

# **PUBLIC DISCLOSURE**

April 3, 2017

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First State Bank  
Certificate Number: 16182

101 Worth Street  
Hemphill, Texas 75948

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

1601 Bryan Street, Suite 1410  
Dallas, Texas 75201

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.

## TABLE OF CONTENTS

Institution Rating .....	1
Scope of Evaluation .....	2
Description of Institution .....	3
Description of Assessment Area.....	5
Conclusions on Performance Criteria .....	8
Discriminatory or Other Illegal Credit Practices Review .....	13
Appendix A: Glossary.....	14
Appendix B: Small Bank Performance Test’s Criteria.....	18

## INSTITUTION RATING

**INSTITUTION'S COMMUNITY REINVESTMENT ACT (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.

A satisfactory overall record regarding the Lending Test supports the rating. The bank did not request consideration of its investments and services, nor did examiners identify any discriminatory or other illegal credit acts or practices. Therefore, these considerations did not affect the overall rating. The following discussion summarizes performance under the applicable test, discussed in detail elsewhere.

### **Lending Test**

First State Bank (FSB) demonstrated a satisfactory record regarding the Lending Test. Reasonable records regarding its borrower profile and geographic lending distributions primarily support the Lending Test conclusion. The following points summarize conclusions regarding the applicable Lending Test criteria, discussed in detail elsewhere.

- The bank exhibited a reasonable record regarding its loan-to-deposit ratio. A reasonable overall level, given current mitigating factors, outweighed a less than reasonable comparative level to support this conclusion.
- The institution granted a substantial majority of its loans inside its assessment area. A substantial majority of consumer loans granted inside the bank's assessment area supports this conclusion.
- The bank established a reasonable record regarding its borrower profile loan distribution. Reasonable performance regarding consumer loans supports this conclusion.
- The bank established a reasonable record regarding its geographic loan distribution. Reasonable performance regarding consumer loans supports this conclusion.
- The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this performance factor did not affect the Lending Test conclusion.

## SCOPE OF EVALUATION

### ***General Information***

This evaluation covers the time period from July 5, 2011, to April 3, 2017, the date of the previous evaluation to this evaluation's date. To assess performance, examiners applied the CRA Small Bank Lending Test. Appendix B lists the applicable test's criteria.

### ***Loan Products Reviewed***

CRA Small Bank procedures require examiners to determine the bank's major product lines from which to review. As an initial matter, examiners may select from among the same loan categories used for CRA Large Bank evaluations: home mortgage, small business, small farm, and consumer loans. The following table shows lending activity for 2016, which reflects a consistent pattern with the bank's lending emphasis since the last evaluation. Consumer loans continue to represent the bank's largest loan product by both dollar and number volume.

<b>Loans Originated or Purchased</b>				
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>	<b>#</b>	<b>%</b>
Construction and Land Development	556	14.6	7	5.4
Secured by Farmland	0	0.0	0	0.0
1-4 Family Residential	815	21.3	10	7.8
Multi-Family (5 or more) Residential	0	0.0	0	0.0
Commercial Real Estate	70	1.8	2	1.5
Commercial and Industrial	164	4.3	6	4.7
Agricultural	70	1.8	9	7.0
Consumer	1,152	30.2	88	68.2
Other Loans*	994	26.0	7	5.4
<b>Total Loans</b>	<b>3,821</b>	<b>100.0</b>	<b>129</b>	<b>100.0</b>
<i>Source: Bank Records 01/01/2016 through 12/31/2016</i>				
<i>*Other Loans include loans to municipalities</i>				

Considering the dollar volume and number of loans originated as well as management's stated business strategy, examiners determined that the bank's major product line consists of consumer loans at 30.2 percent of the dollar volume of total loans originated during 2016. Since none of the other typically reviewed loan categories represent a major product line and thus would not materially affect any conclusions or ratings, including residential loans at 21.3 percent, commercial loans at 6.1 percent, and agricultural loans at 1.8 percent, this evaluation does not discuss them. Although the table shows that residential loans comprised 21.3 percent of the bank's total loans by dollar volume for 2016, only 10 such loans were originated. Additionally, the bank does not collect and report home mortgage loans per the Home Mortgage Disclosure Act nor does bank management consider residential lending a major product line.

