

PUBLIC DISCLOSURE

October 25, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Hearthside Bank Corporation
Certificate Number: 31236

1602 Cumberland Avenue
Middlesboro, Kentucky 40965

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Chicago Regional Office
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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.

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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.

Hearthside Bank's (HB) satisfactory Community Reinvestment Act (CRA) performance under the Lending Test and Community Development Test supports the overall rating. Examiners did not identify any evidence of discriminatory or other illegal credit practices. The following points summarize the bank's Lending and Community Development Test performance

The Lending Test is rated: Satisfactory.

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

The Community Development Test is rated Satisfactory.

- The institution demonstrated adequate responsiveness to the needs of its AA through community development loans, investments, and services. Examiners considered the institution's capacity and the need and availability of such opportunities for community development in the AA.

DESCRIPTION OF INSTITUTION

HB is a \$464 million dollar institution headquartered in Middlesboro, Kentucky. HB is a wholly-owned subsidiary of HFB Financial Corporation, a one-bank holding company also located in Middlesboro. The institution received an overall "Satisfactory" rating at the previous FDIC Performance Evaluation, dated November 7, 2018, based on Interagency Intermediate Small Bank Examination Procedures. HB operates six full-service branches in its AA in the southeastern part of Kentucky (three branches) and the northeastern part of Tennessee (three branches). There have been no branch openings or closures since the previous evaluation. The bank operates one loan production office (LPO) in the Knoxville, Tennessee MSA. No merger or acquisition activity has occurred since the previous evaluation.

HB offers a variety of credit products including commercial, home mortgage, and consumer loans, primarily focusing on home mortgage and small business lending. Additionally, the bank offers a variety of deposit services including checking, saving, certificates of deposit, money market accounts, and debit cards. Alternative banking services include online banking and automated teller machines (ATMs) at each branch location.

In addition, HB facilitates the origination of home mortgage loans on the secondary market. The bank's secondary market lending activities demonstrate the bank's willingness and ability to reach low- and moderate- income (LMI) borrowers using special loan programs, such as Veterans Affairs, Federal Housing Administration, Rural Development, and the Welcome Home Program. Loans originated through the secondary market help LMI consumers achieve home ownership with reduced or no down payment options. In 2020, HB facilitated the origination of 114 secondary market loans totaling \$22.6 million. Since the bank does not make the credit decision on these loans, the bank does not report these on the Home Mortgage Disclosure Act (HMDA) Loan Application Register (LAR). Examiners considered these secondary market loans as performance context under the Lending Test.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law March 27, 2020, and authorized the Small Business Administration (SBA) to guarantee \$349 billion in loans under a new Paycheck Protection Program (PPP). The intent of the Act was for the SBA to provide relief to America's small businesses expeditiously by giving all lenders delegated authority and streamlining the requirements of the regular 7(a) loan program. Additionally, the PPP and Health Care Enhancement Act became law on April 24, 2020, and authorized an additional \$310 billion for guarantees of PPP loans. As of the current evaluation date, HB originated 601 loans totaling approximately \$21.9 million under the PPP program. A significant majority of the 601 loans originated were small PPP loans with amounts less than or equal to \$1 million, and a majority were originated within the assessment area. The bank's PPP lending demonstrates the bank's willingness to meet the credit needs of its community by moving quickly to provide small businesses relief during the Coronavirus (COVID-19) pandemic.

As reported in the June 30, 2021, Consolidated Report of Condition and Income (or Call Report), assets totaled \$450.6 million, including total loans of \$303.3 million, total securities of \$80.6 million, and deposits of \$374.6 million. Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet AA credit needs. The following table illustrates the distribution of the loan portfolio.

Loan Portfolio Distribution as of June 30, 2021		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	26,464	8.7
Secured by Farmland	410	0.1
Secured by 1-4 Family Residential Properties	170,343	56.1
Secured by Multifamily (5 or more) Residential Properties	6,431	2.1
Secured by Nonfarm Nonresidential Properties	66,300	21.9
Total Real Estate Loans	\$269,948	88.9%
Commercial and Industrial Loans	22,757	7.6
Consumer Loans	8,599	2.8
Obligations of State and Political Subdivisions in the U.S.	1,025	0.3
Lease Financing Receivable (net of unearned income)	1,049	0.3
Less: Unearned Income	(3)	--
Total Loans	\$303,375	100%
<i>Source: Call Report. Totals may not equal 100% due to rounding.</i>		

DESCRIPTION OF ASSESSMENT AREAS

CRA requires each financial institution to define one or more AAs within which its performance will be evaluated. HB designated the following three separate AAs:

- Kentucky Non-MSA: All census tracts within Bell and Harlan Counties located outside any MSA in the State of Kentucky.
- Tennessee Non-MSA: All census tracts within Claiborne County located outside any MSA in the State of Tennessee.
- Knoxville MSA: All census tracts within Campbell County in the Knoxville, Tennessee MSA.

The bank’s AA has not changed since the previous evaluation. HB’s designation is in conformance with CRA requirements, as it consists of whole geographies where the bank’s branches and deposit-taking ATMs are located. The following sections discuss demographic and economic information for each AA. The bank conducts a majority of its business in the KY Non-MSA AA; therefore, performance in this AA was given the greatest weight when assigning the overall rating.

Assessment Area Breakdown of Loans, Deposits, and Branches						
Assessment Area	Loans		Deposits		Branches	
	\$(000s)	%	\$(000s)	%	#	%
KY Non-MSA	96,300	31.5	234,144	68	3	50
TN Non-MSA	115,903	38	82,444	24	2	33.3
Knoxville, TN MSA	93,046	30.5	27,946	8	1	16.7
Totals	\$305,249	100%	\$344,534	100%	6	100%

Source: Bank Data; FDIC Summary of Deposits (06/30/2021).

SCOPE OF EVALUATION

General Information

The evaluation uses Interagency Intermediate Small Bank Procedures to evaluate HB’s CRA performance, and it covers the period from the previous evaluation dated November 7, 2018, to the current evaluation dated October 25, 2021. Intermediate Small Bank procedures assess CRA performance under the Lending Test and Community Development Test, as detailed in the Appendix.

Activities Reviewed

Based on the June 30, 2021, Call Report, examiners determined HB’s major product lines are home mortgage and small business lending. This conclusion considers the bank’s lending focus and the number and dollar volume of loans originated during the evaluation period. The bank’s record of originating home mortgage loans contributed more weight to overall conclusions due to the larger volume when compared to home mortgage loans during the most recent calendar year. Small farm and consumer loans do not represent a major product line; therefore, they provided no material support for conclusions or ratings and are not presented.

Bank records indicate that the product mix remains consistent throughout the evaluation period. Examiners considered all home mortgage loans reported on the bank’s HMDA LAR for 2019 and 2020. HB originated 200 home mortgage loans totaling \$36.3 million in 2019 and 200 home

mortgage loans totaling approximately \$39 million in 2020. Aggregate lending data for 2019 and 2020 HMDA-reporting institutions provided a standard of comparison for the home mortgage loans. Demographic data from the 2015 American Community Survey (ACS) also served as a standard of comparison for home mortgage loans.

