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November 1, 2013

Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street N.W.
Washington, DC 20429

Re: Proposed Interagency Policy Statement Establishing Joint Standards for Assessing the Diversity Policies and Practices of Entities Regulated by the Agencies

Mr. Feldman:

Kentucky Bank operates under a state bank charter and provides full banking services to customers through fourteen branches located in ten central and eastern Kentucky communities. We serve a mix of urban and rural communities and are proud of our long history serving their financial needs. Our tributaries date back to 1851 and as of September 30, 2013, we had total assets of approximately \$740 million and 218 full time equivalent employees.

We appreciate the opportunity to comment on the proposed Rules¹ and we support the efforts put forth by the agencies to strengthen the American banking system. However, we believe the proposed Rules have very little to do with improving the banking system and are inundated with unintended and negative consequences for community banks and their customers. We express strong concern over many areas contained within the proposed Rules.

¹ In October of this year, the Office of the Comptroller of the Currency (OCC), Board of Governors of the Federal Reserve System (Board), and the Federal Deposit Insurance Corporation (FDIC), National Credit Union Administration (NCUA), Bureau of Consumer Financial Protection (CFPB), and Securities and Exchange Commission (SEC) (collectively, the agencies) issued proposed joint standards for assessing the diversity policies and practices of the entities they regulate.

Standard 1 - Organizational Commitment to Diversity and Inclusion

Standard 1 within the Rules requires the following:

- a) Include diversity and inclusion initiatives in our strategic plan*
- b) Develop a diversity and inclusion policy to be approved by our board of directors*
- c) Provide regular progress reports to the board and/or senior management*
- d) Conduct equal employment opportunity and diversity and inclusion education and training*
- e) Identify a senior level officer who oversees and directs diversity efforts such as a Chief Diversity Officer (or equivalent)*
- f) Take proactive steps to promote a diverse pool of candidates, including women and minorities, in hiring, recruiting, retention, and promotion through all levels of our company*

Comments on Standard 1:

1a – Our strategic plan is developed and approved at the board level. The strategic plan is devoted to economic growth and maintaining financial stability. As an example, goals such as opening a new branch or offering a new product may be a component of our plan. Our strategic plan is objective driven and in the interest of our shareholders and customers. Diversity is a consideration we give and embrace as a *means* of satisfying those strategic objectives, not the *end* of those objectives. We think companies who encourage diversity will be rewarded through increased customers and profitability and contend the market should be the ultimate judge of a company's inclusion efforts, not a political agenda or mandate. As a public company, our charge is to improve long term shareholder value, not satisfy thinly veiled quota systems. This item should be removed from the rules.

1b – For years, Kentucky Bank has maintained an Equal Opportunity Employer policy within our Employment Policy. The Employment Policy is approved by the board and contains diversity and inclusion concepts. The requirement to develop a Diversity and Inclusion Policy is a redundant requirement and should be removed from the Rules.

1c – We review financial results every month, every quarter, and every year. As stated within our comment for Standard 1a, the market place should be the judge not the Agencies. If our financial

results improve, we are, among other things, fostering diversity from an internal and an external standpoint. Therefore, this requirement is redundant and should be removed from the Rules.

1d. As stated within our comment on Standard 1a, we support diversity and inclusion and have required annual diversity and inclusion training for years. We will continue to require annual training and likely expand the training as the demographics change within our operating areas.

1e. As a relatively small sized community bank, many of the employees in our company serve dual roles and are stretched too thin. Requiring additional duties which are largely redundant, as identified in the aforementioned paragraphs, will increase our operating costs. Those costs filter to one of two places – absorbed by the company or passed along to our customers. In many cases, increased costs are split between the company and the customers. Ultimately, this hurts the consumers, the company, and the government by way of fewer tax dollars. Given most of these Rules are redundant, there is no need to pile on the additional burden. This requirement should be removed from the Rules.

1f. This requirement is entirely too subjective to ever be met, and is open to incredible degrees of interpretation. This requirement should be removed from the Rules or reworded in a non-subjective way. If the ultimate goal of these Rules is to impose an arbitrary quota, then we suggest it be done in actual quantified terms. If the quota was quantified, at least each entity regulated by the Agencies would know what mark to achieve rather than operating in a shadow of “proactive steps” never knowing with confidence whether their efforts were sufficient.

Standard 2 - Workforce Profile And Employment Practices

Standard 2 within the Rules requires the following:

- a) *Use the EEO-1 Report as required by Title VII of the Civil Rights Act of 1964 data to evaluate and assess workforce diversity and inclusion efforts*
- b) *Utilize metrics to evaluate and assess workforce diversity and inclusion efforts, such as recruitment, applicant tracking, hiring, promotions, separations, career development support, coaching, executive seminars and retention across all levels*
- c) *Hold management accountable for diversity and inclusion efforts*

- d) Create diverse applicant pools for both internal and external opportunities including outreach to minority and women organizations, educational institutions serving significant minority and women student populations, and participate in conferences, workshops, and other events to attract minorities and women and inform them of employment and promotion opportunities*

Comments on Standard 2:

2a. This requirement appears to be redundant based on our annual Equal Employment Opportunity and Affirmative Action review and efforts and should be removed from the Rules.

2b. As stated within our comment for Standard 1a, the market place should be the judge of our efforts not the government. If our financial results improve, we are, among other things, fostering diversity from an internal and an external standpoint. Therefore, this requirement is redundant and should be removed from the Rules.