This evaluation considered a random sample of 31 consumer loans totaling \$569,222 from a universe of 88 such loans totaling \$1,152,283, originated in 2016. Examiners based the consumer loan sample on a statistical 90 percent Confidence Interval with 15 percent Precision, and gave all weighting to these loans for applicable conclusions.

## DESCRIPTION OF INSTITUTION

### ***Background***

FSB is a locally-owned, independent community bank headquartered in Hemphill, Sabine County adjacent to the Louisiana border in east Texas, approximately 180 miles northeast of Houston. The institution, established in 1944, received an overall Satisfactory rating at the previous July 5, 2011, Federal Deposit Insurance Corporation (FDIC) CRA performance evaluation based on CRA Small Bank procedures.

### ***Operations***

FSB functions as a retail bank focusing on consumer loans from its only office located in Hemphill, Texas. The bank offers a full line of loan products including commercial, residential, consumer, and agricultural loans. It also offers a variety of deposit products including demand deposit, money market deposit, savings, time, and individual retirement accounts. Other bank services include online and telephone banking, an automated teller machine, and motor banking. The institution maintains banking hours typical for the area. FSB did not participate in any merger activity or open or close any offices since the previous evaluation.

### ***Ability and Capacity***

The following table, which reflects the complete asset distribution, shows that Securities constitute the largest asset category and comprise a majority of the bank's December 31, 2016, total assets. Although Securities constitute the largest category, a change in philosophy since the previous evaluation resulted in a heavier emphasis on lending and a lesser emphasis on securities. Since the previous evaluation, on average per year, total assets grew 0.2 percent, net loans increased by 12.5 percent, and total deposits grew 0.3 percent. As of December 31, 2016, the bank reported a Return on Average Assets of 0.3 percent and a Tier 1 Leverage Capital ratio of 15.6 percent.

<b>Asset Distribution as of December 31, 2016</b>		
<b>Asset Category</b>	<b>\$(000s)</b>	<b>%</b>
Cash	6,964	13.3
Securities	34,960	66.6
Federal Funds Sold	0	0.0
Net Loans & Leases	9,816	18.7
Premises & Fixed Assets	244	0.4
Other Real Estate Owned	0	0.0
Intangible Assets	0	0.0
Other Assets	522	1.0
<b>Total Assets</b>	<b>52,506</b>	<b>100.0</b>
<i>Source: Report of Condition</i>		

As seen in the following table, the mix of outstanding loans as of December 31, 2016, reflects a loan distribution inconsistent with the distribution of loans originated and discussed under the Scope of Evaluation as residential loans represent the bank's largest loan type at 40.9 percent of total loans; however, as previously mentioned, the bank originated only 10 residential loans in 2016.

<b>Loan Portfolio Distribution as of December 31, 2016</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction and Land Development	190	1.9
Secured by Farmland	0	0.0
1-4 Family Residential	4,044	40.9
Multi-family (5 or more) Residential	0	0.0
Commercial Real Estate	1,281	13.0
<b>Total Real Estate Loans</b>	<b>5,515</b>	<b>55.8</b>
Commercial and Industrial	706	7.1
Agricultural	0	0.0
Consumer	1,190	12.1
Other	2,467	25.0
Less: Unearned Income	0	0.0
<b>Total Loans</b>	<b>9,878</b>	<b>100.0</b>
<i>Source: Reports of Income and Condition</i>		

Based on the information discussed in this section, as well as other regulatory data, the institution's financial condition, size, product offerings, and prior performance did not affect its ability to meet the assessment area's credit needs. Furthermore, there are no legal impediments affecting the bank's ability to meet the assessment area's credit needs.