Additionally, examiners analyzed a sample of small business loans originated or renewed from January 1, 2019, to December 31, 2020. The small business sample represents the bank's performance during the entire evaluation period. The bank originated 38 small business loans in 2019, totaling approximately \$2.8 million, of which examiners sampled 30 loans totaling approximately \$2.5 million. In 2020, HB originated 171 small business loans totaling approximately \$6.3 million, of which examiners sampled 51 loans totaling approximately \$1.9 million. D&B data for 2019 and 2020 provided a standard of comparison for the sampled small business loans.

For the Lending Test, examiners analyzed and presented both the number and dollar volume of home mortgage and small business loans. However, examiners emphasized performance on the number of loans, as this is a better indicator of the number of individuals and small businesses served by the institution. In evaluating the geographic distribution and borrower profile criteria, examiners only evaluated loans extended within the AAs.

For the Community Development Test, bank management provided data on loans, qualified investments, and services since the prior evaluation dated November 7, 2018.

Given the volume of loans, deposits, and branches within the AA, the Kentucky non-MSA received the highest weight within the analysis. The Knoxville MSA received the least weight within the analysis.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

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

Loan-to-Deposit (LTD) Ratio

The average net LTD ratio is reasonable given the bank's size, financial condition, and AA credit needs. The LTD ratio, calculated from the Call Report data, averaged 88.4 percent over the past 11 calendar quarters from December 31, 2018 to June 30, 2021. The LTD ratio represents a slight decrease from the previous evaluation and ranged from a high of 97.2 percent on December 31, 2018, to a low of 79.9 percent on June 30, 2021. HB maintained a similar ratio to those of similarly-situated institutions. Examiners selected comparable institutions based on their geographic location, asset size, and product mix.

LTD Ratio Comparison		
Bank	Total Assets as of 6/30/21 (\$000s)	Average Net LTD Ratio (%)
Hearthside Bank	450,698	88.4
Similarly-Situated Institution #1	515,413	88.0
Similarly-Situated Institution #2	378,322	85.6
Similarly-Situated Institution #3	474,135	88.1
Similarly-Situated Institution #4	488,420	93.0
<i>Source: Call Reports 12/31/18 – 6/30/21.</i>		

Assessment Area Concentration

HB originated or renewed a majority of its home mortgage loans and a substantial majority of small business loans, by number and dollar volume, inside the AA for both 2019 and 2020.

Lending Inside and Outside of the AA										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Totals \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2019	143	71.5	57	28.5	200	21,844	60	14,549	40	\$36,393
2020	139	69.5	61	30.5	200	22,805	58.5	16,210	41.5	\$39,015
Small Business										
2019	27	90	3	10	30	2,183	86.7	335	13.3	\$2,518
2020	45	88.2	6	11.8	51	1,817	95.4	87	4.6	\$1,904
<i>Source: Bank Data. Due to rounding, totals may not equal 100%.</i>										

Geographic Distribution

The geographic distribution of home mortgage and small business loans reflects reasonable dispersion throughout the AA. Examiners focused on the percentage by number of loans in low- and moderate-income census tracts. Additional details regarding the bank’s performance within the AA is within subsequent sections.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes within the AA. Although HB’s performance with individuals of different income levels was poor in the Knoxville MSA AA, this AA received the least weight and did not affect the overall Borrower Profile rating. Additional details regarding HB’s performance within each AA is within subsequent sections.

Response to Complaints

The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the rating.

COMMUNITY DEVELOPMENT TEST

HB’s community development performance demonstrates adequate responsiveness to the

community development needs its AAs through loans, qualified investments, and services. Examiners considered the institution’s capacity and the need and availability of such opportunities.

Community Development Loans

HB originated 292 community development loans totaling approximately \$35.6 million inside the AAs during the evaluation period. Since the institution sufficiently met the credit needs of its AA, examiners qualified 57 loans, totaling \$4.1 million that benefited areas outside the AAs. This level of activity represents 7.9 percent of total assets and 11.7 percent of total loans since the prior CRA evaluation. HB’s lending performance exceeds that of similarity-situated banks, whose loans ranged from 2 to 6.6 percent of total loans; however, due to the timing of the evaluation, HB’s performance includes PPP loans and peer performance does not. A majority of HB’s qualified community development loans (191 of 292, or 65.4 percent) were PPP loans. The community development loans made in 2020 and 2021 include PPP loans and should not be considered a base-line for the next evaluation.

Of the 292 community development loans qualified, 181 totaling \$19.6 million were used to revitalize and stabilize LMI or distressed/underserved census tracts. These loans demonstrate the bank’s responsiveness to this community development need.

Community Development Lending by AA										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Kentucky Non-MSA	4	707	5	1,012	35	8,141	71	10,591	115	\$20,451
Tennessee Non-MSA	0	--	0	--	24	676	62	3,066	86	\$3,742
Knoxville MSA	0	--	2	800	10	3,320	22	3,234	34	\$7,354
Statewide	1	750	0	--	29	620	22	2,534	52	\$3,904
National	0	--	0	--	1	4	4	217	5	\$221
Totals	5	\$1,457	7	\$1,812	99	\$12,761	181	\$19,642	292	\$35,672

Source: Bank Data 11/7/18 to 10/25/21.

Qualified Investments

HB made 74 qualified investments totaling approximately \$55,000 inside the AA. This performance represents 0.01 percent of the bank’s total assets and 0.07 percent since the prior evaluation. Examiners also considered 32 qualified investments totaling approximately \$13.2 million outside the AA. Total qualified investment performance represents 2.9 percent of total assets and 16.5 percent of total securities. Overall, HB’s community development investment performance exceeded similarly-situated institutions. However, HB’s performance within the Kentucky Non-MSA and Knoxville MSA AAs decreased since the prior evaluation.

A majority of the investments, 90.1 percent by dollar, supported affordable housing efforts. Additionally, of the 105 investments, 82 percent benefited efforts to community service organizations helping LMI individuals. The investments demonstrate the banks responsiveness to the community development needs identified by local community contacts. The following table illustrates HB’s community development investments by year and purpose within each AA.

Qualified Investments by AA										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Kentucky Non-MSA	0	--	47	39	0	--	1	5	48	\$44
Tennessee Non-MSA	0	--	19	4	0	--	1	5	20	\$9
Knoxville MSA	0	--	5	1	0	--	0	--	5	\$1
Statewide	16	12,025	0	--	1	250	1	<1	18	\$12,275
Regional	0	--	10	6	0	--	0	--	10	\$6
National	0	--	0	--	4	1,000	0	--	4	\$1,000
Totals	16	\$12,025	82	\$50	5	\$1,250	3	\$10	105	\$13,335

Source: Bank data 11/7/18 to 10/25/21.

Community Development Services

During the evaluation period, HB provided 92 instances of financial expertise or technical assistance to numerous different community development-related organizations in the AA. This performance is consistent with similarly-situated banks, whose community development services ranging from 28 instances to 118 instances. Additionally, HB was unable to perform multiple services within the local school system due to the COVID-19 pandemic. The following table illustrates HB’s community development services by year and purpose within each AA.

Community Development Services by AA					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
Kentucky Non-MSA	0	57	3	2	62
Tennessee Non-MSA	4	16	0	2	22
Knoxville MSA	0	2	4	2	8
Totals	4	75	7	6	92

Source: Bank Data.

