBLIC DISCLOSURE

August 27, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Carrollton Federal Bank
Charter Number 704069

2539 Highway 227
Carrollton, Kentucky 41008

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.

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Overall CRA Rating

The Lending Test is rated: Satisfactory

Carrollton Federal Bank (CFB) has a satisfactory record of meeting the credit needs of its community. This conclusion is based on the following.

- CFB's level of lending as reflected in its loan-to-deposit ratio is more than reasonable.
- CFB's originates a satisfactory number of loans inside the assessment area (AA).
- CFB's originates a reasonable distribution of loans to borrowers of different incomes.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout 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. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

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 MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. 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 Development: 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; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, 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, home equity 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 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), loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

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 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 MA/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. 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 it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

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.

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.

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 multi-state 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 multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan 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 One 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.

Description of Institution

CFB is an independent, intrastate, federally-chartered, mutual savings association. CFB is headquartered in Carrollton, Kentucky, which is situated in Carroll County. CFB is not a subsidiary of a holding company. As of December 31, 2017, CFB reported \$34 million in total assets, \$28 million in total deposits, \$23 million in total loans, and \$5 million in tier 1 capital.

CFB has a single location which is accessible to all segments of its community. It offers an on-site drive-through and automated teller machine (ATM) at its one location. The ATM does not accept deposits. CFB did not open or close any branch offices during the evaluation period. CFB operates its drive-through service during customary banking hours Monday through Thursday and offers extended hours on Fridays and Saturday mornings. CFB also operates a website, offers on-line banking and a variety of traditional deposit and loan products including checking, savings, certificates of deposit and individual retirement accounts as well as consumer, mortgage, and commercial loans.

CFB has designated a single AA. The AA is comprised of Carroll County, Kentucky in its entirety. The AA is located in North-Central Kentucky, which is rural in nature and not situated in a Metropolitan Statistical Area. The AA does not exclude any portion of Carroll County. Further, the AA does not include any low- or moderate-income geographies. The AA is in conformance with regulatory requirements. Carroll County consists of three middle-income census tracts.

As a traditional savings association, CFB's lending focuses primarily on residential mortgage loans for the purchase, refinance, improvement, and construction of one-to-four family dwellings. As of December 31, 2017, net loans represented 65 percent of the CFB's average assets. The loan portfolio mix is as follows: one-to-four family residential real estate loans (68 percent), farmland (8 percent), multifamily properties (1 percent), commercial real estate (13 percent), construction and development (5 percent), and consumer loans (5 percent).

Competition from other financial institutions is strong. Six financial institutions operate branch offices in Carroll County, Kentucky, including CFB. These financial institutions include community banks, branches of large community banks, and a branch of a large regional bank. Based on June 30, 2017 Federal Deposit Insurance Corporation deposit market share data, CFB's \$28 million in deposits were derived from inside of the AA, ranking third in market share at 15 percent.

CFB was rated "Satisfactory" at the last CRA evaluation, dated June 17, 2013. There are no legal, financial or other factors impeding CFB's ability to help meet the credit needs in its AA.

Scope of the Evaluation

Evaluation Period/Products Evaluated

We evaluated CFB's CRA performance using the OCC's Small Bank CRA Examination Procedures, which assess an institution's record of meeting the credit needs of its AA through lending activities.

The CRA evaluation covers the period since the date of the previous CRA examination through August 27, 2018. Conclusions regarding the Bank's lending performance were based on a random sample of primary loan product originations between January 1, 2015 and June 30, 2017. The Bank's primary loan product is residential loans. As of December 31, 2017, net loans represented 65 percent of the CFB's average assets with residential loans representing 68 percent of total loans. Residential loans were the focus of marketing efforts during the evaluation period.

Selection of Areas for Full-Scope Review

CFB has one AA, the entirety of Carroll County, Kentucky. Refer to Appendix B for a profile of the AA. We completed a full-scope review of the AA. Refer to Appendix A for more information.

Ratings

CFB's overall CRA rating is based on the volume of residential loans originated in the Bank's AA. There were no low-or moderate-income CTs in the AA. Our analysis placed more weight on lending to borrowers of different incomes.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. §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 assessment area 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 Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution [or any affiliate whose loans have been considered as part of the institution's lending performance] 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.

Conclusions with Respect to Performance Tests

LENDING TEST

CFB's performance under the Lending Test is satisfactory.

- CFB's level of lending as reflected by its loan-to-deposit ratio is more than reasonable.
- CFB's originates a satisfactory number of loans inside the AA.
- CFB's distribution of loans among AA borrowers reflects reasonable distribution to borrowers of different income levels.

Loan-to-Deposit Ratio

CFB's LTD ratio is more than reasonable considering CFB's size and credit needs of its AA. CFB's LTD ratio averaged 86 percent over the last 19 quarters, with a quarterly high of 92 percent and a quarterly low of 78 percent. CFB ranked first among the additional five institutions serving the AA. These five other banks had average LTD ratios ranging from 63 to 80 percent, respectively, with total assets ranging from \$58 million to \$238 million.

Lending in Assessment Area

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	10	50.0	10	50.0	20	619	49.2	639	50.8	1258
Small Business	0	0	0	0	0	0	0	0	0	0
Small Farm	0	0	0	0	0	0	0	0	0	0
Consumer	0	0	0	0	0	0	0	0	0	0
Total	10	50.0	10	50.0	20	619	49.2	639	50.8	1258

Source: 01/01/2015-12/31/2017 Bank Data

CFB's record of lending in the AA is reasonable, representing a satisfactory level of lending inside the AA. Based on a sample of residential real estate loans CFB originated during the evaluation period, 50 percent were originated inside of the AA by number. CFB's record of lending inside of its AA represents an increased level of AA lending since the prior CRA Performance Evaluation.

