

# **PUBLIC DISCLOSURE**

**January 5, 1999**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Pioneer Bank  
16827**

**2708 North Jackson Highway  
Canmer, Kentucky 42722**

**Federal Deposit Insurance Corporation  
Division of Compliance and Consumer Affairs  
5100 Poplar Avenue, Suite 1900  
Memphis, Tennessee 38137**

**NOTE:** 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.

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## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Pioneer Bank, Canmer, Kentucky** prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency, as of **January 5, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

## INSTITUTION RATING

**INSTITUTION'S CRA RATING:** This institution is rated Outstanding.

The bank's CRA performance displays a good practice of providing for the credit needs of its assessment area. This rating is supported by the following:

- An analysis of loan originations revealed a strong penetration among borrowers of different incomes. All business loans originated were to small businesses.
- The bank has achieved a good dispersion of loans within its assessment area.
- A majority of loan originations are within the bank's assessment area.
- The average loan-to-deposit ratio reflects strong responsiveness to community credit needs.
- The bank has extended three community development loans totaling \$967,300. This funding ultimately provided several jobs for low- and moderate-income persons within the assessment area.

## **DESCRIPTION OF INSTITUTION**

Pioneer Bank, located in Canmer, Kentucky, is a full service commercial bank with gross loans of \$51,470,000 and total assets of \$70,337,000 as of September 30, 1998. The bank is wholly-owned by Porter Bancorp, Inc., a multi-bank holding company, located in Shepherdsville, Kentucky. The bank's primary lending focus is business loans, which accounts for 44 percent of the total loan portfolio. The balance of the portfolio mix includes 27 percent in residential mortgage loans, 22 percent in agricultural loans, and 7 percent in consumer loans.

The bank operates from its main office in Canmer and from two branch offices. One branch is in Munfordville and one is in Horse Cave. All banking offices are in Hart County, Kentucky. Although technically a branch, the Munfordville office is functionally the main office. The bank has drive-in windows at all three offices. No branches have been opened or closed since the previous evaluation. The bank maintains an ATM at a Munfordville service station.

In early 1997, the bank established a wholly owned subsidiary, Frontier Mortgage Banking Services, Inc. (Frontier). Frontier operates loan production offices in Louisville and Lexington, Kentucky and Indianapolis, Indiana. Frontier originates mortgage loans solely for sale in the secondary market with servicing released.

Pioneer Bank is the only financial institution in Hart County actively participating in the Farm Service Agency Guaranteed Loan Program. In 1997 and 1998, the bank made seven of these loans totaling \$503,738. During the same time period, the other financial institutions in Hart County made no loans under this program.

The bank also provides instructors twice a year for personal finance seminars at the local high school.

The bank's competition in its assessment area consists of three financial institutions with a total of four offices. At June 30, 1998, Pioneer Bank had a 32 percent market share of the deposits inside the county. Pioneer Bank is the only financial institution with an office in Canmer, one of two with an office in Horse Cave, and one of three with an office in Munfordville. According to management, Pioneer Bank receives strong competition from outside their assessment area from a commercial bank located in Glasgow, Kentucky.

## **DESCRIPTION OF HART COUNTY**

The bank's assessment area is Hart County, Kentucky, which contains five block numbering areas (BNAs). The U.S. Census Bureau has designated one BNA as a moderate-income geography and four BNAs as middle-income geographies. According to the University of Louisville's Kentucky Population Research Department, Hart County had an estimated population of 16,555 in 1997, an 11 percent increase since the 1990 census. The largest cities in Hart County are Horse Cave with

an estimated 1997 population of 2,383 and Munfordville with an estimated 1997 population of 1,650. Hart County is located near Interstate 65 about 64 miles south of Louisville, Kentucky.

The assessment area's largest industries, as a percent of total industries, are nondurable goods manufacturing (22 percent), government (17 percent), and services (16 percent). Agriculture is a significant component of the area's economy, employing 13 percent of the population. Principal products include dairy, beef cattle, and tobacco. Census data shows that there are 261 private non-farm business establishments in Hart County. Only six businesses employ 50 or more persons. The largest employers are Dart Container Corporation, Louisville Bedding Company, Hart County Health Care Center, Anderson Forest Products Inc., and Ken-Dec Inc. According to a community contact, almost 40 percent of Hart County's work force commutes outside the county for employment. Bank management indicated that many of these people work in Glasgow, Kentucky, which is about 10 miles south of the Hart County line.

According to the Bureau of Labor Statistics, the unemployment rate for Hart County was 3.9 percent for third quarter 1998, which was down from 5.5 percent for third quarter 1997. The average unemployment rate for the first nine months of 1998, 5.0 percent, is much better than any year since 1994. The rate was about 6.5 percent each year from 1995 through 1997.

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

The evaluation of the bank's lending performance is based on the review of a random sample of loans from the two largest loan categories. Both samples were derived from loans made since January 1, 1998. One sample consisted of 34 commercial loans totaling \$658,131 from a universe of 164 loans totaling \$2,929,691. The other sample consisted of 31 residential mortgage loans totaling \$1,118,907 from a universe of 117 loans totaling \$4,288,669. Since the previous evaluation conducted as of May 14, 1996, the bank originated 5,465 loans totaling \$173,484,425. These figures include participations originated and sold and loans warehoused through the bank's mortgage subsidiary which were sold to the secondary market.