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 CRA rating.

STATE OF KENTUCKY

CRA RATING FOR KENTUCKY: SATISFACTORY

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

DESCRIPTION OF INSTITUTION’S OPERATIONS IN KENTUCKY

The State of Kentucky rated area consists of one AA: The Kentucky Non-MSA AA, which is comprised of all portions of Bell and Harlan Counties. The bank operates its main office in Bell County and two full-service branch locations in Harlan County.

SCOPE OF EVALUATION – KENTUCKY

Examiners provide the most weight to HB’s performance with the State of Kentucky given the volume of loans, deposits, and branches. Examiners conducted a full-scope review of the Kentucky Non-MSA AA for both the Lending and Community Development Tests.

DESCRIPTION OF THE KENTUCKY NON-MSA AA

Economic and Demographic Data

The Kentucky Non-MSA AA includes all 20 census tracts within Bell and Harlan Counties. According to the 2015 ACS Data, these tracts reflect the following income designations: 3 low-income tracts, 9 moderate-income tracts, 7 middle-income tracts, and 1 upper-income tract. Of the 26,595 housing units in this AA, 57.5 percent are owner-occupied, 27.1 percent are occupied rental units, and 15.4 percent are vacant. The following table illustrates select demographic characteristics of the AA.

Demographic Information – KY Non-MSA AA					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	20	15	45	35	5
Population by Geography	56,350	20.4	54.3	23.3	2
Housing Units by Geography	26,595	19.9	53.2	24.9	2
Owner-Occupied Units by Geography	15,301	17.2	53.9	26.5	2.4
Occupied Rental Units by Geography	7,193	26.3	54.3	18.4	1
Vacant Units by Geography	4,101	18.6	48.9	30.4	2.2
Businesses by Geography	2,042	11.8	55.7	31.2	1.3
Farms by Geography	21	4.8	71.4	19	4.8
Family Distribution by Income Level	14,952	36.9	18.8	17.8	26.5
Household Distribution by Income Level	22,494	38.1	17.7	16.1	28.1
Median Family Income Non-MSAs - KY		\$51,500	Median Housing Value		\$58,073
Families Below Poverty Level		28.5%	Median Gross Rent		\$479

Source: 2015 ACS and 2020 D&B Data.

Examiners used 2019 and 2020 FFIEC-updated median family income (MFI) level to analyze home mortgage loans under the Borrower Profile criterion. The following table illustrates the income categories.

MFI Ranges – KY Non-MSA AA				
MFI	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2019 (\$49,800)	<\$24,900	\$24,900 to <\$39,840	\$39,840 to <\$59,760	≥\$59,760
2020 (\$51,500)	<\$25,750	\$25,750 to <\$41,200	\$41,200 to <\$61,800	≥\$61,800

Source: FFIEC.

According to 2020 D&B data, 72.3 percent of the 2,042 businesses in the AA have gross annual revenues (GARs) of \$1 million or less, 4.8 percent have more than \$1 million, and 22.9 percent have unknown revenues. Additionally, 82.4 percent of businesses have nine or fewer employees, and 76.2 percent operate from a single location, indicating the opportunity level to serve small businesses. Service industries represents the largest portion of businesses at 40.7 percent, followed by retail trade at 18.7 percent, and non-classifiable establishments at 9.5 percent.

Data obtained from the U.S. Bureau of Labor Statistics indicates the annual state unemployment rate for 2019 was 4.1 percent and 6.6 percent in 2020. The annual unemployment rates in the AA for 2019 range from 9.1 percent in Harlan County to 6.2 percent in Bell County. Additionally, annual unemployment rates were higher throughout the AA in 2020, ranging from 7.8 percent in Bell County to 11.9 percent in Harlan County. The increased unemployment rate throughout the AA in 2020 is due to the COVID-19 pandemic and indicates a weakened labor force and potential decrease in lending opportunities.

Competition

HB operates in moderately competitive market for financial services when considering geographic size and population in the AA. According to FDIC Deposit Market Share data, as of June 30, 2021, 6 financial institutions operate 19 full-service branches within the AA. Of these institutions, HB ranks first with 27.3 percent of the deposit market share.

There is a moderate level of competition for home mortgage loans among several banks, credit unions, and non-depository mortgage lenders. In 2019 and 2020, HB was subject to the HMDA reporting requirements. In 2020, 86 lenders originated 607 home mortgage loans within the bank's Kentucky Non-MSA AA. HB ranked second out of this group of lenders with a 9.6 percent lending market share. The top three lenders originated 27.8 percent of those loans. HB was within the top five percent of the home mortgage market share within the AA.

Although HB is not subject to CRA data collection and reporting requirements for small business loans, market share data provides a measurement of the level of competition for these loans among banks, credit unions, and non-depository lenders in the AA. Aggregate small business lending data for 2020 reflects 44 lenders reported 100 business loans in the Kentucky Non-MSA AA, with the top three lenders accounting for 39.8 percent of the market share, indicating a moderate concentration of lenders for a small amount of business loans. The top three lenders include two credit card companies and one large national bank. This indicates a low level of demand and high level of competition.

Community Contact

As a part of the evaluation process, examiners contact third parties in the AA to assist in identifying the credit and community development needs. This information helps determine whether local institutions are responsive to these needs. It also demonstrates what credit and community development activities are available.

Examiners interviewed a recent community contact from an affordable housing organization within the Kentucky Non-MSA AA. According to the contact, the housing market in this area continues to struggle with a lack of affordable housing options and the financing to improve the existing rental

properties in the area. The extremely poor infrastructure of southeastern Kentucky continues to limit the appreciation value of properties. The contact believes that banks need to implement more flexible underwriting with appraisals and comparisons of home mortgage loans with smaller loan amounts. This would allow for better revitalization and stabilization of these areas with homes in need of improvements to help impoverished residents and areas. The smaller homes and properties in LMI census tracts are not appreciating in value as quickly as other parts of the state of Kentucky. The area does not have sufficient comparison appraisals to help meet the credit needs of the Kentucky Non-MSA AA.

The community contact provided information regarding the impact of the Covid-19 pandemic within the Kentucky Non-MSA AA. Since the pandemic began, the AA has seen an influx in elderly and retirement-age people entering the area from several parts of the country with higher costs of living. The lower cost of living within the Kentucky Non-MSA AA has allowed these new upper-income residents to purchase homes without financing or needing appraisals. The community contact emphasized the importance of PPP loans meeting critical credit needs of organizations and businesses throughout the Kentucky Non-MSA AA during the pandemic.

The community contact also noted a need for financial literacy for residents in southeastern Kentucky. The contact stated one of the primary credit needs of this area is small dollar consumer loans with flexible underwriting standards and affordable interest rates. Residents continue to use non-bank lenders to obtain high-cost small dollar loans to meet their emergency credit needs. The cycle of using these high-cost lenders leads to further financial deterioration and increased levels of poverty, as evidenced by the 28.5 percent poverty rate within the Kentucky Non-MSA AA.