## DESCRIPTION OF ASSESSMENT AREA

### ***Overall Description***

FSB delineated all of Sabine County as its assessment area. Sabine County consists of one moderate- and two middle-income census tracts, and is located in the Texas non-metropolitan statistical area (Non-MSA). For 2016, the Federal Financial Institutions Examination Council (FFIEC) designated both middle-income census tracts as distressed and underserved. The area conforms to CRA regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas. As seen in the following table, the bank operates its only office in this assessment area, which accounts for 100.0 percent of the bank’s loans, deposits, and offices.

<b>Office Location</b>				
<b>County/City/Office</b>	<b>Office Type</b>	<b>Census Tract Number</b>	<b>Census Tract Income Level</b>	<b>Office Opened or Closed Since Last Evaluation</b>
<b><i>Sabine County:</i></b> Hemphill – 101 Worth Street	Main Office	9503.00	Middle	No
<i>Source: Bank Records; 2010 U.S. Census</i>				

### ***Economic and Demographic Data***

The City of Hemphill is located in the eastern portion of Texas, approximately 180 miles northeast of Houston, Texas, and is surrounded by the Sabine National Forest and the Toledo Bend Reservoir. Sabine County is a popular place for retirement due to its affordable housing and recreational activities, such as camping, fishing, and boating on Lake Sam Rayburn and the Toledo Bend Reservoir. These lakes and adjacent waterways cover approximately 86 square miles and the Sabine National Forest encompasses 95,000 acres in Sabine County. According to the Texas Workforce Commission’s *Sabine County Economic Development Report*, 26.8 percent of the Sabine County population was noted to be age 65 years and older compared to the state of Texas’ percentage of 10.3 percent. These individuals typically maintain higher deposits and lower lending needs. The following table provides additional demographic data for the area.

<b>Demographic Information</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	3	0.0	33.3	66.7	0.0	0.0
Population by Geography	10,834	0.0	22.8	77.2	0.0	0.0
Housing Units by Geography	7,976	0.0	23.0	77.0	0.0	0.0
Owner-Occupied Units by Geography	3,675	0.0	24.7	75.3	0.0	0.0
Occupied Rental Units by Geography	755	0.0	17.7	82.3	0.0	0.0
Vacant Units by Geography	3,546	0.0	22.4	77.6	0.0	0.0
Businesses by Geography	580	0.0	20.5	79.5	0.0	0.0
Farms by Geography	16	0.0	12.5	87.5	0.0	0.0
Family Distribution by Income Level	3,090	27.5	22.4	19.2	30.9	0.0
Household Distribution by Income	4,430	29.1	17.3	21.6	32.0	0.0
Median Family Income Texas Non-MSA FFIEC-Estimated Median Family Income for 2016		\$47,817 \$52,400	Median Housing Value Median Gross Rent Families Below Poverty Level			\$71,889 \$502 14.9%

*Source: 2010 U.S. Census; 2016 D&B Data; FFIEC Estimated Median Family Income (MFI)*  
*\*The NA category consists of geographies that have not been assigned an income classification*

The principal industries providing employment within Sabine County involve services; retail trade; and finance, insurance, and real estate. Some of the major employers include Hemphill Independent School District, Sabine County Hospital, Edgar Lumber Co., Ritter Lumber Company, and International Paper Company. As of December 2016, Bureau of Labor Statistics data shows a significantly higher unemployment rate for Sabine County of 9.4 percent compared to 4.7 percent for the state of Texas during the same period. The table below presents additional unemployment information for the assessment area according to the Bureau of Labor Statistics.