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

Refer to Table 1 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's loan originations and purchases.

CFB's record of originating residential real estate loans in the AA reflects reasonable distribution of lending to borrowers of different income levels.

Of AA families, 25.8 percent, 13.6 percent, 14.5 percent and 46.1 percent are classified as low-, moderate-, middle-, and upper-incomes, respectively. Of residential real estate loans made in aggregate by all reporting lenders in the AA, 6.2 percent, 12.3 percent, 19.9 percent and 39.7 percent of loans were made to low-, moderate-, middle-, and upper-income AA borrowers respectively. In comparison, based on sampling, of CFB's AA lending, 5.0 percent, 5.0 percent, 20.0 percent and 70.0 percent of residential real estate loans were made to low-, moderate-, middle-, and upper-income AA borrowers.

During the evaluation period, CFB's record of residential real estate lending to low-income borrowers within its AA is in line with the aggregate record of all reporting lenders in the AA. CFB's record of lending to moderate-income AA borrowers is lower than the aggregate record of all reporting lenders in the AA. Overall, CFB's record of residential real estate lending to low-and moderate-income borrowers is reasonable taking into consideration CFB's size and AA lending opportunities.

Opportunities to originate residential mortgages to low-and moderate-income AA borrowers is impacted by Carroll County demographics including housing availability and affordability as well as competition for residential real estate loans. Demographic factors are reported in conjunction with the U.S. Census, 2015 American Community Survey (ACS). Specifically, for Carroll County, housing units totaled just 4,687, of which only 2,424 represented owner-occupied units and 1,564 represented rental units. Families below poverty level represent 18.9 percent of Carroll County families and 33.9 percent live on a fixed income from social security. These factors adversely affect their ability to purchase or maintain a home. Additionally, CFB competes for residential real estate loans with five larger lenders operating branch offices within the AA, as well as numerous other larger lenders that originate residential real estate loans in Carroll County.

Geographic Distribution of Loans

There were no low- or moderate-income CTs within Carroll County during the evaluation period. All CTs within Carroll County were classified as middle-income. Therefore an analysis of the bank's geographic distribution of loans is not meaningful and was not performed.

Responses to Complaints

CFB did not receive any written complaints regarding 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 metropolitan and nonmetropolitan areas 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 (excludes CD loans): (01/01/15 to 12/31/17) Investment and Service Tests: Not Applicable CD Loans: Not Applicable	
Carrollton Federal Bank	Products Reviewed	
Carrollton Federal Bank (CFB) Carrollton, Kentucky	Residential Real Estate	
Affiliate(s)	Affiliate Relationship	Products Reviewed
Not Applicable	Not Applicable	Not Applicable
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Carroll County, Kentucky	Full-Scope	

Appendix B: Community Profiles for Full-Scope Areas

Demographic Information of the Assessment Area						
Assessment Area: Carroll County, Kentucky 2010 Census						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	3	0.0	0.0	100.0	0.0	0.0
Population by Geography	10,811	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	4,679	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	2,758	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	1,464	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	457	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	593	0.0	0.0	100.0	0.0	0.0
Farms by Geography	32	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	2,984	25.8	13.6	14.5	46.1	0.0
Household Distribution by Income Level	4,222	22.3	14.1	11.7	51.9	0.0
2017 HUD updated Median Family Income Non-MSAs - GA		\$47,800	Median Housing Value			\$115,859
			Median Gross Rent			\$565
			Families Below Poverty Level			18.9%

Source: 2010 U.S. Census and 2017 D&B Data
 Due to rounding, totals may not equal 100.0
 (*) The NA category consists of geographies that have not been assigned an income classification.

According to the Kentucky Cabinet for Economic Development, the major industry in Carroll County is manufacturing at 37 percent, followed by professional and business services at 15 percent. North American Stainless employs 1,376 employees, and The Dow Chemical Company has 400 employees. Over 69 percent of Carroll County employees commute into the county for employment.

The annual unemployment rate in Carroll County in 2017 was 4.7 percent. Carroll County's unemployment rate was lower than the State of Kentucky's annual unemployment rate of 4.9 percent. Carroll County's unemployment rate has declined significantly since the prior CRA Evaluation dated June 17, 2013.

A community contact familiar with the AA identified a need for quality, living-wage employment. The contact indicated that there is a strong business community, with advanced manufacturers, which are in need of workers. However, the contact noted there is a mismatch between the location of the companies and the potential workforce. The contact advised that public transportation does not provide a convenient method to get potential workers to those companies. Furthermore, the contact added that even with added routes, the timing is insufficient to accommodate the various work shifts. The contact also cited lack of childcare as a barrier to employment.

Appendix C: Tables of Performance Data

Table 1

Assessment Area Distribution of Home Mortgage Loans by Income Category of 2015-2017 the Borrower																		
Assessment Area:	Total Home Mortgage Loans			Low-Income Borrowers			Moderate-Income Borrowers			Middle-Income Borrowers			Upper-Income Borrowers			Not Available-Income Borrowers		
	#	\$	% of Total	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate
Carroll County				25.8	5.0%	6.2	13.6	5.0%	12.3	14.5	20.0%	19.9	46.1	70.0%	39.7	0.0	0.0	21.9
Total				25.8	5.0%	6.2	13.6	5.0%	12.3	14.5	20.0%	19.9	46.1	70.0%	39.7	0.0	0.0	21.9

*Source: 2010 U.S. Census ; 01/01/2015 - 12/31/2017 Bank Data, "--" data not available.
Due to rounding, totals may not equal 100.0*