Credit and Community Development Needs and Opportunities

Considering information from the community contacts, bank management, and demographic and economic data, examiners determined that affordable home mortgage and consumer lending represent the primary credit needs of the assessment area. The community contact also noted the community development needs of affordable housing, revitalization and stabilization efforts, and financial education programs for residents in the area.

CONCLUSIONS ON PERFORMANCE CRITERIA-KENTUCKY NON-MSA AA

LENDING TEST

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

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the AA. HB's overall performance is the result of reasonable home mortgage and small business lending performance. Examiners focused on the percentage by number of loans in low-and moderate-income census tracts.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflect reasonable dispersion throughout the AA. Examiners focused on the comparison to aggregate data. As shown in the following table, in 2019 HB's lending performance in low-income tracts remained consistent with aggregate. In 2020,

aggregate performance declined while HB’s lending performance in the low-income tracts increased, exceeding aggregate performance. HB’s performance in the moderate-income tracts trailed aggregate performance for both 2019 and 2020. The bank indicated that limited lobby hours due to the COVID pandemic and a limited online presence in relation to home mortgage applications in 2020 are the contributing factors to the decrease in lending activity in moderate-income census tracts for 2020.

Geographic Distribution of Home Mortgage Loans - KY Non-MSA AA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	17.2	20.0	14	21.5	1,612	24.6
2020	17.2	15.5	15	25.9	1,277	24.7
Moderate						
2019	53.9	50.9	28	43.1	2,670	40.7
2020	53.9	54.2	20	34.5	1,773	34.3
Middle						
2019	26.5	26.8	22	33.8	2,241	34.1
2020	26.5	28.5	22	37.9	2,018	39.0
Upper						
2019	2.4	2.3	1	1.5	43	0.6
2020	2.4	1.8	1	1.7	102	2.0
Totals						
2019	100%	100%	65	100%	\$6,565	100%
2020	100%	100%	58	100%	\$5,170	100%
<i>Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data. Due to rounding, totals may not equal 100%.</i>						

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion throughout the AA. Examiners focused on the comparison to the percentage of business within each tract income level. As shown in the following table, HB’s small business lending performance in 2019 exceeded the percentage of businesses within low-income census tracts and slightly trailed the percent of businesses in moderate-income census tracts. The bank’s performance in low and moderate-income census tracts in 2020 remained consistent with the percent of businesses within the census tracts.

Geographic Distribution of Small Business Loans – KY Non-MSA AA					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low					
2019	11.6	3	27.3	288	44.5
2020	11.8	3	11.5	20	1.7

Geographic Distribution of Small Business Loans – KY Non-MSA AA (Continued)					
Moderate					
2019	55.1	5	45.5	116	17.9
2020	55.7	14	53.8	877	74.3
Middle					
2019	32.0	3	27.3	243	37.6
2020	31.2	9	34.6	283	24.0
Upper					
2019	1.3	0	--	0	--
2020	1.3	0	--	0	--
Totals					
2019	100%	11	100%	\$647	100%
2020	100%	26	100%	\$1,180	100%
<i>Source: 2019 & 2020 D&B Data; Bank Data. Due to rounding, totals may not equal 100%.</i>					

Borrower Profile

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes. HB’s reasonable performance in home mortgage and small business lending supports this performance. Examiners focused on the percentage by number of home mortgage loans to low- and moderate-income borrowers. They also focused on the percentage by number of small business loans to businesses with GARs of \$1 million or less.

Home Mortgage Loans

The distribution of borrowers reflects reasonable penetration among individuals of different income levels. Examiners focused on the comparison to aggregate data. As shown in the following table, HB’s home mortgage lending performance to low-income borrowers was similar to aggregate performance in both 2019 and 2020. For moderate-income borrowers, HB’s home mortgage lending performance was below aggregate performance in 2019 and remained consistent with aggregate performance in 2020.

Distribution of Home Mortgage Loans by Borrower Income Level – KY Non-MSA AA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	36.9	6.3	5	7.7	200	3.0
2020	36.9	6.4	3	5.2	92	1.8
Moderate						
2019	18.8	18.3	7	10.8	318	4.8
2020	18.8	17.1	10	17.2	629	12.2

Distribution of Home Mortgage Loans by Borrower Income Level KY Non-MSA AA (Continued)						
Middle						
2019	17.8	23.9	15	23.1	1,124	17.1
2020	17.8	18.3	9	15.5	824	15.9
Upper						
2019	26.5	37.6	29	44.6	3,172	48.3
2020	26.5	37.2	31	53.4	2,966	57.4
Not Available						
2019	--	13.8	9	13.8	1,751	26.7
2020	--	20.9	5	8.6	659	12.8
Totals						
2019	100%	100%	65	100%	\$6,566	100%
2020	100%	100%	58	100%	\$5,170	100%
<i>Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100%.</i>						

Small Business Loans

The distribution of borrowers reflects reasonable penetration among businesses of different sizes. The following table shows that HB's lending performance to borrowers with GARs of \$1 million or less trailed the percentage of businesses within that revenue category. The percentage of businesses, however, is not necessarily indicative of the demand for small business loans by those businesses. As previously mentioned, this AA has a high level of competition with numerous lenders competing for a small number of business loans. In addition, HB significantly increased lending performance to borrowers with GARs of \$1 million or less in 2020.

Distribution of Small Business Loans by GAR Category – KY Non-MSA AA					
GAR Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000					
2019	71.7	6	54.5	316	48.8
2020	72.3	16	61.5	193	16.4
>\$1,000,000					
2019	5.1	4	36.4	236	36.5
2020	4.8	3	11.5	816	69.2
Revenue Not Available					
2019	23.2	1	9.1	95	14.7
2020	22.9	7	26.9	171	14.5
Totals					
2019	100%	11	100%	\$647	100%
2020	100%	26	100%	\$1,180	100%
<i>Source: 2019 & 2020 D&B Data; Bank Data. Due to rounding, totals may not equal 100%.</i>					

COMMUNITY DEVELOPMENT TEST

HB demonstrated adequate responsiveness to the community development needs of the Kentucky Non-MSA AA through loans, qualified investments, and services. Examiners considered the institution’s capacity and the need and availability of such opportunities.

Community Development Loans

HB originated 115 community development loans totaling approximately \$20.4 million during the evaluation period inside the Kentucky Non-MSA AA. This level of activity represents 4.5 percent of total assets and 6.7 percent of total loans. Of the 115 loans, six totaling \$5.3 million were used for economic development in relation to creating, retaining, or improving permeant jobs for LMI individuals. The following table illustrates the bank’s activity by year and purpose.

Community Development Lending										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2018 (Partial)	0	--	0	--	1	41	0	--	1	\$41
2019	2	373	4	962	7	1,805	7	3,246	20	\$6,414
2020	2	334	1	50	18	6,034	29	3,246	50	\$9,664
2021 (YTD)	0	--	0	--	9	261	35	4,071	44	\$4,332
Totals	4	\$707	5	\$1,012	35	\$8,141	71	\$10,591	115	\$20,451

Source: Bank Data.

Below are notable examples of the bank’s community development loans:

- In 2020, HB made a loan for approximately \$2.1 million for a manufacturer located in Bell County. This business is located in a moderate-income census tract and the loan helped retain 16 LMI employees during the COVID-19 pandemic.
- In 2021, HB originated a loan for approximately \$340,000 to finance a multi-family complex with all units offering rent below the median rent value within Harlan County.

