

# **PUBLIC DISCLOSURE**

July 6, 2021

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Happy State Bank  
Certificate Number: 10359

100 East Main Street  
Happy, Texas 79042

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
DESCRIPTION OF INSTITUTION .....	2
DESCRIPTION OF ASSESSMENT AREAS.....	3
SCOPE OF EVALUATION.....	4
CONCLUSIONS ON PERFORMANCE CRITERIA.....	8
DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW .....	22
AMARILLO MSA AA – Full-Scope Review .....	22
LUBBOCK MSA AA – Full-Scope Review .....	36
OTHER ASSESSMENT AREAS – Limited-Scope Review .....	46
APPENDICES .....	57
LARGE BANK PERFORMANCE CRITERIA .....	57
SCOPE OF EVALUATION .....	59
DESCRIPTION OF LIMITED-SCOPE ASSESSMENT AREAS.....	60
GLOSSARY .....	68

## INSTITUTION RATING

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

An institution in this group has an outstanding 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.

PERFORMANCE LEVELS	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding		X	X
High Satisfactory	X		
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			
* The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.			

**The Lending Test is rated High Satisfactory.**

- Lending levels reflect excellent responsiveness to assessment area credit needs.
- A high percentage of loans are made in the institution's assessment areas.
- The geographic distribution of loans reflects adequate penetration throughout the assessment areas.
- The distribution of borrowers reflects, given the product lines offered by the institution, good penetration among retail customers of different income levels and business customers of different sizes.
- The institution exhibits an excellent record of serving the credit needs of the most economically disadvantaged areas of its assessment areas, low-income individuals, and/or very small businesses, consistent with safe and sound banking practices.
- The institution is a leader in making community development loans.
- The institution makes extensive use of innovative and/or flexible lending practices in order to serve assessment area credit needs.

**The Investment Test is rated Outstanding.**

- The institution has an excellent level of qualified community development investments and grants, often in a leadership position, particularly those that are not routinely provided by private investors.

- The institution exhibits good responsiveness to credit and community development needs.
- The institution occasionally uses innovative and/or complex investments to support community development initiatives.

**The Service Test is rated Outstanding.**

- Delivery systems are accessible to essentially all portions of the institution's assessment areas.
- To the extent changes have been made, the institution's record of opening and closing branches has improved the accessibility of its delivery systems, particularly in low- and moderate-income geographies and/or to low- and moderate-income individuals.
- Services (including, where appropriate, business hours) do not vary in a way that inconveniences certain portions of the assessment areas, particularly low- and moderate-income geographies and/or individuals.
- The institution is a leader in providing community development services.

## **DESCRIPTION OF INSTITUTION**

Happy State Bank (HSB) operates as a state-chartered, commercial bank headquartered in Happy, Texas. Happy Bancshares, Inc., Canyon, Texas, a one-bank holding company, wholly owns HSB. The institution has a limited number of subsidiary relationships (refer to the Appendix – Scope of Evaluation for a complete listing). HSB received an 'Outstanding' rating at the June 3, 2019, Federal Reserve Bank of Dallas evaluation using the Federal Financial Institutions Examination Council's (FFIEC) CRA Large Bank Examination Procedures.

Since the prior evaluation, HSB acquired several financial institutions and assumed all of the deposits and branch locations. On June 10, 2019, HSB acquired First Bank & Trust, Seymour, Texas, and its four full-service branches. On January 27, 2020, HSB acquired First State Bank of Mobeetie, Mobeetie, Texas, and its two full-service branches. On July 1, 2020, HSB acquired Centennial Bank, Lubbock, Texas, and its fourteen full-service branches. On February 22, 2021, HSB acquired First Bank of Muleshoe, Muleshoe, Texas, and its three full-service branches. On June 4, 2021, HSB acquired The First National Bank of Tahoka, Tahoka, Texas, and its one full-service branch. Altogether, the bank acquired 24 branches, with no branch closings since the prior evaluation. Additionally, the bank opened two new branches in the Amarillo, Texas. Consequently, as of this evaluation, HSB operates 61 full-service branches throughout the western and central regions of Texas.

HSB specializes in commercial lending. However, as the bank continues to grow, the bank offers a full line of loan products, including commercial, residential, consumer, and agricultural. Additionally, the bank offers a variety of deposit services including checking accounts, savings accounts, certificates of deposit, and individual retirement accounts. The bank also offers an array of alternative banking services including remote deposit capture, telephone banking, internet banking, mobile banking, automated teller machines (ATM), and interactive teller machines (ITM). The bank maintains banking hours typical for the areas and the industry including extended hours through the drive-thru and Saturday hours.

As of the March 31, 2021, Report of Income and Condition, the bank reported total assets of \$6.3 billion, total loans of nearly \$3.5 billion, and total deposits of \$5.5 billion. Since the last CRA evaluation, total assets increased by 46 percent, total loans increased by 30 percent, and total deposits increased by 48 percent.

The table below presents the loan portfolio distribution as of the March 31, 2021, Report of Income and Condition. The portfolio mix reflects a distribution consistent with the loan origination mix discussed under the Scope of Evaluation section. As seen in the table, commercial loans (Secured by Nonfarm Nonresidential Properties and Commercial and Industrial Loans) represent the largest loan category of outstanding loans at 54.3 percent.

<b>Loan Portfolio Distribution</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	466,051	13.4
Secured by Farmland	164,176	4.7
Secured by 1-4 Family Residential Properties	531,238	15.3
Secured by Multifamily (5 or more) Residential Properties	139,604	4.0
Secured by Nonfarm Nonresidential Properties	1,096,074	31.6
<b>Total Real Estate Loans</b>	<b>2,397,143</b>	<b>69.0</b>
Commercial and Industrial Loans	789,659	22.7
Agricultural Production and Other Loans to Farmers	240,291	6.9
Consumer Loans	35,188	1.0
Obligations to State and Political Subdivisions in the U.S.	9,542	0.3
Other Loans	1,050	0.0
Lease Financing Receivables (net of unearned income)	2,887	0.1
Less: Unearned Income	0	0.0
<b>Total Loans</b>	<b>3,475,760</b>	<b>100.0</b>
<i>Source: Reports of Condition and Income</i>		

For the nine quarters since the previous evaluation, the bank recorded an average, net loan-to-deposit ratio of 79.7 percent, reflecting the capacity to respond to future loan growth through core deposits.

Further, based on the information discussed in this section, as well as other regulatory data, the institution's financial condition, size, product offerings, prior performance, and lack of legal impediments did not affect the bank's ability to meet the assessment areas' credit needs.

## **DESCRIPTION OF ASSESSMENT AREAS**

As more fully described under the Description of Institution's Operations sections that follow, HSB operates in the State of Texas. The bank designated seven separate assessment areas (AA) consisting of 1) the Abilene Metropolitan Statistical Area (MSA) AA, 2) the Amarillo MSA AA, 3)

the Austin-Round Rock-Georgetown MSA AA (Austin MSA AA), 4) the Dallas-Fort Worth-Arlington MSA AA (Dallas MSA AA), 5) the Lubbock MSA AA, 6) the San Antonio-New Braunfels MSA AA (San Antonio MSA AA), and 7) the TX Non-MSA AA. For presentation purposes in this section only, examiners combined the four Non-MSAs (North, South, Garza County, and Gillespie-Kerr) into the Texas Non-MSA AA.

