

PUBLIC DISCLOSURE

December 14, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Hometown Bank of Corbin, Inc.
Certificate Number: 35455

1030 Cumberland Falls Highway
Corbin, Kentucky 40702

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Chicago Regional Office
300 South Riverside Plaza, Suite 1700
Chicago, Illinois 60606

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 RATING

INSTITUTION'S CRA RATING: This institution is rated Satisfactory. An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Hometown Bank of Corbin, Inc.'s (Hometown's) satisfactory Community Reinvestment Act (CRA) performance under the Lending Test supports the overall rating. Examiners did not identify any evidence of discriminatory or other illegal credit practices. The following points summarize Hometown's Lending Test performance:

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- The bank made a substantial majority of its home mortgage and small business loans in the assessment area.
- The geographic distribution of loans reflects reasonable dispersion within the assessment area.
- The distribution of borrowers reflects reasonable penetration of loans among individuals of different income levels and businesses of different sizes.
- The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the Lending Test rating.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior performance evaluation dated January 9, 2012, through the current evaluation dated December 14, 2017. Examiners used the Interagency Small Institution Examination Procedures to conduct a full-scope review of Hometown's CRA performance within the bank's assessment area, which includes the contiguous Kentucky counties of Knox, Laurel, and Whitley. The Lending Test considers the bank's performance within the criteria detailed in the bullet points above.

Loan Products Reviewed

Examiners determined Hometown's major product lines are home mortgage and small business loans. This conclusion considered the bank's business strategy and the number and dollar volume of loans originated during the evaluation period. Examiners weighted the bank's record of originating home mortgage and small business loans equally during this evaluation period. In addition, no other loan types, such as consumer loans or agriculture related loans represented a major product line or had significant volume warranting review. Bank records show the lending focus and product mix remained consistent throughout the evaluation period.

To review home mortgage and small business loans, examiners sampled loans originated in the period of January 1, 2016, through December 31, 2016. This sample was considered representative of the bank's performance during the entire evaluation period. Hometown originated 89 home mortgage loans totaling approximately \$14 million during the review period, of which examiners sampled 29 loans totaling approximately \$3.5 million. The 2010 U.S.

Census (Census) data provided a standard of comparison for the sampled home mortgage loans. For small business loans, the bank originated 57 loans totaling approximately \$7.9 million during the review period, of which examiners sampled 25 loans totaling approximately \$4.6 million. D&B data for 2016 provided a standard of comparison for the sampled small business loans. Examiners reviewed both the number and dollar volume of home mortgage and small business loans. However, in the analysis, examiners emphasized performance by number of loans over dollar amount because the number of loans is a better indicator of the number of individuals and businesses served.

DESCRIPTION OF INSTITUTION

Background

Hometown is headquartered in Corbin, Whitley County, Kentucky, and is wholly owned by Hometown Bancshares, Inc., a one-bank holding company also located in Corbin. The bank has no subsidiaries or affiliates engaged in lending. The institution received a "Satisfactory" rating at its previous FDIC Performance Evaluation, dated January 9, 2012, based on Interagency Small Institution Examination Procedures.

Operations

Hometown operates a main office, in addition to four full-service branches. Two offices are located in Whitley County, two in Knox, and one in Laurel. The bank did not open or close any branches since the previous evaluation. The bank provides a variety of deposit services including checking, savings, certificates of deposit, and Individual Retirement Accounts. Alternative banking services include Internet banking, mobile banking, and electronic bill pay. In addition to the five automatic teller machines (ATMs) located at each of its locations, Hometown owns and operates three additional ATMs located at a city hall, a grocery store, and a multi-purpose events arena.

Ability and Capacity

Assets totaled approximately \$160 million as reported in the Consolidated Report of Condition and Income (Call Report) as of September 30, 2017, and included total loans of approximately \$108 million and securities totaling approximately \$33 million. The following table presents Hometown's loan portfolio distribution.