Qualified Investments

HB did not make any qualified investments during the review period; however, they were active in making qualified grants and donations. The bank made 49 qualified donations totaling approximately \$44,000 in the Kentucky Non-MSA for Community Services and Revitalization and Stabilization purposes. The bank’s investment performance decreased in this AA since the prior evaluation. Although the dollar amount of qualified investments within this AA decreased, HB made a majority of donations to organizations that assist LMI individuals. Notable donations include:

- In 2019 and 2020, the bank made two pledges of \$10,000 each to a local community college to construct an additional learning facility on campus.
- In 2021, HB made a \$1,000 donation to aid a community service group assisting LMI individuals with necessary repairs on their homes.

Community Development Services

During the evaluation period, bank officers and employees provided 58 instances of community development services and financial expertise or technical assistance to several different

organizations in the Kentucky Non-MSA AA. The following table illustrates the bank’s services by year and purpose.

Community Development Services KY Non-MSA				
Activity Year	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#
2018 (Partial)	1	0	0	1
2019	15	1	0	16
2020	19	1	1	21
2021 (YTD)	22	1	1	24
Totals	57	3	2	62
<i>Source: Bank Data. No services were provided for Affordable Housing purposes.</i>				

Below are notable examples of the bank’s community development services:

- In 2020 and 2021, an employee of HB served on the Bell County Chamber of Commerce. This position required financial expertise to assist in budgeting, accounting, and book keeping services.
- In multiple instances, bank members provided or participated in financial literacy events at area middle and high schools. These programs help address the need for financial literacy as mentioned by the community contact.

STATE OF TENNESSEE

CRA RATING FOR TENNESSEE: Satisfactory

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

DESCRIPTION OF INSTITUTION’S OPERATIONS IN TENNESSEE

HB’s AA’s within Tennessee includes TN Non-MSA AA (Claiborne County) and Knoxville MSA (Campbell County). The bank operates two full-service branch locations in Claiborne County and one full-service location in Campbell County.

SCOPE OF EVALUATION

The State of Tennessee is the secondary focus of this evaluation, since this state has fewer deposits and a similar number of branches. Examiners weighted HB’s performance within Tennessee less than the performance within Kentucky.

Given the higher volume of loans, deposits, and branches, examiners weighted HB’s performance within the Tennessee Non-MSA AA more significantly than the performance within the Knoxville MSA AA. Examiners conducted full-scope reviews of both AAs within Tennessee.

DESCRIPTION OF THE TENNESSEE NON-MSA AA (Claiborne County)

Economic and Demographic data

The Tennessee Non-MSA AA includes nine census tracts with the following income designations: two moderate-income, six middle-income, and one upper-income. Of the 15,001 housing units in the assessment area, 60.9 percent are owner-occupied, 23.7 percent are occupied rental units, and 15.3 percent are vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units. The following table illustrates select demographic characteristics of this AA.

Demographic Information of the TN Non-MSA AA					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	9	--	22.2	66.7	11.1
Population by Geography	31,748	--	17.3	73.8	9
Housing Units by Geography	15,001	--	17.8	73.6	8.6
Owner-Occupied Units by Geography	9,142	--	16.7	74.6	8.6
Occupied Rental Units by Geography	3,563	--	17.3	73.9	8.8
Vacant Units by Geography	2,296	--	22.6	69	8.4
Businesses by Geography	1,314	--	21.8	66.4	11.9
Farms by Geography	54	--	22.2	64.8	13
Family Distribution by Income Level	8,658	22.3	17.9	22.3	37.5
Household Distribution by Income Level	12,705	27.7	15.1	17.2	40
MFI Non-MSAs - TN		\$52,200	Median Housing Value		\$100,585
Families Below Poverty Level		17.7%	Median Gross Rent		\$505
<i>Source: 2015 ACS and 2020 D&B.</i>					

Examiners used the 2019 and 2020 FFIEC-updated MFI level to analyze home mortgage loans under the Borrower Profile criterion. The following table illustrates the income categories.

Median Family Income Ranges – TN Non-MSA AA				
MFIs	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2019 (\$50,100)	<\$25,050	\$25,050 to <\$40,080	\$40,080 to <\$60,120	≥\$60,120
2020 (\$52,200)	<\$26,100	\$26,100 to <\$41,760	\$41,760 to <\$62,640	≥\$62,640
<i>Source: FFIEC.</i>				

According to 2020 D&B data, 82.3 percent of the 1,314 businesses in the AA have GARs of \$1 million or less, 4 percent have more than \$1 million, and 13.7 percent have unknown revenues. Additionally, 88.3 percent of businesses have nine or fewer employees, and 85.8 percent operate from a single location, indicating the opportunity level to serve small businesses. Service industries represents the largest portion of business at 33.8 percent, followed by non-classifiable

establishments at 17.7 percent, and retail trade at 14.6 percent. The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR level.

Data obtained from the U.S. Bureau of Labor Statistics indicates the annual state unemployment rate for 2019 was 3.4 percent and 7.5 percent in 2020. The annual unemployment rates in the Tennessee Non-MSA AA were 4.2 percent in 2019 and 7 percent in 2020. The increased unemployment rate throughout the Tennessee Non-MSA AA in 2020 is due to the COVID-19 pandemic and indicates a weakened labor force and potential decrease in lending opportunities.

Competition

HB operates in a moderately competitive market for financial services when considering geographic size and population of the Tennessee Non-MSA AA. According to FDIC Market Share data, as of June 30, 2021, 4 financial institutions operate 12 full-service branches within the AA. Of these institutions, HB ranks third with 12.1 percent of the deposit market share.

As previously discussed, HB was subject to HMDA reporting requirements in 2019 and 2020. In 2020, 131 lenders originated 839 mortgage loans in this AA. The top three lenders originated 20.5 percent of those loans. HB ranked second with 6.3 percent of the lending market share in the AA.

Although HB is not subject to CRA data collection and reporting requirements for small business and small farm loans, market share data provides a measurement of the level of competition for these loans among banks, credit unions, and non-depository lenders in the AA. Aggregate small business lending data for 2020 reflects 27 lenders originated or purchased 223 business loans in the AA, with the top three lenders accounting for 45.3 percent of the market share, indicating a high concentration of lenders. This indicates a moderate level of demand and a high level of competition. The top three lenders include two credit card companies and one large national bank.

Community Contact

As part of the evaluation process, examiners contact third parties active in the AA. This process assists examiners in identifying credit and community development needs and opportunities, including the bank's responsiveness to those needs.

Examiners contacted a local government representative in Claiborne County. The contact stated there is a need for affordable housing within the county, noting that the local university's doctoral program has caused rent and housing prices to surge. Additionally, the contact considered small business and home mortgage loans to represent the primary credit needs of the community. The contact believes that institutions are meeting the credit needs of the community and that competition does play a role in a financial institutions' opportunities within the area.

Credit and Community Development Needs and Opportunities

Considering information from the community contacts, bank management, and demographic and economic data, examiners determined that home mortgage and small business lending represent the primary credit needs of the AA. Examiners also determined affordable housing be the primary community development need of the AA.