The combined assessment areas include a total of 1,532 census tracts that reflect the following income designations based on the 2015 American Community Survey (2015 ACS) Census: 198 low-, 405 moderate-, 427 middle-, 484 upper-income census tract, and 18 tracts without income designations. The assessment areas conform to CRA regulatory requirements. Refer to the individual assessment area discussions for additional details.

<b>Description of Assessment Areas</b>			
<b>Assessment Area</b>	<b>Counties in Assessment Area</b>	<b># of Census Tracts</b>	<b># of Branches</b>
Abilene MSA	Taylor	38	1
Amarillo MSA	Carson, Potter, Randall	65	14
Austin MSA	Travis	218	1
Dallas MSA	Collin, Dallas, Tarrant	1,038	4
Lubbock MSA	Lubbock	68	6
San Antonio MSA AA	Comal, Kendall	30	2
Texas Non-MSA AA	Bailey, Briscoe, Castro, Dallam, Deaf Smith, Floyd, Garza, Gillespie, Gray, Hale, Hall, Hartley, Hemphill, Hutchinson, Kerr, Lamb, Lipscomb, Moore, Motley, Parmer, Sherman, Swisher, Wheeler	75	33
<i>Source: Bank Data</i>			

## **SCOPE OF EVALUATION**

### **General Information**

Although the prior Federal Reserve Bank of Dallas CRA evaluation was as of June 3, 2019, it only considered activities through April 1, 2019. Therefore, this evaluation covers the period from April 1, 2019, to July 6, 2021, the date of the previous evaluation's consideration of community development activities to this current evaluation's date. To assess performance, examiners applied the FFIEC's CRA Large Bank Examination Procedures, which include the Lending, Investment, and Service Tests. The appendix contains the applicable criteria for each test.

The following table presents the loan, deposit, and branch volume in each assessment area. Given the availability of the Summary of Deposit data (as of June 30, 2020), and the timing of the bank's recent acquisitions, some assessment areas do not reflect loan or deposit information. Examiners performed full-scope procedures on the Amarillo MSA AA as it generated the highest dollar volume of loan activity, maintained the highest deposit base, and comprised the most branches.

Examiners also randomly selected the Lubbock MSA AA for full-scope review as this area received limited-scope reviews during the prior two evaluations.

For the remainder of the assessment areas, examiners applied limited-scope procedures, with the exception of the Austin MSA AA, San Antonio MSA AA, Garza County Non-MSA AA, and Gillespie-Kerr Non-MSA AA. Given that the majority of bank acquisitions, which affected these areas, occurred after 2019, sufficient time has not passed in order for examiners to conduct a meaningful analysis. Refer to the Limited Scope Areas section for additional discussion.

Examiners weighted performance in each assessment area consistent with the percentage of loans originated from those areas, consequently the Amarillo MSA AA received the most weight in arriving at applicable conclusions.

<b>Assessment Area Breakdown of Loans, Deposits, and Branches</b>						
<b>Assessment Area</b>	<b>Loans</b>		<b>Deposits*</b>		<b>Branches</b>	
	<b>\$(000s)</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>	<b>#</b>	<b>%</b>
Abilene MSA	17,315	1.0	58,214	1.7	1	1.6
Amarillo MSA	681,270	41.3	1,692,803	48.5	14	22.9
Austin MSA	-	-	-	-	1	1.6
Dallas MSA	343,654	20.8	322,416	9.2	4	6.6
Lubbock MSA	223,195	13.5	210,835	6.0	6	9.9
San Antonio MSA	-	-	-	-	2	3.3
North Non-MSA	229,020	13.9	826,272	23.7	12	19.7
South Non-MSA	155,044	9.4	379,469	10.9	16	26.2
Garza County Non-MSA	-	-	-	-	2	3.3
Gillespie-Kerr Non-MSA	-	-	-	-	3	4.9
<b>Total</b>	<b>1,649,498</b>	<b>100.0</b>	<b>3,490,019</b>	<b>100.0</b>	<b>61</b>	<b>100</b>
<i>Source: 2019 HMDA and CRA Data, Bank Data, FDIC Summary of Deposits 6/30/2020, *Deposits do not include Centennial Bank, First Bank of Muleshoe, and First National Bank of Tahoka acquisitions.</i>						

## **Activities Reviewed**

CRA Large Bank Procedures require examiners to consider the bank's originations of home mortgage, small business, and small farm loans; as well as, all reported community development loans granted since the prior evaluation. This evaluation considered the total loans reported on the Home Mortgage Disclosure Act (HMDA) Loan Application Register or as part of the CRA Data Collection and Reporting requirements. The following table presents the total dollar and number volumes for each product reported in 2020.

Loans Reported 2020				
Loan Category	\$(000s)	%	#	%
Home Mortgage	537,831	47.6	1,696	22.3
Small Business	485,161	42.9	4,764	63.3
Small Farm	107,685	9.5	1,061	14.4
Source: Bank Data, 1/1/2020 – 12/31/2020				

In order to confirm the bank's primary focus, examiners also considered the bank's loan origination activity for 2020. As shown in the following table, commercial loans account for 43.2 percent of dollar volume, while residential loans account for 14.5 percent and small farm loans account for 9.7 percent of dollar volume, respectively. Consumer loans only account for 1.3 percent. In general, the originations reflect a similar concentration by dollar volume to the table above.

2020 Loan Originations				
Loan Type	#	%	\$(000s)	%
Construction and Land Development	776	16.0	402,228	31.3
Secured by Farmland	62	1.3	46,159	3.6
1-4 Family Residential	664	13.7	156,402	12.2
Multi-Family (5 or more) Residential	13	0.3	29,443	2.3
Commercial Real Estate	238	4.9	273,463	21.3
<b>Total Real Estate Loans</b>	<b>1,753</b>	<b>36.2</b>	<b>907,695</b>	<b>70.7</b>
Commercial and Industrial	1,299	26.8	282,233	21.9
Agricultural	340	7.0	78,750	6.1
Consumer	1,455	30.0	17,357	1.3
Other Loans	6	0.0	440	0.0
<b>Gross Loans</b>	<b>4,853</b>	<b>100.0</b>	<b>1,286,475</b>	<b>100.0</b>
Source: Bank Records (01/01/2020 - 12/31/2020)				

Given these considerations, this evaluation contains detailed discussions regarding small business lending and home mortgage lending when arriving at conclusions for the full-scope review areas' applicable Lending Test performance factors. Examiners also evaluated small farm lending in the Amarillo MSA AA only, as small farm lending does not comprise a major product for the other assessment areas. Presentation of small farm loans is only applicable to the Amarillo MSA AA and inclusion for the other assessment areas would not materially affect the conclusions or ratings. Likewise, inclusion of consumer lending given the nominal dollar volume would also not affect the overall ratings. Finally, this evaluation does not consider any affiliate lending.