Hometown's Loan Portfolio as of September 30, 2017		
Loan Category	\$(000s)	%
Construction and Land Development	6,616	6.1
Secured by Farmland	2,160	2.0
1-4 Family Residential	46,943	43.5
Multi-family (5 or more) Residential	4,583	4.3
Commercial Real Estate	32,576	30.2
Total Real Estate Loans	\$92,878	86.1%
Commercial and Industrial	8,019	7.4
Consumer	5,147	4.8
Other	1,893	1.7
Total Loans	\$107,937	100%
<i>Source: Call Report</i>		

Examiners did not identify any financial, legal, or other impediments that affect Hometown's ability to meet assessment area credit needs.

DESCRIPTION OF ASSESSMENT AREA

CRA requires each financial institution to define one or more assessment areas within which examiners will evaluate its performance. Hometown designated a single assessment area, consisting of Knox, Laurel, and Whitley Counties. The assessment area is rural and is not included within an MSA. This delineation conforms with the requirements of the CRA regulation, as the geographies are contiguous and delineation does not arbitrarily exclude low- or moderate-income census tracts. The following sections discuss demographic and economic information for the assessment area.

Economic and Demographic Data

Hometown's assessment area includes the 29 census tracts in the contiguous three-county area. These census tracts include 1 low-, 8 moderate-, 18 middle-, and 2 upper-income geographies. The census tract delineation is a change since the previous evaluation where the assessment area consisted of no low-, 10 moderate-, 15 middle-, and 1 upper-income geographies. According to the 2016 FFIEC's list of Distressed or Underserved Nonmetropolitan Middle-Income Geographies, all middle-income geographies of Laurel and Whitley Counties are distressed for poverty and all middle-income tracts of Knox County are distressed for poverty and unemployment. The following table presents demographic information for the assessment area.

Demographic Information of the Assessment Area					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	29	3.4	27.6	62.1	6.9
Population by Geography	126,369	1.4	29.4	64.7	4.5
Housing Units by Geography	54,833	2.0	30.4	63.3	4.3
Owner-Occupied Units by Geography	33,694	2.1	29.0	63.6	5.3
Occupied Rental Units by Geography	13,695	1.7	31.9	64.5	1.9
Vacant Units by Geography	7,444	2.0	33.9	59.7	4.4
Businesses by Geography	6,177	0.5	19.0	75.3	5.3
Farms by Geography	186	0.0	23.1	75.3	1.6
Family Distribution by Income Level	33,353	28.8	17.2	18.2	35.7
Household Distribution by Income Level	47,389	30.7	15.9	15.3	38.0
Median Family Income Non-MSAs - KY	\$43,402	Median Housing Value			\$80,667
Families Below Poverty Level	21.5%	Median Gross Rent			\$516

Source: 2010 Census and 2016 D&B Data. Due to rounding, totals may not equal 100%.

There are 54,833 housing units in the assessment area; of these, 61.5 percent are owner-occupied, 25 percent are renter-occupied, and 13.6 percent are vacant. Additionally, 30 percent of the housing units include mobile homes, compared to the state of Kentucky, at 13.6 percent. Examiners used the distribution of owner-occupied housing units to compare the bank's home mortgage lending under the Geographic Distribution criterion.

There is a high level of competition for home mortgage and small business loans among the many financial institutions, credit unions, and non-depository lenders. Although the bank is not subject to HMDA or CRA data collection and reporting requirements, market share data provides a measurement of the level of competition for loans in the assessment area. Aggregate home mortgage lending for 2016 reflects 138 HMDA-reporting lenders originating 2,163 mortgage loans, with the top five lenders originating nearly 32 percent. Aggregate small business, lending data for 2015 reflects 38 CRA-reporting lenders originating 1,153 small business loans, with the top three lenders originating nearly 49 percent. Further, the top lender, a large well-known credit union lender, accounts for 25 percent alone.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit needs. This information helps determine whether local financial institutions are responding to those needs, and identifies what credit opportunities are available.

Examiners contacted a representative from a real estate brokerage company within the assessment area. The contact stated that the supply of lower-priced homes does not keep up with the demand and that investors are the primary purchaser of these homes to use as rental properties. This effectively reduces the number of homes available for purchase by low- and moderate-income individuals. The contact further stated that while local community banks are responsive to the credit needs of the community, there is high competition for home mortgage loans in the community, particularly from mortgage companies. In conclusion, the supply of lower-priced homes is constricted; and competition for available loans is high. Considering information from the community contacts, bank management and demographic and economic data, examiners confirmed home mortgage and small business loans present the primary credit needs within the assessment area and that opportunities exist for originating such loans.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Hometown demonstrated reasonable performance under the Lending Test. Geographic Distribution and Borrower Profile performance primarily support this conclusion.