2c. Management should be accountable for the successes or failures of a company. As indicated previously, there are indicators beyond diversity quotas that reflect a company's efforts to offer products, services, and opportunities to a diverse group of customers and employees. Therefore, this requirement is redundant and should be removed from the Rules.

2d. A successful bank extends services and opportunities to all pools of eligible applicants. We have and will continue to be inclusive in our opportunity offerings. As an example, during 2013, 38% of our Senior Management team were female and 33% of our Market Presidents were female.

Standard 3 - Procurement And Business Practices – Supplier Diversity

Standard 3 within the Rules requires the following:

- a) Develop a supplier diversity policy that provides for a fair opportunity for minority-owned and women-owned businesses to compete in procurements of business goods and services*
- b) Develop methods to evaluate and assess its supplier diversity including annual contract spending by the entity and percentage spent with minority-owned and women-owned business contractors by race, ethnicity, and gender*

- c) *Promote a diverse supplier pool including outreach to minority-owned and women-owned contractors and representative organizations, participation in conferences, workshops and other events to attract minority-owned and women-owned firms and inform them of contracting opportunities, and develop an ongoing process to publicize our procurement opportunities*

Comments on Standard 3:

3a. As stated in the Rules, the Agencies “*recognize that there is limited public information available on supplier diversity at regulated entities and it may be more challenging to compare supplier diversity policies and practices among regulated entities. Some smaller institutions may also face greater challenges in gathering such information.*” The Agencies apparent desire to police subcontractors and service providers through banks and other regulated entities is incredibly burdensome to us which will further increase operating costs which ultimately are passed to the consumer in some fashion. This requirement should be removed from the Rules.

3b. At times, these Rules are beyond reasonableness. For Standard 3b, I can just imagine how shocked and displeased our service providers would be if we include the following types of questions on the Request for Proposal:

- “How many women work for you?”
- “How many minorities work for you?”
- “What is your ethnic background?”

The list could go on and on, but clearly these are types of questions that fall into protected status categories and have no bearing on how well the service provider could do the job being asked of them. We prefer to ask questions similar to the following on our Request for Proposals:

- “How many banks have you worked with before?”
- “What type of expertise do you have in this field?”
- “How long have you been performing this type of service?”

The above questions absolutely have bearing on the capabilities of the individual and the firm and are much more relevant to the evaluation and selection process. Therefore, requirement 3b should be removed from the Rules.

3c. As reinforced throughout this comment letter, we support diversity and know that a diverse team, both internal and external, results in a better end solution for our customers, employees, and shareholders. That said, as we evaluate our suppliers we have always and will continue to identify the best provider based on value and competency rather than diversity composition. Anything less than the best provider based on value and competency would be performing a disservice to our customers, employees, and shareholders. This requirement should be removed from the Rules.

Standard 4 - Practices To Promote Transparency Of Organizational Diversity And Inclusion

Standard 4 within the Rules requires the following:

- a) *Provide transparency in our activities regarding diversity and inclusion by making the following information available to the public annually through our web site: diversity and inclusion strategic plan; commitment to diversity and inclusion; and progress toward achieving diversity and inclusion in its workforce and procurement activities.*

Comments on Standard 4:

4a. Our customers have not and will not evaluate us on these metrics. Instead they will evaluate us based on our ability to successfully meet their financial needs. However, if it satisfies the political agenda clearly articulated throughout these Rules, we will fulfill this requirement.

Examination Process

The Rules describe a non-examination process for these standards. As stated in the Rules, “*The assessment envisioned by the Agencies is not one of a traditional examination or other supervisory assessment. Thus, the Agencies will not use the examination or supervision process in connection with these proposed standards.*” Instead, the oversight of these rules would be achieved through a combination of self-assessment and voluntary disclosure to the Agencies and the public.

Comments on the Oversight Process:

Creating rules without intending to monitor them seems like a recipe for disaster. The Rules would be misapplied and subjectively enforced. Although we strongly oppose most of the standards within the Rules, if the Rules are confirmed they should be examined and enforced. Otherwise, the literature becomes more like a "suggestion" or "recommendation" with potentially heavy-handed and subjectively applied consequences.

Conclusion

The proposed Rules described in this letter are significant and onerous. They would be costly to implement and would negatively impact our customers by means of increasing customer fees. Further, they are largely redundant with other pre-established requirements. We support diversity and inclusion and know companies who encourage diversity will be rewarded through increased customers and profitability. We contend the market should be the ultimate judge of a company's inclusion efforts not a political agenda or mandate. As a public company our charge is to improve long term shareholder value, not satisfy thinly veiled quota systems. These Rules are entirely too subjective to ever be met and open to incredible degrees of interpretation. If the ultimate goal of these Rules is to impose an arbitrary quota, then we suggest it be done in actual quantified terms. If the quota was quantified, at least each entity regulated by the Agencies would know what benchmark to achieve rather than operating in a shadow of "proactive steps" never knowing with confidence whether their efforts were sufficient. Finally, establishing rules without intending to monitor them is unwise. Although we strongly oppose most of the standards within the Rules, if the Rules are confirmed they should be examined and enforced.

Thank you for the opportunity to comment on the proposed Rules. If you have any questions or wish to discuss these issues further, please contact me by telephone at (859) 987-1795 or by email at louis.prichard@kybank.com. Additionally, as a community bank with traditional banking services, we are willing to provide our time and efforts in future regulatory proposals.

Sincerely,



Louis Prichard
President and Chief Executive Officer