For home mortgage performance, examiners considered reported HMDA data for 2018, 2019, and 2020. As such, examiners considered 1,074 home mortgage loans totaling \$294.8 million reported on the 2018 HMDA LAR, 1,092 home mortgage loans totaling \$267.7 million on the 2019 HMDA LAR, and 1,696 home mortgage loans totaling \$537.8 million reported on the 2020 HMDA LAR. Given that examiners did not identify any trends that materially affect conclusions or ratings, this evaluation presents and discusses HMDA reported data for 2019, the most recent year for which



aggregate data is available as of the evaluation date. However, the Assessment Area Concentration performance factor includes 2018 and 2020 data. The 2019 HMDA aggregate data and 2015 ACS Census data served as the basis of comparison for home mortgage lending.

For small business performance, examiners considered CRA reported data for 2018, 2019, and 2020. Therefore, examiners considered 1,920 small business loans totaling \$284.1 million reported in 2018, 1,926 small business loans totaling \$275.8 million in 2019, and 4,764 small business loans totaling \$485.2 million reported in 2020. Given that examiners did not identify any trends that materially affect conclusions or ratings, this evaluation presents and discusses CRA reported data for 2019, the most recent year for which aggregate data is available as of the evaluation date. However, the Assessment Area Concentration performance factor also includes 2018 and 2020 data. The 2019 small business aggregate data and 2019 D&B Demographic data served as the basis of comparison for the small business lending.

For small farm performance, examiners considered CRA reported data for 2018, 2019, and 2020. Therefore, examiners considered 686 small farm loans totaling \$86.9 million reported in 2018, 715 small farm loans totaling \$89.5 million in 2019, and 1,061 small farm loans totaling \$107.7 million reported in 2020. Given that examiners did not identify any trends that materially affect conclusions or ratings, this evaluation presents and discusses CRA reported data for 2019, the most recent year for which aggregate data is available as of the evaluation date. However, the Assessment Area Concentration performance factor also includes 2018 and 2020 data. The 2019 small farm aggregate data and 2019 D&B Demographic data served as the basis of comparison for the small farm lending.

Examiners also considered all community development loans originated since the last evaluation. This included 187 loans totaling \$188.8 million originated from April 1, 2019, to July 6, 2021.

Finally, examiners considered the total number and dollar amount of home mortgage, small business, and small farm loans originated in 2019 and 2020 to determine the appropriate weighting for each product. As shown in the following table, in 2019, home mortgage and small business loans accounted for almost equal originations by dollar volume, with small business loans surpassing home mortgage loans by number volume. In 2020, this same trend continued as presented earlier. Considering the bank's business strategy, as well as the volume of loans originated, examiners applied equal weighting to both products when reaching conclusions and ratings. Conversely, small farm lending, where reviewed, carried minimal weight in the overall conclusions and ratings.

<b>Loans Reported 2019</b>				
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>	<b>#</b>	<b>%</b>
Home Mortgage	267,710	42.3	1,092	29.3
Small Business	275,787	43.6	1,926	51.6
Small Farm	89,535	14.1	715	19.1
<i>Source: Bank Data, 1/1/2019 – 12/31/2019</i>				

For the Investment Test, the scope of this evaluation encompassed all qualified investments either purchased prior to but still outstanding as of the evaluation date or purchased new since the prior evaluation. Examiners used the book value as of the current evaluation date for all prior period-qualified investments. This evaluation also includes all community development services performed since the previous evaluation.

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

### **LENDING TEST**

HSB demonstrated a high satisfactory record for the bank as a whole regarding the Lending Test. The bank exhibited an excellent record regarding its lending activities for home mortgage, small business, and small farm loans and originated a high percentage of loans within its designated assessment areas while exhibiting a good record regarding borrower profile distribution. The bank also proved a leader in granting community development loans and demonstrated excellent responsiveness to the community credit needs while also displaying extensive use of innovative and complex lending practices. These factors sufficiently lifted the bank's adequate geographic distribution performance. The appendices list the Lending Test's criteria.

Conclusions regarding the institution's overall Lending Test performance are consistent with the overall record in the Abilene MSA AA, Amarillo MSA AA, Dallas MSA AA, Lubbock MSA AA, North Non-MSA AA, and South Non-MSA AA. As noted under the Scope of Evaluation section, examiners did not arrive at conclusions for the Austin MSA AA, San Antonio MSA AA, Garza County Non-MSA AA, and Gillespie-Kerr Non-MSA AA given the timing of the acquisitions.

#### **Lending Activity**

Lending levels reflect excellent responsiveness to assessment area credit needs. Excellent performance regarding home mortgage, small business, and small farm lending supports this conclusion. This performance is consistent in the Abilene MSA AA, Amarillo MSA AA, Dallas MSA AA, North Non-MSA AA, and South Non-MSA AA compared to the institution's overall record. The Lubbock MSA AA performance was inconsistent, falling slightly below, the institution's overall record. Examiners considered the bank's size, business strategy, and capacity relative to the credit needs of its assessment areas when arriving at this conclusion.

#### ***Home Mortgage Loans***

The level of home mortgage lending activity reflects excellent responsiveness for the bank as a whole. Excellent records regarding overall market share and market ranking support this conclusion. The market share considers the total number and dollar amount of loans made by each institution. Based on 2019 reported peer mortgage data, which does not capture data subject to change at the reporting level, the bank originated or purchased 943 reportable home mortgage loans within the assessment areas for a market share of 0.35 percent. The total dollar amount equaled \$217.6 million and captured 0.28 percent market share.

The bank ranked 68<sup>th</sup> out of 1,085 home mortgage lenders that serve the same assessment areas.

This ranking lands the bank solidly in the top 7.0 percent of lenders. Given the considerations previously noted, these levels reflect an excellent record for home mortgage lending activity.

### ***Small Business Loans***

The level of small business lending activity exhibits excellent responsiveness for the bank as a whole. Excellent records regarding overall market share and market ranking support this conclusion. Based on 2019 reported peer small business data, the bank originated 1,712 reportable small business loans within the assessment areas for a market share of 0.78 percent. The total dollar amount equaled \$234.4 million and captured 2.75 percent market share.

The bank ranked 18<sup>th</sup> out of 268 lenders that serve the same assessment areas. This ranking lands the bank solidly in the top 7.0 percent of lenders. Given the considerations previously noted, these levels reflect an excellent record regarding small business loan activity.

### ***Small Farm Loans***

The level of small farm lending activity reflects excellent responsiveness for the bank as a whole. Excellent records regarding overall market share and market ranking support this conclusion. Based on 2019 reported peer small farm data, the bank originated 613 reportable small farm loans within the assessment areas for a market share of 16.12 percent. The total dollar amount equaled \$76.3 million and captured 27.18 percent market share.

The bank ranked 3<sup>rd</sup> out of 55 lenders that serve the same assessment areas. This ranking lands the bank solidly in the top 6.0 percent of lenders. Given the considerations previously noted, these levels reflect an excellent record regarding small farm loan activity.