CONCLUSIONS ON PERFORMANCE CRITERIA IN TENNESSEE NON-MSA AA

LENDING TEST

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

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the AA. HB's overall performance is the result of reasonable home mortgage lending. Examiners placed more weight on home mortgage performance, given the low volume of sampled small business loans within this AA. The AA does not include low-income census tracts; therefore, examiners focused on the percentage of the number of loans in moderate-income census tracts.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the AA. Examiners focused on the comparison to aggregate data. As shown in the following table, the bank did not originate or purchase any home mortgage loans within moderate-income census tracts in 2019. In 2020, HB's lending increased to a level consistent with aggregate. Additionally, aggregate lending performance decreased in moderate-income census tracts in 2020 while HB's lending performance increased.

Geographic Distribution of Home Mortgage Loans – TN Non-MSA AA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Moderate						
2019	16.7	13.8	0	--	0	--
2020	16.7	13.2	7	13.2	1,024	9.4
Middle						
2019	74.6	79.4	36	83.7	5,353	86.4
2020	74.6	75.2	38	71.7	8,879	81.2
Upper						
2019	8.6	6.8	7	16.3	841	13.6
2020	8.6	11.6	8	15.1	1,029	9.4
Totals						
2019	100%	100%	43	100%	\$6,194	100%
2020	100%	100%	53	100%	\$10,932	100%

Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data. Due to rounding, totals may not equal 100%.

Small Business Loans

As shown in the following table, HB's sampled small business lending performance was below the percentage of businesses within these moderate-income census tracts. Additionally, HB's lending in moderate tracts decreased in 2020 from 2019. As mentioned in the competition section, the level

of competition in this AA is high, with two of the top lenders being credit card companies. Credit card bank are able to provide small businesses with more credit opportunities than HB.

Geographic Distribution of Small Business Loans – TN Non-MSA AA					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate					
2019	21.2	1	10	15	1.8
2020	21.8	0	--	0	--
Middle					
2019	67.8	7	70	459	54.1
2020	66.4	12	80	215	76.5
Upper					
2019	11.1	2	20	375	44.2
2020	11.9	3	20	66	23.5
Totals					
2019	100%	10	100%	\$849	100%
2020	100%	15	100%	\$281	100%
<i>Source: 2019 & 2020 D&B Data; Bank Data. Due to rounding, totals may not equal 100%.</i>					

Borrower Profile

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes. HB’s reasonable performance in 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. They also focused on the percentage by number of small business loans to businesses with GARs of \$1 million or less.

Home Mortgage Loans

The distribution of borrowers reflects reasonable penetration among individuals of different income levels. Examiners focused on the comparison to aggregate data. As shown in the following table, HB’s home mortgage lending performance to low-income borrowers compared similarly to trends in aggregate performance with a decrease in lending from 2019 to 2020. For moderate-income borrowers, HB’s home mortgage lending performance slightly trailed the aggregate performance in 2019 and 2020. However, the bank’s lending performance to moderate-income borrowers increased in 2020, while aggregate performance decreased.

Distribution of Home Mortgage Loans by Borrower Income Level – TN Non-MSA AA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	22.3	7.4	3	7	124	2
2020	22.3	5.6	2	3.8	170	1.6

Distribution of Home Mortgage Loans by Borrower Income Level – TN Non-MSA AA (Continued)						
Moderate						
2019	17.9	15.7	4	9.3	395	6.4
2020	17.9	14.7	6	11.3	267	2.4
Middle						
2019	22.3	19.9	8	18.6	734	11.8
2020	22.3	17.9	6	11.3	762	7
Upper						
2019	37.5	40	28	65.1	4,942	79.8
2020	37.5	40.4	32	60.4	6,776	62
Not Available						
2019	--	17.1	0	---	0	---
2020	--	21.5	7	13.2	2,957	27
Totals						
2019	100%	100%	43	100%	\$6,194	100%
2020	100%	100%	53	100%	\$10,932	100%
<i>Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100%.</i>						

Small Business Loans

The distribution of borrowers reflects reasonable penetration among businesses of different sizes.

Distribution of Small Business Loans by GAR Category – TN Non-MSA AA					
GAR Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000					
2019	81.7	6	60	229	27
2020	82.3	9	60	108	38.4
>\$1,000,000					
2019	4.4	3	30	519	61.1
2020	4.0	1	6.7	128	45.6
Revenue Not Available					
2019	13.9	1	10	101	11.9
2020	13.7	5	33.3	45	16
Totals					
2019	100%	10	100%	\$849	100%
2020	100%	15	100%	\$281	100%
<i>Source: 2019 & 2020 D&B Data; Bank Data. Due to rounding, totals may not equal 100%.</i>					

HB's lending performance to borrowers with GARs of \$1 million or less was below the percentage of businesses in that revenue category. The percentage of businesses, however, is not necessarily

indicative of the demand for small business loans by those businesses. The reporting of 2019 small business data demonstrated that a majority of small businesses within this AA utilize credit card banks for financing needs. Additionally, a significant majority of HB’s small business loans reported in the Revenue Not Available category are PPP loans, which served as an essential credit need during the pandemic.

COMMUNITY DEVELOPMENT TEST

HB demonstrated adequate responsiveness to the community development needs of the Tennessee Non-MSA AA through loans and services. The bank’s business focus, community development loan volume, and services will mitigate the limited investments in the AA.

Community Development Loans

HB originated 86 community development loans totaling approximately \$3.7 million during the evaluation period inside the MSA. Of the 86 loans, 62 totaling \$3 million were used to revitalize or stabilize distressed or underserved middle-income or LMI census tracts in the AA. These loans demonstrated HB’s responsiveness to this community development need. The following table illustrates the bank’s activity by year and purpose.

Community Development Lending TN Non-MSA						
Activity Year	Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)
2018 (Partial)	2	257	0	--	2	257
2019	0	--	2	220	2	220
2020	3	198	18	1,788	21	1,987
2021 (YTD)	19	220	42	1,057	61	1,278
Totals	24	\$676	62	\$3,066	86	\$3,742
<i>Source: Bank Data. No loans were made for Affordable Housing or Community Services purposes.</i>						

Below are notable examples of the banks community development loans:

- In 2020, HB made a loan for approximately \$500,000 to Claiborne County government that helped improve waste management in distressed or underserved middle-income census tracts.
- In 2020, the bank originated a line of credit for \$500,000 to a local hardware store which helped retain the business in a distressed or underserved middle-income census tract during the COVID-19 pandemic Revitalize or Stabilize.

Qualified Investments

HB did not make any qualified investments during the review period; however, the bank was active in making qualified grants and donations. The bank made 20 donations totaling approximately \$9,000 in the Tennessee Non-MSA. Nineteen investments for \$4,000 were made for Community Services, and one investment for \$5,000 was made to Revitalize and Stabilize this AA. The bank’s investments remained consistent since the prior evaluation. Below are notable examples of the bank’s qualified investment activities:

- Throughout the evaluation period, the bank provided numerous donations to community service organizations that provide LMI individuals, including LMI children, clothing, school

supplies, and books.

- Throughout the evaluation period, the bank provided several donations to health clinics that provide free health resources to LMI individuals.