<b>Unemployment Rates</b>				
<b>Area</b>	<b>December 2013</b>	<b>December 2014</b>	<b>December 2015</b>	<b>December 2016</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Sabine County	12.7	10.5	9.4	9.4
State of Texas	6.1	5.1	4.4	4.7
National Average	7.4	6.2	5.3	4.9

*Source: Bureau of Labor Statistics*

### **Competition**

Sabine County contains a high level of competition from other chartered banks based on its population, with four institutions serving the population of Hemphill and the surrounding area. The bank is in direct competition with several branches of substantially larger financial institutions that also serve other communities. The assessment area is also home to a credit union and other finance companies that provide similar products to those offered by FSB. These other entities serve to heighten the already high level of competition. As of June 30, 2016, the FDIC Deposit Market Share Report indicated that FSB ranked second in market share, capturing 26.1 percent of the area's deposits. The overall competition level hampers each institution's ability to make loans.

### ***Community Contact***

Examiners contacted a community member knowledgeable of the area's economic, demographic, and business environments to help assess the current economic conditions, community credit needs, and potential opportunities for bank involvement. The contact indicated that economic conditions are weak without substantial growth in recent years. The contact noted that health care, tourism, and timber are the major industries that support the local economy while affordable housing prices and recreational activities on Lake Sam Rayburn and Toledo Bend are the primary attractions for retirees. The contact also indicated that limited opportunities exist for banks to participate in economic activities, such as residential, consumer, and commercial lending due to limited demand. According to the contact, Sabine County's high unemployment rate coupled with a very high level of competition further hinders the opportunities and ability for lending. The contact stated that the majority of financial institutions in the area help meet the financial needs of the community.

The area generally creates limited lending opportunities for a small variety of loan types, consistent with its primarily rural nature. Considering information obtained from the community contact, bank management, as well as demographic and economic information, examiners determined that the area's primary credit needs include consumer, residential vacation, and commercial loans; however, as previously noted, such needs come with limited opportunity.

## CONCLUSIONS ON PERFORMANCE CRITERIA

### **LENDING TEST**

FSB demonstrated a satisfactory record regarding the Lending Test. Reasonable records regarding its borrower profile and geographic lending distributions primarily support the Lending Test conclusion.

For the CRA Small Bank Lending Test, typically, once a bank displays at least some level of satisfactory performance regarding its loan-to-deposit ratio and its assessment area concentration, examiners will then place more weight on the bank's borrower profile and geographic loan distributions when arriving at the overall Lending Test conclusion.

### **Loan-to-Deposit Ratio**

The bank exhibited a reasonable record regarding its loan-to-deposit (LTD) ratio given the institution's size, financial condition, and assessment area's credit needs. A reasonable overall level, given current mitigating factors, outweighed a less than reasonable comparative level to support this conclusion. Examiners placed more weight on the overall level given the dissimilarities of the comparable institutions. Examiners considered the bank's size, business strategy, and capacity relative to the area's credit needs when arriving at this conclusion.

### ***Overall Level***

The overall level of the bank's average, net LTD ratio reflects reasonable performance, given current performance context issues that serve to mitigate an otherwise less than reasonable level. For the 22 quarters since the previous evaluation, the bank recorded a 15.8 percent average, net LTD ratio, which is a slight decrease from the 18.3 percent average ratio reported at the previous evaluation. However, the ratio does not consider the institution's volume of public funds. FSB averaged \$10,160,000 in public funds since the last evaluation, which would result in an average, net LTD ratio of 20.3 percent.

Despite the lower average ratio, the quarterly, net LTD ratios reflect a notable increasing trend since the last evaluation. The quarterly ratios ranged from a low of 10.3 percent on December 31, 2012, to a high of 23.4 percent on June 30, 2016. The notably increasing trend is consistent with the bank's philosophy change to a heavier emphasis on lending as previously noted under Description of Institution. The much larger average per year increase in loans compared to the average per year increase in deposits, as also previously noted, further supports the change in philosophy. The bank's willingness to identify additional lending opportunities resulted in the notable increase in loan volume for municipal loans.