### **Assessment Area Concentration**

A high percentage of loans are made in the institution's assessment areas for the bank as a whole. The high percentage of home mortgage, small business, and small farm loans granted inside the assessment areas supports this conclusion. The following table presents the concentrations by year and product.

Using the subtotal lines within each lending category, examiners noted the bank granted a high percentage of home mortgage, small business, and small farm loans inside its assessment areas by both number and dollar volume.

Lending Inside and Outside of the Assessment Area										
	Number of Loans					Dollar Amount of Loans \$(000s)				
Loan Category	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$	%	\$	%	\$(000s)
Home Mortgage										
2018	944	87.9	130	12.1	1,074	198,592	67.4	96,166	32.6	294,758
2019	915	83.8	177	16.2	1,092	210,865	78.8	56,845	21.2	267,710
2020	1,381	81.4	315	18.6	1,696	357,419	66.5	180,412	33.5	537,831
<b>Subtotal</b>	<b>3,240</b>	<b>83.9</b>	<b>622</b>	<b>16.1</b>	<b>3,862</b>	<b>766,876</b>	<b>69.7</b>	<b>333,423</b>	<b>30.3</b>	<b>1,100,299</b>
Small Business										
2018	1,701	88.6	219	11.4	1,920	239,272	84.2	44,812	15.8	284,084
2019	1,684	87.4	242	12.6	1,926	231,611	84.0	44,176	16.0	275,787
2020	4,196	88.1	568	11.9	4,764	400,069	82.5	85,092	17.5	485,161
<b>Subtotal</b>	<b>7,581</b>	<b>88.1</b>	<b>1,029</b>	<b>11.9</b>	<b>8,610</b>	<b>870,952</b>	<b>83.3</b>	<b>174,080</b>	<b>16.7</b>	<b>1,045,032</b>
Small Farm										
2018	554	80.8	132	19.2	686	68,650	79.0	18,249	21.0	86,899
2019	555	77.6	160	22.4	715	71,331	79.7	18,204	20.3	89,535
2020	889	83.8	172	16.2	1,061	90,583	84.1	17,102	15.9	107,685
<b>Subtotal</b>	<b>1,998</b>	<b>81.2</b>	<b>464</b>	<b>18.8</b>	<b>2,462</b>	<b>230,564</b>	<b>81.2</b>	<b>53,555</b>	<b>18.8</b>	<b>284,119</b>
<i>Source: Bank Data, Due to rounding, totals may not equal 100.0%</i>										

Consequently, considering the loan categories' relative overall performances and weightings, the institution originated a high percentage of its loans inside its assessment areas.

### **Geographic Distribution**

The geographic distribution of loans reflects adequate penetration throughout the assessment areas. Adequate records in the Amarillo MSA AA and Lubbock MSA AA primarily support this conclusion. The Dallas MSA AA, North Non-MSA AA, and South Non-MSA AA demonstrated consistent performance, while the Abilene MSA AA performance exceeds the institution's overall record. Examiners did not evaluate the Austin MSA AA, San Antonio MSA AA, Garza County Non-MSA AA, and Gillespie-Kerr Non-MSA AA.

Examiners considered the loan product types reviewed relative to the available comparative data and any performance context issues when arriving at this conclusion. Additionally, this factor only considered reported loans granted inside the bank's assessment areas.

### **Borrower Profile**

The distribution of borrowers reflects, given the product lines offered by the institution, good penetration among retail customers of different income levels and business customers of different

sizes for the bank as a whole. Good records in the Amarillo MSA AA and Lubbock MSA AA primarily support this conclusion. The Abilene MSA AA, Dallas MSA AA, North Non-MSA AA, and South Non-MSA AA demonstrated consistent performance when compared to the overall institution record. Examiners did not evaluate the Austin MSA AA, San Antonio MSA AA, Garza County Non-MSA AA, and Gillespie-Kerr Non-MSA AA.

Examiners considered the loan product types reviewed relative to the available comparative data and any performance context issues when arriving at this conclusion. Additionally, this factor only considered reported loans granted inside the bank's assessment areas.

### **Innovative or Flexible Lending Practices**

The institution makes extensive use of innovative and/or flexible lending practices in order to serve the assessment areas credit needs for the bank as a whole. Examiners considered the dollar volume relative to the institution's capacity and the credit needs of its assessment areas when arriving at this conclusion. Further, examiners analyzed performance for this criterion at the institution level only, as the bank offers all of its innovative or flexible lending programs throughout the assessment areas.

Since the prior evaluation, the bank continues to offer extensive flexible loan products including government-backed mortgage loans from the Federal Housing Administration (FHA), Veterans Administration (VA), and United States Department of Agriculture (USDA) and government-backed small business loans from the Small Business Administration (SBA). HSB also created a down payment assistance program, the Happy Homebuyers Loan, that offers no down payment requirement, reduced fees, and lowered interest rates to qualified borrowers who meet certain income restrictions.

- **FHA:** Allows first-time homebuyers to put down as little as 3.5 percent, most closing costs can be included in the loans, and a lower minimum credit score required to qualify.
- **VA:** Offers long-term financing to eligible veterans and surviving spouses. It helps veterans purchase homes with no down payment, provides 100.0 percent financing without private mortgage insurance, and allows veterans to receive up to 6.0 percent towards closing costs.
- **USDA:** Offers various financing options to eligible borrowers who purchase homes in rural developments and areas. Programs include down payment assistance and/or 100 percent financing, longer terms up to 38 years, payment/interest rate modification for low- and moderate-income individuals and families.

HSB also utilizes extensive alternative lending products to collaborate with local governments and builders to create and/or expand affordable housing in support of identified job creation needs and with local Community Housing Development Organizations. The bank also offers grant assistance through the Federal Home Loan Bank that provides both the Special Needs Assistance Program (SNAP) and Housing Assistance for Veterans (HAVEN). Both programs provide subsidies for the repair and rehabilitation of owner-occupied housing for eligible borrowers, veterans, and active-duty service members disabled due to military service.

HSB also offers various down payment assistance programs, in conjunction with state and county housing agencies, designed for low- and moderate-income borrowers and borrowers in low- and moderate-income areas throughout the assessment areas. The products contain terms and features to support applicants who may not otherwise qualify through traditional credit reviews. The terms and features include providing eligible homebuyers with down payment assistance, second lien assistance, and/or closing cost assistance when purchasing a home. Eligibility requirements generally include income restrictions for low- and moderate-income borrowers, first time homebuyers, and loan specific qualifications.

- **South East Texas Housing Finance Corporation (SETH):** State organization that provides down payment and closing costs assistance for low- and moderate-income eligible borrowers. SETH offers a variety of programs that include down payment assistance, homebuyer education, and financing with fixed-rate FHA, VA, USDA, or conventional mortgage products.
- **Texas State Affordable Housing Corporation (TSAHC):** State organization that provides 30-year fixed interest rate mortgage loans, down payment assistance grants, and mortgage credit certificates through a network of approved mortgage lenders. To qualify, the borrower must meet certain credit and income requirements, and purchase a home that meets sales price requirements. The TSAHC offers several programs including Home for Heroes, which provides down payment assistance for teachers, police officers, firefighters, EMS personnel, corrections officers, and veterans. It also offers Mortgage Credit Certificates (MCC), which is a mortgage interest tax credit that reduces the amount of federal income taxes a qualified first-time homebuyer pays every year.