Community Development Services

During the evaluation period, bank officers and employees provided 22 instances of community development services and financial expertise to multiple organizations. Examiners noted that no services were provided for purposes of Economic Development or Revitalization or Stabilization.

Community Development Services TN Non-MSA				
Activity Year	Affordable Housing	Community Services	Revitalize or Stabilize	Totals
	#	#	#	#
2019	2	4	0	6
2020	1	6	1	8
2021 (YTD)	1	6	1	7
Totals	4	16	2	22
<i>Source: Bank Data. No services were provided in 2018 or for Economic Development purposes.</i>				

Below are notable examples of community development service activities:

- In 2019, 2020, and 2021, a bank employee served on the Board of a non-profit organization and assisted with budgeting, financial literacy courses, and overseeing projects for building homes for LMI families.
- In 2020 and 2021, an employee participated in a home buyer’s workshop for LMI-first time home buyers which addressed the process of purchasing a home and lending options for LMI individuals.

DESCRIPTION OF INSTITUTION’S OPERATIONS IN KNOXVILLE MSA AA (Campbell County)

Economic and Demographic Data

The AA includes 11 census tracts with the following income designations: 10 moderate-income and one middle-income census tract. Of the 20,256 housing units in the Knoxville MSA AA, 55.2 percent are owner-occupied, 23.7 percent are occupied rental units, and 21.1 percent are vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units. The following table illustrates select demographic characteristics of the AA.

Demographic Information of the Assessment Area – Knoxville MSA AA					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	11	--	90.9	9.1	--
Population by Geography	40,176	--	94.5	5.5	--
Housing Units by Geography	20,256	--	93.5	6.5	--
Owner-Occupied Units by Geography	11,185	--	92.7	7.3	--
Occupied Rental Units by Geography	4,810	--	98.7	1.3	--
Vacant Units by Geography	4,261	--	89.6	10.4	--
Businesses by Geography	1,784	--	95.5	4.5	--
Farms by Geography	42	--	85.7	14.3	--
Family Distribution by Income Level	10,924	34.8	23.2	18.2	23.7
Household Distribution by Income Level	15,995	37.1	19.2	16.5	27.2
MFI Knoxville, TN MSA #28940		\$67,200	Median Housing Value		\$89,663
Families Below Poverty Level		18.3%	Median Gross Rent		\$519
<i>Source: 2015 ACS and 2020 D&B Data.</i>					

Examiners used the 2019 and 2020 FFIEC-updated MFI level to analyze home mortgage loans under the Borrower Profile criterion. The following table illustrates the income categories.

MFI Ranges – Knoxville MSA AA #28940				
MFI	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2019 (\$65,000)	<\$32,500	\$32,500 to <\$52,000	\$52,000 to <\$78,000	≥\$78,000
2020 (\$67,200)	<\$33,600	\$33,600 to <\$53,760	\$53,760 to <\$80,640	≥\$80,640
<i>Source: FFIEC.</i>				

According to 2020 D&B data, 80.7 percent of 1,784 businesses in the AA have GARs of \$1 million or less, 4.8 percent have more than \$1 million, and 14.9 percent have unknown revenues. Additionally, 87.5 percent of businesses have nine or fewer employees, and 85.1 percent from a single location, indicating the opportunity level to serve small businesses. Service industries represent the largest portion business at 33.1 percent, followed by non-classifiable establishments at 19.8 percent, and retail trade at 15.6 percent. The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR level.

Data obtained from the U.S. Bureau of Labor Statistics indicates the annual state unemployment rate for 2019 was 3.4 percent and 7.6 percent in 2020. The annual unemployment rates in the Knoxville MSA AA for 2019 was 4.6 percent and 7.5 percent in 2020 for Campbell County. The increased unemployment rate throughout the AA in 2020 is due to the COVID-19 pandemic and indicates a weakened labor force and potential decrease in lending opportunities.

Competition

HB operates in a highly competitive market for financial services when considering the geographic size and population of the Knoxville MSA AA. According to FDIC Market Share data, as of June

30, 2021, eight financial institutions operate 12 full-service branches within the AA. Of these institutions, HB ranks sixth with 5.5 percent of the deposit market share.

As previously discussed, HB was subject to HMDA reporting requirements in 2019 and 2020. In 2020, 206 lenders originated 1,602 home mortgage loans. The top three lenders originated 22 percent of those loans. HB ranked 11th with 1.8 percent of the lending market share in the AA. This indicates a high level of demand and a high level of competition

Although HB is not subject to CRA data collection and reporting requirements for small business and small farm loans, market share data provides a measurement of the level of competition for these loans among banks, credit unions, and non-depository lenders in the Knoxville MSA AA. Aggregate small business lending data for 2020 reflects 206 lenders reported 410 business loans within this AA. The top three lenders accounted for 48.5 percent of the market share, indicating a high concentration of lenders. This indicates a moderate level of demand and a high level of competition.

Community Contact

As part of the evaluation process, examiners contact third parties active in the AA. This process assists examiners in identifying credit and community development needs and opportunities, including the bank's responsiveness to those needs.

Examiners contacted a local organization representative in Campbell County. The contact stated that minorities in the area have the highest poverty rate in the state of Tennessee, noting a lack of housing due to the COVID-19 pandemic. The contact believes there is a need for financial institutions to provide financial education to potential borrowers; however, the contact stated that institutions are answering the credit needs of the community. The contact believes bank-to-bank competition in the area is minimal; however, finance company-to-bank competition in the area is high. The contact explained the presence of finance companies in the area is more evident than local banks.

Credit and Community Development Needs and Opportunities

Considering information from the community contacts, bank management, and demographic and economic data, examiners determined that home mortgage and small business lending represent the primary credit needs of the AA. Examiners also determined affordable housing and financial education to be the primary community development needs of the AA.

CONCLUSIONS ON PERFORMANCE CRITERIA IN KNOXVILLE MSA AA

LENDING TEST

HB demonstrated reasonable performance under the Lending Test. The bank's Geographic Distribution and small business Borrower Profile performance primarily support this conclusion.

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the AA. HB's overall performance is the result of reasonable home mortgage lending performance and excellent small business lending and in the Knoxville MSA AA. The AA does not include low-income

census tracts; therefore, examiners focused on the percentage of the number of loans in moderate-income census tracts.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the AA. Examiners focused on the comparison to aggregate data. As shown in the following table, the bank’s percentage of home mortgage loans within moderate-income census tracts increased from 2019 to 2020. Although the bank’s performance was below aggregate data in 2019, the 2020 lending in moderate-income census tracts compared similarly to aggregate performance.

Geographic Distribution of Home Mortgage Loans – Knoxville MSA AA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Moderate						
2019	92.7	91.6	27	77.1	8,023	88.3
2020	92.7	94	25	89.3	5,885	87.8
Middle						
2019	7.3	8.4	8	22.9	1,061	11.7
2020	7.3	6	3	10.7	819	12.2
Totals						
2019	100%	100%	35	100%	\$9,084	100%
2020	100%	100%	28	100%	\$6,704	100%

Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data. Due to rounding, totals may not equal 100%.

Small Business Loans

The geographic distribution of small business loans reflects excellent dispersion throughout the AA. Examiners focused the comparison to the percentage of businesses within each tract income level. As shown in the following table, HB’s sampled small business lending performance within moderate-income census tracts exceeded the percentage businesses in both 2019 and 2020.