The performance context issues discussed under the Description of Assessment Area serve to mitigate the otherwise lower overall level. As noted, the bank's assessment area suffers from low loan demand, in part due to the retirement characteristics of the area and stagnant economic growth as demonstrated by Sabine County maintaining one of the highest unemployment rates in the state of Texas. The weaker loan demand resulted in fewer opportunities for more traditional commercial and residential lending leaving smaller dollar consumer loans as one of the area's

primary avenues for lending. In meeting the smaller dollar consumer lending needs, as noted, the bank dedicated a notable portion of its originated loans to this loan category. As expected, these smaller dollar consumer loans have a limited effect on a bank's LTD ratio. Thus, the overall level of the bank's average, net LTD ratio reflects reasonable performance given current performance context issues that serve to mitigate an otherwise less than reasonable level.

***Comparative Level***

The comparative level of the bank's average, net LTD ratio reflects less than reasonable performance. Examiners identified and listed in the following table three somewhat comparable institutions. While the institutions reflect generally comparable total assets and loan mixes, the three listed institutions' operations are located a notable distance from FSB and reflect dissimilar economies. While these institutions reflect the most comparable banks identified, their dissimilarities caused examiners to place less weight on the comparative level measure.

The following table shows a spread, considering the ratios' overall levels, of 25.7 percentage points between the highest and lowest ratios. As seen, FSB posted the third highest ratio of the four listed, falling 22.7 percentage points behind the top ratio and landing 3.0 percentage points above the lowest ratio. Therefore, considering the subject bank's ratio's relative position and the noted gaps, the comparative level of the bank's average net LTD ratio reflects less than reasonable performance.

<b>LTD Ratio Comparative Level</b>		
<b>Bank Name and Location</b>	<b>Total Assets \$(000s)</b>	<b>Average, Net LTD Ratio (%)</b>
First State Bank, Hemphill, Sabine Co., TX	52,506	15.8
<b>Comparable Banks</b>		
Citizens National Bank, Crockett, Houston Co., TX	93,931	38.5
Citizens State Bank, Ganado, Jackson Co., TX	59,523	12.8
The First National Bank of Trinity, Trinity, Trinity Co., TX	57,288	35.9
<i>Source: Reports of Income and Condition 09/30/2011 through 12/31/2016</i>		

**Assessment Area Concentration**

The institution granted a substantial majority of its loans inside its assessment area. A substantial majority of consumer loans granted inside the assessment area supports this conclusion. Examiners considered the bank's asset size and office structure as well as the loan product reviewed relative to the assessment area's size and economy when arriving at this conclusion.

***Consumer Loans***

The institution granted a substantial majority of its consumer loans inside its assessment area. The following table shows that by number and dollar volume, the bank granted a substantial majority of its sampled consumer loans inside its assessment area.

<b>Lending Inside and Outside of the Assessment Area</b>										
<b>Loan Category</b>	<b>Number of Loans</b>					<b>Dollar Amount of Loans \$(000s)</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total \$(000s)</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
Consumer	29	93.5	2	6.5	31	513	90.2	56	9.8	569

*Source: Bank Records*

## **Borrower Profile**

The bank established a reasonable record regarding its borrower profile loan distribution. Reasonable performance regarding consumer loans supports this conclusion. Examiners considered the loan product type reviewed relative to the available comparative data and any performance context issues. Examiners focused on the percentages of number of loans when arriving at conclusions and only considered loans granted inside the assessment area.

### ***Consumer Loans***

The distribution of consumer loans based on the borrowers' profiles reflects reasonable performance. A reasonable record in the bank's sole assessment area primarily supports this conclusion. Examiners focused on the bank's percentages of the number of loans granted to low- and moderate-income borrowers relative to the percentage of households when arriving at this conclusion. The borrowers' income designations defined the borrowers' profiles for this analysis.

Consistent with outstanding guidance, examiners used the Non-MSA's MFI to calculate the borrowers' income levels. The following table displays the income levels and percent of MFI used to determine the income ranges.