All of these programs reflect an excellent degree of serving low- and moderate-income individuals and families. The following table presents totals for innovative/flexible residential mortgages.

Innovative and Flexible Residential Mortgage								
Loan Program	2019		2020		2021		Total	
	#	\$	#	\$	#	\$	#	\$
FHA	120	19,571	112	20,797	51	9,962	283	50,330
FHA - SETH PROGRAM	3	277	0	0	0	0	3	277
FHA - TSAHC DPA; MCC - HOME FOR HEROES	2	239	3	412	0	0	5	651
FHA - TSAHC DPA HOME FOR HEROES	5	682	48	7,457	16	2,349	69	10,488
USDA	20	2,046	19	1,675	4	609	43	4,330
VA	28	6,426	43	10,586	13	3,741	84	20,753
Happy Homebuyer	53	5,611	32	3,262	19	1,797	104	10,670
HAVEN	0	0	0	0	1	8	1	8
SNAP	0	0	2	13	7	41	9	54
<b>Grand Total</b>	<b>231</b>	<b>34,852</b>	<b>259</b>	<b>44,202</b>	<b>111</b>	<b>18,507</b>	<b>601</b>	<b>97,561</b>
<i>Source: Bank Records (4/1/2019 – 7/6/2021)</i>								

On March 11, 2020, the World Health Organization declared the COVID-19 pandemic. On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which provided direct economic assistance for employees, families, small businesses, and industries. The CARES Act provided funding by the Small Business Administration (SBA) to create a new SBA program called the Paycheck Protection Program (PPP), which includes loan forgiveness.

- **PPP:** The PPP loan is a loan designed to provide a direct incentive for businesses to keep their workers on payroll during the economic hardship resulting from the COVID-19 pandemic. In order to facilitate emergency funding, banks were not required to collect gross annual revenue documentation.
- **SBA:** Loans to fund commercial projects that would not normally qualify under the bank's requirements. Depending on the loan structure, SBA guarantees these loans, with the focus geared towards small business start-ups.

These programs reflect an excellent degree of meeting small business needs throughout the assessment areas in response to the COVID-19 pandemic. The volume of PPP loans demonstrates the bank's responsiveness in helping to serve the credit needs, including those of small businesses, in the assessment areas and statewide. The following loan table presents totals for innovative/flexible small business loans.

Innovative and Flexible Small Business Loans								
Loan Program	2019		2020		2021		Total	
	#	\$	#	\$	#	\$	#	\$
SBA 504	3	2,281	0	0	0	0	3	2,281
SBA 7(a) Standard	3	853	2	1,294	2	1,150	7	3,297
SBA Express	6	509	7	892	1	300	14	1,701
SBA PPP	0	0	3,421	296,169	2,028	118,070	5,449	414,239
<b>SBA Grand Total</b>	<b>12</b>	<b>3,643</b>	<b>3,430</b>	<b>298,355</b>	<b>2,031</b>	<b>119,520</b>	<b>5,473</b>	<b>421,518</b>
<i>Source: Bank Records (4/1/2019 – 7/6/2021)</i>								

### **Community Development Loans**

HSB is a leader in making community development loans for the bank as a whole. Examiners considered the dollar volume relative to the institution's capacity and the assessment areas' credit needs when arriving at this conclusion. The bank also demonstrated an excellent responsiveness to credit and community development needs, which further supports this conclusion.

As illustrated in the following table, the bank's performance in the Dallas MSA AA, Lubbock MSA AA North Non-MSA AA, and South Non-MSA AA demonstrated consistent performance. The Abilene MSA AA and Amarillo MSA AA performance fell below the overall record. Examiners did not evaluate the Austin MSA AA, San Antonio MSA AA, Garza County Non-MSA AA, and Gillespie-Kerr Non-MSA AA

The following table shows that the bank granted 187 community development loans totaling \$188.8 million during the evaluation period. Since the previous evaluation's Report of Income and Condition date of December 31, 2018, the total dollar amount of community development loans equates to 4.2 percent of average total assets (\$4.5 billion) and 6.4 percent of average total loans (\$2.9 billion), thereby reflecting an outstanding level. This reflects an increase over the prior evaluation's 75 community development loans totaling \$165.6 million. The following table illustrates the bank's lending by year and purpose.

Community Development Loans by Year										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2019*	17	39,542	3	9,566	0	0	25	2,567	45	51,675
2020	79	87,298	13	9,082	6	10,891	18	2,940	116	110,211
2021 (1/1 – 7/6)	25	19,371	1	7,500	0	0	0	0	26	26,871
<b>Total</b>	<b>121</b>	<b>146,211</b>	<b>17</b>	<b>26,148</b>	<b>6</b>	<b>10,891</b>	<b>43</b>	<b>5,507</b>	<b>187</b>	<b>188,757</b>
<i>Source: Bank Records (*since 4/1/2019)</i>										



The following table shows a breakdown of the qualified investments and donations by assessment area. Examiners considered the assessment areas' credit needs first before placing weight on the statewide totals. As seen in the following table, the statewide totals represent 48.6 percent of the total dollar amount. Examiners noted that the statewide totals include extremely large loan amounts, for example the largest five statewide loans totaled \$56.4 million compared to the assessment areas' average loan amounts of \$1 to \$2 million. Given the bank's size, business strategy, and capacity relative to the credit needs of its assessment areas, the statewide totals do not change the overall conclusion.

Community Development Loans by Assessment Area										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Abilene MSA	0	0	0	0	0	0	0	0	0	0
Amarillo MSA	6	5,433	4	732	1	800	1	2,528	12	9,493
Austin MSA	0	0	0	0	0	0	0	0	0	0
Dallas MSA	29	51,210	0	0	0	0	33	786	62	51,996
Lubbock MSA	12	11,373	0	0	0	0	0	0	12	11,373
San Antonio MSA	0	0	0	0	0	0	0	0	0	0
Garza County Non-MSA	0	0	0	0	0	0	0	0	0	0
Gillespie-Kerr Non-MSA	0	0	0	0	0	0	0	0	0	0
North Non-MSA	1	182	3	181	3	7,197	5	1,311	12	8,871
South Non-MSA	57	12,217	5	316	1	1,791	4	882	67	15,206
Statewide	16	65,796	5	24,919	1	1,103	0	0	22	91,818
<b>Total</b>	<b>121</b>	<b>146,211</b>	<b>17</b>	<b>26,148</b>	<b>6</b>	<b>10,891</b>	<b>43</b>	<b>5,507</b>	<b>187</b>	<b>188,757</b>
<i>Source: Bank records</i>										

Besides their extent, the community development loans provide excellent record in responsiveness to the assessment areas' needs. As shown in the following table, 77.5 percent of the dollar volume provides affordable housing for low- and moderate-income families, followed by 13.8 percent that provide community development services. The remaining funds facilitated revitalization and stabilization efforts in qualifying geographies and promoted economic development.