Loan-to-Deposit (LTD) Ratio

The LTD ratio is reasonable given the institution’s size, financial condition, and assessment area credit needs. Hometown maintained a ratio similar to those of comparable institutions, as shown in the following table. Examiners selected comparable institution based on their asset size, geographic location, or lending focus.

LTD Ratio Comparison		
Bank	Total Assets \$(000s)	Average LTD Ratio (%)
Hometown	160,213	77.1
Institution #1	125,274	69.1
Institution #2	124,870	67.9
Institution #3	286,588	82.0
Institution #4	106,536	45.4
<i>Source: Call Reports 3/31/12 through 9/30/17.</i>		

The bank's LTD ratio, calculated from Call Report data, averaged 82.6 percent over the past 23 calendar quarters from March 31, 2012, through September 30, 2017. The ratio ranged from a low of 70.9 percent as of March 31, 2016, to a high of 84.3 percent as of December 31, 2012. The ratio remained generally steady during the evaluation period.

Assessment Area Concentration

The bank made a substantial majority of home mortgage and small business loans, by number and dollar within its assessment area. As noted previously, examiners placed more emphasis on the number of loans originated because it is a better indicator of the number of individuals or businesses served. The table below summarizes the bank's lending performance.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollars Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home	26	89.7	3	10.3	29	3,329	95.6	155	4.4	3,484
Small	24	96.0	1	4.0	25	3,919	86.1	634	13.9	4,553
Total	50	92.6	4	7.4	54	7,248	90.2	789	9.8	8,037

Source: Bank Records

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. The bank's reasonable performance of home mortgage and small business lending supports this conclusion. Because the assessment area contains only one low-income census tract, examiners placed more weight on the percentage by number, in the ten moderate-income geographies.

Home Mortgage

The geographic distribution of sampled home mortgage loans reflects reasonable dispersion throughout the assessment area. The following table shows that, although the sampled loans included no loans in the one low-income geography, the bank's performance is reasonable, as only 2 percent of owner-occupied housing units (715) are located in this tract. In addition, HMDA-reporting institutions made only 13 loans within this geography in 2016; and the median family income is less than \$17 thousand, supporting limited opportunity to lend in this geography.

Distribution of Home Mortgage Loans					
Tract Income Level	% of Owner-Occupied Housing Units	#	%	\$(000s)	%
Low	2.1	---	---	---	---
Moderate	29.0	7	26.9	1,058	31.8
Middle	63.6	15	57.7	1,803	54.2
Upper	5.3	4	15.4	468	14.1
Total	100%	26	100%	\$3,329	100%

Source: 2010 Census, Bank Records. Due to rounding, totals may not equal 100%.

For moderate-income, approximately 27 percent of the sampled loans were located in a moderate-income geography. When comparing this to the percentage of owner-occupied housing units in these tracts, the bank's performance is comparable.

Small Business

The geographic distribution of sampled, small business loans reflects excellent dispersion throughout the assessment area. The following table shows that, although the sampled loans included no loans in the one low-income geography, the bank's performance is reasonable, as less than 1 percent of the assessment area businesses are located in this tract. For moderate-income performance, the bank's performance exceeds demographic data by 6 percent.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	<1	--	--	--	--
Moderate	19	6	25	272	9.3
Middle	75.3	18	75	3,647	90.7
Upper	5.3	--	--	--	--
Totals	100%	24	100%	\$3,919	100%

Source: D&B 2016, Bank Data. Due to rounding, totals may not equal 100%.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes within the assessment area. Hometown's reasonable performance of home mortgage and small business lending supports this conclusion. Examiners focused on the percentage by number of home mortgage loans to low- and moderate-income borrowers and of small business loans to businesses with GAR of \$1 million or less.

Home Mortgage

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income individuals, is reasonable.