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

The bank has achieved an excellent penetration of lending to borrowers of different incomes and businesses of different sizes. The 1998 HUD estimated statewide non-metropolitan median family income (MFI) of \$29,800 was used for borrower distribution analysis. The following table provides information on how each income level is defined:

<b>INCOME LEVEL</b>	<b>PERCENT OF MFI</b>	<b>1998 INCOME RANGE</b>
Low	Less than 50%	Less than \$14,900
Moderate	50% to 80%	\$14,900 to less than \$23,840
Middle	80% to 120%	\$23,840 to less than \$35,760
Upper	120% and over	\$35,760 and over

The following table reflects the distribution by borrower income level for the residential mortgage loan sample. For comparison, the table includes the percentage of families within each income level according to the 1990 census. The analysis only includes the sampled loans which were originated within the assessment area.

<b>RESIDENTIAL MORTGAGE LOANS</b>					
<b>INCOME LEVEL</b>	<b>PERCENT OF FAMILIES</b>	<b>NUMBER</b>	<b>PERCENT</b>	<b>DOLLAR AMOUNT</b>	<b>PERCENT</b>
Low	29	7	29	\$101,123	14
Moderate	18	4	17	103,589	14
Middle	21	7	29	186,969	26
Upper	32	6	25	340,192	46
<b>TOTALS</b>	<b>100</b>	<b>24</b>	<b>100</b>	<b>\$731,873</b>	<b>100</b>

Forty-six percent of the number and 28 percent of the dollar volume of the residential real estate loans were extended to low- and moderate-income families. In comparison, 47 percent of Hart County's families have income levels that fall within these ranges. The dollar volume comparison reflects the fact that loans to lower income families would normally be for smaller amounts than those to higher income families. These lending levels for residential loans are considered very strong and reflect the bank's willingness to extend credit to all income levels of the assessment area.

The following table reflects the distribution, based on gross annual revenues, of the sampled

commercial loans made within the assessment area:

<b>COMMERCIAL LOANS</b>				
<b>GROSS REVENUE</b>	<b>NUMBER</b>	<b>PERCENT</b>	<b>DOLLAR AMOUNT</b>	<b>PERCENT</b>
Less than \$100,000	13	52	\$122,073	28
\$100,000 to \$250,000	5	20	201,846	46
\$250,001 to \$1,000,000	7	28	114,642	26
Over \$1,000,000	0	0	0	0
<b>TOTALS</b>	<b>25</b>	<b>100</b>	<b>\$438,561</b>	<b>100</b>

The majority of these business loans, 72 percent of the loans and 74 percent of the dollar volume, were extended to small businesses with gross annual revenues of less than \$250,000. Loans in this gross income range are a good match for the community's credit needs.

### **Geographic Distribution of Loans**

The bank has achieved a good dispersion of loans within the assessment area. This dispersion is presented in the following table which includes the percent of families living in the geographies according to the 1990 Census. The loan data represents the sample of residential real estate and business loans that were within the assessment area.

<b>INCOME LEVEL</b>	<b>PERCENT OF FAMILIES</b>	<b>NUMBER</b>	<b>PERCENT</b>	<b>DOLLAR AMOUNT</b>	<b>PERCENT</b>
Moderate	27	23	47	\$304,679	26
Middle	73	26	53	865,757	74
<b>TOTALS</b>	<b>100</b>	<b>49</b>	<b>100</b>	<b>\$1,170,436</b>	<b>100</b>

The dispersion within the assessment area for the individual loan samples is quite similar to the aggregate. For example 50 percent of the loans and 27 percent of the dollar volume in the residential sample were in the moderate-income BNA. This correlates reasonably well with a study prepared by the bank covering all loans made during the last 18 months. This study found 36 percent of the loans and 37 percent of the dollar volume within the moderate-income BNA.

### **Lending in Assessment Area**

The bank originates a majority of its loans within the assessment area. Specifically, 77 percent of the number and 65 percent of the dollar volume of sampled loans were made within the assessment area. This correlates with a study prepared by the bank covering all loans made during the last 18 months. This study found 77 percent of the loans and 71 percent of the dollar volume within the assessment area.

### **Loan to Deposit Ratio**

The bank's loan to deposit ratio indicates good responsiveness to area credit needs. The bank's average loan to deposit ratio, based on the 10 quarters since the last evaluation, was 89 percent. The Kentucky Commercial Bank peer group (for banks with total assets of \$50 to \$100 million) average was 76 percent as of September 30, 1998. For the past 10 quarters a similarly situated bank, with two offices and 87 percent of their deposits in the assessment area, had an average ratio of 79 percent. The high loan to deposit ratio indicates the bank's willingness and ability to serve the community's credit needs.

### **Community Development Loans**

Since the prior examination, the bank has made three loans totaling \$967,300 for the construction of new buildings in an industrial park located in Hart County's moderate income tract. According to bank management, the new businesses housed in these buildings have created about 100 low- and moderate-income jobs.

### **Response to Complaints**

The bank has not received any CRA-related complaints since the last examination.

### **Compliance with Anti-discrimination Laws and Regulations**

No violations of the substantive provisions of the anti-discriminatory laws and regulations were identified during the examination.