The following points highlight the bank's community development lending activity in the broader statewide area of Texas.

- **Affordable Housing:** The bank originated one loan totaling \$25.0 million to finance the purchase a 330-space mobile home park. The park is a planned development with purchase options and rental manufactured homes available. Based on the rent rolls, rent remains far below the Housing and Urban Development (HUD) Fair Market Rents limits. Additionally, the mobile home park is in a HUD-designated Difficult Development Area (DDA) used in the Low-Income Housing Tax Credit program. DDAs are areas with high land, construction, and utility costs relative to the area median income and are based on Fair

Market Rents, income limits, the 2010 census counts, and 5-year ACS data. Overall, the park provides affordable housing to low- and moderate-income individuals and families.

- **Community Service:** The bank originated a loan for \$9.2 million to finance the construction of a nursing care facility. The facility offers 120 dually certified Medicaid/Medicare beds, with the expectation that Medicaid recipients will occupy 65 percent of the beds.
- **Community Service:** The bank participated in two loans totaling \$15.5 million to help assist with Intergovernmental Transfers disbursements under the 2020 and 2021 Quality Incentive Payment Program (QIPP) for a hospital authority. The QIPP is a federal program administered by the Texas Department of Health and Human Resources and is designed help Medicaid managed nursing facilities improve the quality and innovation of their services through implementation of program-wide improvement processes. The supplemental funding has helped the authority build a new emergency department, purchase new equipment, expand services and hire additional staff, in addition to, enhancing access to low- and moderate-income individuals and families.

## INVESTMENT TEST

HSB demonstrated an outstanding record for the bank as a whole regarding the Investment Test. An excellent level of qualified investments and donations, often in a leadership position, coupled with good responsiveness to community development needs and the occasional use of complex qualified investments support this conclusion. Examiners considered the number and dollar volume relative to the institution's capacity and the assessment areas' needs when arriving at this conclusion. The appendices list the criteria considered under this test.

The conclusions regarding the institution's overall Investment Test performance are consistent with the overall records in the Abilene MSA AA, Dallas MSA AA, Lubbock MSA AA, and South Non-MSA AA. Overall records for the Amarillo MS AA, and North Non-MSA AA were inconsistent, falling below the overall institution record. Examiners did not evaluate the Austin MSA AA, San Antonio MSA AA, Garza County Non-MSA AA, and Gillespie-Kerr Counties Non-MSA AA due to the timing of their recent acquisition.

### Investment and Grant Activity

HSB demonstrated an excellent level of qualified community development investment and grant activity, often in a leadership position, particularly those that are not routinely provided by private investors. The bank purchased or retained 73 qualified investments totaling \$126.8 million and made 280 qualified donations totaling \$1.2 million. This level of qualified investment activity represents 2.9 percent of average total assets (\$4.5 billion) and 16.8 percent of average total securities (\$763.5 million) for the review period, demonstrating excellent performance.

While the number of qualified investments decreased since the last evaluation's total of 476, HSB nearly doubled the dollar volume at this evaluation over the prior evaluation's noted \$67.1 million. The following table illustrates the bank's qualified investments by years and category.

Qualified Investments by Year										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize Or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	7	8,614	19	24,977	8	16,683	1	600	35	50,874
2019*	0	0	6	10,795	0	0	2	3,446	8	14,241
2020	2	5,000	7	16,054	1	2,000	0	0	10	21,182
2021	0	0	19	33,626	1	5,000	0	0	20	33,724
<b>Subtotal</b>	<b>9</b>	<b>13,614</b>	<b>51</b>	<b>85,452</b>	<b>10</b>	<b>23,683</b>	<b>3</b>	<b>4,046</b>	<b>73</b>	<b>126,795</b>
Qualified Grants and Donations	22	191	223	949	34	97	1	3	280	1,240
<b>Total</b>	<b>31</b>	<b>13,805</b>	<b>274</b>	<b>86,401</b>	<b>44</b>	<b>23,780</b>	<b>4</b>	<b>4,049</b>	<b>353</b>	<b>128,035</b>
Source: Bank records *since 4/1//2019										

The following table illustrates the areas benefited by the bank's qualified investments and donations.

Qualified Investments by Assessment Area										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Abilene MSA	0	0	9	11,007	5	10	0	0	14	11,017
Amarillo MSA	10	154	121	11,062	13	76	2	3,446	146	14,738
Austin MSA	0	0	1	5	0	0	0	0	1	5
Dallas MSA	14	13,628	47	49,922	5	10,021	1	3	67	73,574
Lubbock MSA	2	2	24	7,837	5	4	0	0	31	7,843
San Antonio MSA	0	0	1	325	0	0	0	0	1	325
Garza County Non-MSA	0	0	0	0	0	0	0	0	0	0
Gillespie-Kerr Non-MSA	0	0	0	0	0	0	0	0	0	0
North Non-MSA	1	1	36	3,678	6	608	0	0	43	4,287
South Non-MSA	0	0	33	2,559	3	4	1	600	37	3,163
Statewide	4	20	2	6	7	13,057	0	0	13	13,083
<b>Total</b>	<b>31</b>	<b>13,805</b>	<b>274</b>	<b>86,401</b>	<b>44</b>	<b>23,780</b>	<b>4</b>	<b>4,049</b>	<b>353</b>	<b>128,035</b>
Source: Bank records										

Notable examples of the bank's qualified investments and donations include:

- **Economic Development:** The bank invested \$3.0 million in the Pharos Capital Fund, a Community Development Financial Institution (CDFI), whose purpose is to invest in underserved markets and reduce costs for area residents.
- **Affordable Housing:** The bank donated over \$13,000 to Habitat for Humanity of El Paso, which serves to make housing more accessible and affordable to low-income populations.

### **Responsiveness to Credit and Community Development Needs**

The institution exhibits good responsiveness to credit and community economic development needs. The institution's qualified investment strategy benefits all four areas of community development demonstrating responsiveness to all needs throughout the State of Texas. The investments and donations primarily benefitted organizations or projects that provide community services, based on the number and dollar volume, targeted to low- or moderate-income individuals and economically disadvantaged students. The bank's donations to affordable housing also served to provide the largest impact per donation with an average donation of \$8,700, more than double the average of the community service donation.

### **Community Development Initiatives**

The bank occasionally uses innovative and/or complex investments for the bank as a whole to support community development initiatives. This conclusion considers the size of the institution and available opportunities within the bank wide geographic area covering all of the bank's assessment areas. As discussed in the Amarillo MSA AA Investment Test section, which follows, the bank served as a founding principal of a CDFI program that facilitates lending to low- and moderate-income areas or distressed and underserved areas throughout the panhandle. The bank also uses other investments such as direct investments in school districts and municipalities to serve the needs in the assessment areas.

### **SERVICE TEST**

HSB demonstrated outstanding performance regarding the Service Test for the bank as a whole. The bank's leader level of community development services sufficiently lifted the delivery systems that are reasonably accessible to essentially all portions of the assessment areas, which primarily supports this conclusion. Additionally, changes in branch locations improved the accessibility of delivery systems in low- and moderate-income geographies or to low- and moderate-income individuals. Finally, the retail banking hours and services did not vary in a way that inconvenience certain portions of the assessment area, particularly low- and moderate-income geographies and/or individuals.