As shown in the table below, the bank made no loans to low-income borrowers. The 2010 Census Data reports 21.5 percent of families were below poverty level. The bank's performance of lending among low-income borrowers significantly trails the percentage of low-income families that reside within the assessment area (at 28.8 percent); however, this disparity is largely attributed to the percentage of all families that live below the poverty level. Due to their limited financial resources, families with incomes below the poverty level generally do not have the capacity to support a home mortgage, limiting the demand and opportunity for lending to low-income borrowers. In addition, a low-income family in the assessment area, with an income of \$23,200, would not likely qualify for a home mortgage under conventional underwriting standards, especially considering the median housing value is approximately \$81 thousand. With the high poverty rate, the inability to qualify for underwriting standards, and lack of reasonably priced housing, renting is the most viable option for families with demographics supporting this conclusion, as 25 percent of the assessment area's housing units are renter-occupied. For moderate-income borrowers, the bank's performance of 7.7 percent was less than demographic data by 9.5 percent. Hometown's lending to moderate-income borrowers was also affected by

the lack of reasonably priced housing as many are purchased for use as rental property. Therefore, renting is also a favorable option for moderate-income families within the assessment area.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	28.8	--	--	--	--
Moderate	17.2	2	7.7	123	3.7
Middle	18.2	3	11.5	335	10.1
Upper	35.7	21	80.8	2,871	86.2
Total	100%	26	100%	\$3,329	100%

Source: 2010 Census, Bank Data.

As stated previously, vacant housing units account for 13.6 percent of the total housing units; of which, the available rental units more than double the available units for sale, at 24.8 percent and 9.7 percent respectively. According to the 2016 Peer Mortgage Data, HMDA-reporting institutions originated only 128 loans to low-income borrowers with an average loan amount of \$52 thousand and 340 loans to moderate-income borrowers with an average loan amount of \$76 thousand. An internet search of single-family homes in the assessment area reveals that there were only 457 units available for sale, of which only 22.3 percent had a list price equal to or less than the weighted average median housing price of \$81 thousand. For the HMDA loans made to low-income borrowers, two large well-known mortgage companies made 31 percent. Four mortgage companies and a large credit union originated nearly 36 percent of the reported loans to moderate-income borrowers. This data supports the community contact statement that there is high competition, particularly from mortgage companies, for the limited number of low- and moderately-priced units available for sale. When considering all these factors, the bank's performance to lending to low- and moderate-income borrowers is reasonable.

Small Business

The distribution of small business loans reflects reasonable penetration of loans to businesses with GARs of \$1 million or less. The following table shows that Hometown originated approximately 71 percent of the sampled small business loans to businesses with GARs of \$1 million or less, which is less than the demographic data by 8.1 percent. However, of the seven sampled loans made to businesses with GARs over \$1 million, the bank made two loans each to two businesses. Hometown's performance is considered reasonable.

Distribution of Small Business Loans by GAR Category					
GAR Level	% of Businesses	#	%	\$(000s)	%
≤ \$1,000,000	78.9	17	70.8	2,302	58.7
> \$1,000,000	5.2	7	29.2	1,617	41.3
Revenue Not Available	15.9	--	--	--	--
Total	100%	24	100%	\$3,919	100%

Source: 2016 D&B Data and Bank Records. Due to rounding, totals may not equal 100%.

Response to Complaints

The bank did not receive any CRA-related complaints since the previous evaluation; therefore,

this criterion did not affect the Lending Test rating.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution's overall CRA rating.

GLOSSARY

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 metropolitan area/assessment area.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of CRA.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

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. Other family 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).

Family Income: Includes the income of all members of a family that are age 15 and older.

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (for example, 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 do 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; and the disposition of the application (approved, denied, and withdrawn).

HMDA Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement, and temporary-to-permanent construction loans.

Home Mortgage Loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans to purchase manufactured homes, and refinancings 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.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households are only one person, median household income is usually less than median family income.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

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 metropolitan area/assessment area.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities 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 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 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area: All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

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.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Loan: 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 Farm Loan: A loan included in "loans to small farms" as defined in the instructions for preparation of the Call Report. These loans have original amounts of \$500,000 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 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin). "Urban" excludes the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.