<b>Median Family Income</b>				
<b>Median Family Incomes</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
2016 (\$52,400)	<\$26,200	\$26,200 to <\$41,920	\$41,920 to <\$62,880	≥\$62,880

*Source: FFIEC*

The following table shows that to low-income borrowers, the bank's level falls 8.4 percentage points below, or 0.7 times, the demographic figure, thereby reflecting reasonable performance given the ratios overall levels. The table further shows that to moderate-income borrowers, the bank's percentage by the number of loans slightly exceeds the demographic figure, landing 3.4 percentage points higher, also reflecting reasonable performance. Given the relative performances and weightings for each income category, the distribution of consumer loans based on the borrowers' profiles reflects reasonable performance.

<b>Distribution of Consumer Loans by Borrower Income Category</b>					
<b>Borrower Income Level</b>	<b>% of Households</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low	29.1	6	20.7	45	8.8
Moderate	17.3	6	20.7	40	7.8
Middle	21.6	2	6.9	31	6.0
Upper	32.0	7	24.1	87	16.9
Not Available	0.0	8	27.6	310	60.5
<b>Totals</b>	<b>100.0</b>	<b>29</b>	<b>100.0</b>	<b>513</b>	<b>100.0</b>

*Source: 2010 U.S. Census; Bank Records 01/01/2016 through 12/31/2016*

### **Geographic Distribution**

The institution established a reasonable record regarding its geographic loan distribution. Reasonable performance regarding consumer loans supports this conclusion. Examiners considered the loan product type reviewed relative to available comparative data and any performance context issues when arriving at this conclusion. Examiners focused on the bank's performance based on the percentage by the number of loans when arriving at conclusions and only considered loans granted inside the bank's assessment area.

### ***Consumer Loans***

The geographic distribution of consumer loans reflects reasonable performance. A reasonable record in the bank's sole assessment area primarily supports this conclusion. Examiners focused on the bank's percentages of the number of loans granted in the one moderate-income geography relative to the percentage of households when arriving at this conclusion.

The following table shows that in the moderate-income census tract, the bank's level of lending falls below the demographic figure, but by only 2.8 percentage points, thereby reflecting reasonable performance given the ratios overall levels. Examiners also noted that the bank originated a majority of the consumer loans sampled in middle-income geographies. Recall that both middle-income census tracts within the bank's assessment area are designated as distressed and underserved, thereby reinforcing the bank's commitment to meeting the needs of the assessment area. Therefore, the geographic distribution of consumer loans reflects reasonable performance.

<b>Geographic Distribution of Consumer Loans</b>					
<b>Tract Income Level</b>	<b>% of Households</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low	0.0	0	0.0	0	0.0
Moderate	23.5	6	20.7	67	13.0
Middle	76.5	23	79.3	446	87.0
Upper	0.0	0	0.0	0	0.0
Not Available	0.0	0	0.0	0	0.0
<b>Totals</b>	<b>100.0</b>	<b>29</b>	<b>100.0</b>	<b>513</b>	<b>100.0</b>

*Source: 2010 U.S. Census; Bank Records 01/01/2016 through 12/31/2016*

### **Response to Complaints**

The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the Lending Test conclusion.

## **DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Examiners did not identify any evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs; therefore, this consideration did not affect the overall rating.

GLOSSARY

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

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

**Assessment Area:** A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

**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.

**Combined Statistical Area (CSA):** A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

**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.

**Core Based Statistical Area (CBSA):** The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

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

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

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

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

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

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

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

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

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

**Limited-Scope Review:** A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (for example, geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the 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 Division (MD):** A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**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.

**Micropolitan Statistical Area:** CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

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

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

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**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 Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (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.

**SMALL BANK PERFORMANCE TEST'S CRITERIA**

**Lending Test**

The Lending Test for CRA Small Banks evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit 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 assessment area(s);
- 3) 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;
- 4) The geographic distribution of the bank's loans; 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 assessment area(s).