Conclusions regarding the institution's overall Service Test performance are consistent in the Abilene MSA AA, Amarillo MSA AA, Dallas MSA AA, North Non-MSA AA, and South Non-MSA AA relative to the overall institution record. In the Lubbock MSA AA, performance was inconsistent as it fell below the overall record. Examiners did not evaluate the Austin MSA AA, San Antonio MSA AA, Garza County Non-MSA AA, and Gillespie-Kerr Non-MSA AA due to the timing of recent acquisitions. The appendices list the criteria considered under this test.

## **Accessibility of Delivery Systems**

Delivery systems are reasonably accessible to essentially all portions of the institution's assessment areas. Readily accessible alternative delivery systems lifted the limited accessibility of the branch distribution to support this conclusion.

The following table illustrates the branch and ATM distribution by geography income level for 2020. The table shows that in low-income geographies, the percentages of branches fall below the percentage of the assessment areas' population residing in those areas by 10.0 percentage points, reflecting accessibility to limited portions of the assessment area. The table further shows that in moderate-income geographies, the percentages of branches trails the percentage of the assessment areas' population residing in those tracts by 10.0 percentage points; also reflecting limited accessibility.

<b>Branch and ATM Distribution by Geography Income Level</b>												
<b>Tract Income Level</b>	<b>Census Tracts</b>		<b>Population</b>		<b>Branches</b>		<b>ATMs</b>		<b>Open Branches</b>		<b>Closed Branches</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Low	198	12.9	870,612	11.6	1	1.6	1	1.9	0	0.0	0	0.0
Moderate	405	26.4	1,982,084	26.4	10	16.4	11	20.4	7	26.9	0	0.0
Middle	427	27.9	2,112,637	28.1	30	49.2	24	44.4	15	57.7	0	0.0
Upper	484	31.6	2,517,091	33.5	20	32.3	18	33.3	4	15.4	0	0.0
NA	18	1.2	30,277	0.4	0	0.0	0	0.0	0	0.0	0	0.0
<b>Totals</b>	<b>1,532</b>	<b>100.0</b>	<b>7,512,701</b>	<b>100.0</b>	<b>61</b>	<b>100.0</b>	<b>54</b>	<b>100.0</b>	<b>26</b>	<b>100.0</b>	<b>0</b>	<b>100.0</b>
<i>Source: 2015 ACS &amp; Bank Data, Due to rounding, totals may not equal 100.0%</i>												

The bank's alternative delivery systems and product offerings are readily accessible to all portions of the bank's assessment areas, particularly in the moderate-income tracts. The bank's ATM presence in low-income tracts mirrors the branch presence and trails low-income demographics. However, in moderate-income tracts, ATMs also fall below the assessment areas demographics by 5.6 percentage points; however, the accessibility is reasonable. In addition to ATM access, the bank's deposit accounts are accessible online, by phone, via text messaging, through debit cards, and through a mobile banking application for smart phones.

Additionally, HSB provides an internet website that allows customers to view products, locate branches and ATMs, access their accounts, and pay bills free of charge 24 hours a day. In 2020, registered e-banking users totaled 49,871 with active users averaging 49,031. In 2021, registered users increased to an averaged 63,959 (January to May) with active users averaging 62,751 for the same period. In both years, activity reflects an excellent interface usage. Furthermore, the e-banking website averaged approximately 477,280 logins in 2020 and 629,026 logins in 2021. The increase in usage partially attributed to the COVID-19 pandemic. Customers could access the system, deposit checks, and pay bills without stepping into a branch. Bill pay users averaged 7,396

in 2020 and that number increased to 9,418 in 2021.

Regarding phone access, HSB averaged 7,979 calls a month in 2020 and 11,645 calls a month in 2021. Customers also continue to increase their usage of the mobile banking platform, with 37,269 registered users in 2020 and 24,072 averaged users. In 2021, average registered users increased to 53,402 with 35,083 averaged users.

Additionally, business customers also use the bank's e-banking and mobile banking platform for easy accessibility. The bank averaged 12,612 registered business customers who averaged 118,518 logins in 2021. Business customers also access the mobile application, with 2,708 averaged registered users in 2020 and 1,352 active users. In 2021, business customers averaged 4,179 users with 2,083 active users, with an average 424 business customers using deposit features.

HSB also utilizes interactive teller machines (ITMs) which operate like ATMs but have the added option of a live video teller that can assist customers. While the ITMs are only operational in the Amarillo MSA AA, the ITMs enhance accessibility and give customers the ability to seek out a more convenient location. HSB also belongs to a surcharge-free ATM network that operates 122 ATMs conveniently located throughout the assessment areas, including at 7-Eleven, Pak A Sak, CEFCO, and Toot'N'Totum. In low-income tracts, there are 4 network ATMs (3.3 percent) and in moderate-income tracts, there are 36 network ATMs (29.5 percent).

### **Changes in Branch Locations**

To the extent changes have been made, the institution's record of opening and closing of branches has improved the accessibility of its delivery systems, particularly in low- and moderate-income geographies and/or to low- and moderate-income individuals. As noted in the table above, the bank did not acquire any branches or close any branches in the low-income geographies. In moderate-income tracts, the bank acquired five branches and opened two additional branches, which reflects a net gain of 26.9 percent of branches serving moderate-income tracts and population located in those tracts. These openings significantly increased HSB's presence in the moderate-income tracts since the prior evaluation.

### **Reasonableness of Business Hours and Services**

HSB's services, including business hours, do not vary in a way that inconvenience certain portions of the assessment areas, particularly low- and moderate-income geographies and/or individuals. The branches generally open at 9:00 am and close between 3:00 pm and 5:00 pm, with some locations open until 6:00 pm on Fridays. Additionally, the drive-thru locations generally operate one hour longer than the branch lobbies and with extended Saturday hours, with most drive thru locations open 9:00 am to 12:00 pm on Saturdays. The bank operates ATMs at almost all branch locations and eight ITMs in the Amarillo MSA AA. Additionally, there are 122 network ATMs conveniently located throughout the assessment areas, including at 7-Eleven, Pak A Sak, CEFCO, and Toot'N'Totum.

HSB offers a standard array of deposit accounts. The bank offers various checking accounts including the Happy Checking account, which requires \$100 to open but does not require a monthly minimum balance and no monthly maintenance fee; in addition, the bank offers several types of savings accounts including the Happy Savings account. For lending, the bank offers a variety of consumer, commercial, agricultural, and residential real estate loans.

### **Community Development Services**

The institution is a leader in providing community development services. The extent, or number, of community development services primarily supports this conclusion. The bank's directors, officers, and employees provided 1,266 services since the last evaluation. As shown in the table below, the bank's community development services focused on community services and economic development activities. Based on the time since the last evaluation (2.0 years) and an average of 50.9 branches (accounting for length of time opened), the bank provided an average of 12.4 services per branch per year.