Geographic Distribution of Small Business Loans – Knoxville MSA AA					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate					
2019	95.2	6	100	687	100
2020	95.5	4	100	356	100
Middle					
2019	4.8	0	--	0	--
2020	4.5	0	--	0	--

Source: 2019 & 2020 D&B Data.

Borrower Profile

The distribution of borrowers reflects poor penetration among individuals of different income levels and reasonable penetration among businesses of different sizes within the AA. Examiners focused on the percentage by number of home mortgage loans to low- and moderate-income borrowers. They also focused on the percentage by number of small business loans to businesses with GARs of \$1 million or less. Although home mortgage lending demonstrates poor performance, examiners placed the least amount of weight with lending performance in this AA, given the bank's limited presence in the Knoxville MSA AA.

Home Mortgage Loans

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate- income borrowers, is poor. Examiners focused on the comparison to aggregate data. As shown in the following table, HB's home mortgage lending performance to low-income and moderate-income borrowers was below aggregate performance in 2019 and 2020. Additionally, the bank's lending levels to low-and moderate-income borrowers decreased from 2019 to 2020.

Distribution of Home Mortgage Loans by Borrower Income Level - Knoxville MSA AA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	34.8	13.3	2	5.7	223	2.4
2020	34.8	10	0	---	0	---
Moderate						
2019	23.2	18.4	3	8.6	273	3
2020	23.2	16.2	2	7.1	192	2.9
Middle						
2019	18.2	18.5	8	22.9	920	10.1
2020	18.2	17.7	1	3.6	144	2.1
Upper						
2019	23.7	36.6	21	60	7,287	80.2
2020	23.7	39.8	22	78.6	5,548	82.8
Not Available						
2019	--	13.2	1	2.9	382	4.2
2020	--	16.4	3	10.7	820	12.2
Totals						
2019	100%	100%	35	100%	\$9,084	100%
2020	100%	100%	28	100%	\$6,704	100%
<i>Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100%.</i>						

Small Business Loans

The distribution of borrowers reflects reasonable penetration among businesses of different sizes. HB's lending performance to borrowers with GARs of \$1 million or less was less than the

percentage of businesses in that revenue category. The percentage of businesses, however, is not necessarily indicative of the demand for small business loans by those businesses. As mentioned in the competition section, the top three business loan lenders account for 48.5 percent of the business loan market share, this indicates high level of competition. Additionally, HB’s lending performance to businesses with GARs of \$1 million or less is comparable to a similarly situated institution within the AA that exhibited reasonable performance. Additionally, all of the loans reported in the Revenue Not Available category are PPP loans, which served as a primary credit need during the pandemic.

Distribution of Small Business Loans by GAR Category – Knoxville, MSA AA					
GAR Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000					
2019	79	4	66.7	515	75
2020	80.2	2	50	318	89.3
>\$1,000,000					
2019	5.2	2	33.3	172	25
2020	4.8	0	--	0	--
Revenue Not Available					
2019	15.8	0	--	0	--
2020	15	2	50	38	10.7
Totals					
2019	100%	6	100%	\$687	100%
2020	100%	4	100%	\$356	100%
<i>Source: 2019 & 2020 D&B Data; Bank Data. Due to rounding, totals may not equal 100%.</i>					

COMMUNITY DEVELOPMENT TEST

HB demonstrated adequate responsiveness to the community development needs of the Knoxville MSA AA through loans and services.

Community Development Loans

HB originated 34 community development loans totaling approximately \$7.3 million during the evaluation period inside the Knoxville MSA AA. Of these loans, 22 totaling \$3.2 million were used to revitalize or stabilize distressed or underserved middle-income or LMI census tracts in the AA. The following table illustrates HB’s activity by year and purpose.

Community Development Lending Knoxville MSA								
Activity Year	Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2018 (Partial)	0	--	0	--	2	45	2	\$45
2019	1	400	2	53	0	--	3	\$453
2020	1	400	1	3,120	14	2,166	16	\$5,686
2021 (YTD)	0	--	7	146	6	1,023	13	\$1,170
Totals	2	\$800	10	\$3,320	22	\$3,234	34	\$7,354

Source: Bank Data. No loans were extended for Affordable Housing purposes.

Below are notable examples of the bank’s community development loans:

- In 2020, HB made a loan for approximately \$3.1 million to construct a local marina, this project employed construction crews with a majority LMI workforce. Additionally, when the Marina is constructed, the project will create an average of 15 permanent LMI jobs.
- In 2021, the bank originated a loan for approximately \$790,992 to a rehabilitation center which employs 112 individuals. The rehabilitation center is located in a moderate-income census tract and provides therapy to children in need, including LMI students in the local school districts.

Qualified Investments

HB has not made any qualified investments in this AA during the review period. HB did make five qualified donations totaling approximately \$1,000 in the Knoxville MSA AA since the prior evaluation. HB’s performance decreased since the previous evaluation. Below is a notable example:

- On several occasions, the bank donated funds to an organization that supports and promotes court appointed volunteer advocates for abused and neglected children.

Community Development Services

During the evaluation period, HB provided eight instances of financial expertise or technical assistance to several different community development-related organizations in the Knoxville MSA AA. The following table illustrates HB’s services by year and purpose.

Community Development Services Knoxville MSA				
Activity Year	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#
2018 (Partial)	0	1	0	1
2019	0	1	0	1
2020	1	1	1	3
2021 (YTD)	1	1	1	3
Totals	2	4	2	8

Source: Bank Data. No Services were performed for Affordable Housing purposes.

Below is a notable example of HB’s community development services:

- In 2018, 2019, 2020, and 2021, a HB employee served as the Treasurer and day chair organizer for an economic development organization. This organization seeks different opportunities and addresses challenges to bringing economic development into Campbell County.

APPENDICES

INTERMEDIATE SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its AAs by considering the following criteria:

- 1) The bank's LTD ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's AAs;
- 3) The geographic distribution of the bank's loans;
- 4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its AAs.

Community Development Test

The Community Development Test considers the following criteria:

- 1) The number and amount of community development loans;
- 2) The number and amount of qualified investments;
- 3) The extent to which the bank provides community development services; and
- 4) The bank's responsiveness through such activities to community development lending, investment, and service needs.

SUMMARY OF RATINGS FOR RATED AREAS

Rated Area	Lending Test	Community Development Test	Rating
State of Kentucky	Satisfactory	Satisfactory	Satisfactory
State of Tennessee	Satisfactory	Satisfactory	Satisfactory

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.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

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.

Community Development: For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms; or
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

Community Development Loan: A loan that:

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose bank:
 - (i) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
 - (ii) Benefits the bank's assessment area(s) or a broader statewide or regional area including the bank's assessment area(s).

Community Development Service: A service that:

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the bank's retail banking services under § 345.24(d).

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.

Distressed Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or

- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

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).

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 (e.g., geographic distribution, borrower profile, 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 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).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

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.

Low Income Housing Tax Credit: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury

Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

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 (non-MSA): 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.

Qualified Investment: A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multistate 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 multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

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 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.

Underserved Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area’s population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

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.