While the bank's level of community development services reflects a decrease from the prior evaluation, where the bank provided 2,717 community development services with 4,961 hours, the activity level at this evaluation is consistent from the prior review. At this evaluation, the bank provided 3,423 community service hours.

Additionally, the community development services exhibit excellent responsiveness to community development needs. As reflected in the below tables, a substantial majority of the community development services benefitted projects or organizations that provide community services targeted to low- and moderate-income individuals, accounting for 87.8 percent of all services. Furthermore, community services are an identified community development need in the assessment areas. The following tables show the number of community development services by assessment area, purpose, and year.

<b>Community Development Services</b>					
<b>Activity Year</b>	<b>Affordable Housing</b>	<b>Community Services</b>	<b>Economic Development</b>	<b>Revitalize or Stabilize</b>	<b>Totals</b>
	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>
2019*	35	757	54	1	<b>847</b>
2020	17	279	33	0	<b>329</b>
YTD 2021	1	76	13	0	<b>90</b>
<b>Total</b>	<b>53</b>	<b>1,112</b>	<b>100</b>	<b>1</b>	<b>1,266</b>
<i>Source: Bank Records (*since 4/1/2019)</i>					

<b>Community Development Services</b>					
<b>Assessment Area</b>	<b>Affordable Housing</b>	<b>Community Services</b>	<b>Economic Development</b>	<b>Revitalize or Stabilize</b>	<b>Totals</b>
	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>
Abilene MSA	3	6	3	0	<b>12</b>
Amarillo MSA	11	650	34	1	<b>696</b>
Austin MSA	0	0	0	0	<b>0</b>
Dallas MSA	30	115	10	0	<b>155</b>
Lubbock MSA	5	108	20	0	<b>133</b>
San Antonio MSA	0	0	1	0	<b>1</b>
Garza County Non-MSA	0	0	0	0	<b>0</b>
Gillespie-Kerr Non-MSA	0	0	0	0	<b>0</b>
North Non-MSA	4	144	15	0	<b>163</b>
South Non-MSA	0	89	17	0	<b>106</b>
Statewide Activities	0	0	0	0	<b>0</b>
<b>Total</b>	<b>53</b>	<b>1,112</b>	<b>100</b>	<b>1</b>	<b>1,266</b>
<i>Source: Bank Records</i>					

In 2018, HSB received a Bank Enterprise Award (BEA) Grant totaling \$233,244. HSB was one of three banks in the State of Texas awarded the BEA grant from the United States Department of the Treasury's CDFI Fund. Through the BEA program, the CDFI Fund seeks to increase the dollar amount of investments and services in the most economically distressed communities nationwide. The bank received the funding during the prior evaluation period in April 2019 but funding completed during this evaluation (in August 2020). HSB used part of the funds to provide medical supplies during ongoing COVID-19 pandemic.

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

The bank's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

### **AMARILLO MSA AA – Full-Scope Review**

#### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN AMARILLO MSA AA**

The Amarillo MSA AA includes the following full counties: Carson, Potter, and Randall. There have been no changes to the assessment area since the prior evaluation. The bank operates 14 full-service branches in this area after acquiring one branch from the First Bank & Trust Seymour acquisition. HSB also opened two new branches since the prior evaluation within this assessment



area. The bank also maintains 11 proprietary ATMs, 7 ITMs, and access to 38 network ATMs conveniently located throughout the assessment area.

### **Economic and Demographic Data**

The assessment area consists of 65 census tracts which reflect the following income designations based on 2015 ACS Census data: 3 low-, 19 moderate-, 22 middle-, and 20 upper-income tracts, as well as one tract with no income designation. The following table includes additional demographic data for the area.

Demographic Information of the Assessment Area Amarillo MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	65	4.6	29.2	33.8	30.8	1.5
Population by Geography	255,202	2.1	28.7	35.9	33.3	0.0
Housing Units by Geography	104,316	2.4	28.1	35.5	34.1	0.0
Owner-Occupied Units by Geography	60,558	1.0	22.2	33.6	43.2	0.0
Occupied Rental Units by Geography	33,732	4.1	37.5	38.6	19.7	0.0
Vacant Units by Geography	10,026	5.2	31.9	35.8	27.2	0.0
Businesses by Geography	18,539	5.5	23.6	29.9	40.8	0.2
Farms by Geography	838	2.3	11.2	25.3	61.2	0.0
Family Distribution by Income Level	62,766	21.8	16.9	19.7	41.5	0.0
Household Distribution by Income Level	94,290	24.9	16.0	17.8	41.4	0.0
Median Family Income MSA - 11100 Amarillo, TX MSA		\$61,673	Median Housing Value			\$120,817
			Median Gross Rent			\$763
			Families Below Poverty Level			12.0%
Source: 2015 ACS and 2020 D&B Data Due to rounding, totals may not equal 100.0% (* ) The NA category consists of geographies that have not been assigned an income classification.						

While the Amarillo MSA AA does not contain any distressed or underserved tracts, the State of Texas declared all counties as designated disaster areas due to the COVID-19 pandemic, (DR-4485-TX declared on March 25, 2020, and EM-3458-TX declared on March 13, 2020).

A number of industries support the Amarillo MSA AA, but the key economic drivers of the area include professional and business services, education and health services, and retail trade. Major assessment area employers include the Amarillo Independent School District, Tyson Foods, Inc., CNS Pantex, and BSA Health System/Don & Sybil Harrington Cancer Center.

Examiners use the applicable FFIEC-updated median family income levels to analyze home mortgage loans under the borrower profile criterion. The following table presents the low-,

moderate-, middle-, and upper-income ranges based on the FFIEC-updated median family incomes for the Amarillo MSA.

<b>Amarillo, TX MSA Median Family Income (11100)</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>
2018 (\$66,800)	<\$33,400	\$33,400 to <\$53,440	\$53,440 to <\$80,160	≥\$80,160
2019 (\$71,500)	<\$35,750	\$35,750 to <\$57,200	\$57,200 to <\$85,800	≥\$85,800
2020 (\$67,100)	<\$33,550	\$33,550 to <\$53,680	\$53,680 to <\$80,520	≥\$80,520
<i>Source: FFIEC</i>				

The following table presents the unemployed rates for each county as of year-end as well as the state and nationwide percentages. As shown, the unemployment rates nearly doubled in 2020, the effects of the COVID-19 pandemic, but recovered slightly in 2021.

<b>Unemployment Rates</b>			
<b>Area</b>	<b>2019</b>	<b>2020</b>	<b>2021*</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Carson County	2.2	3.9	3.9
Potter County	2.5	5.0	4.3
Randall County	2.1	4.0	3.6
State	3.5	6.9	6.6
National Average	3.6	6.7	5.8
<i>Source: Bureau of Labor Statistics; Year-End, *As of 5/30/2021</i>			

## **Competition**

HSB faces moderate competition from numerous other regional and national banks, mortgage companies, and credit unions in the Amarillo MSA AA market in which it operates. According to the June 30, 2020, FDIC Summary of Deposits Report, 19 financial institutions operates 67 offices within the Amarillo MSA AA. HSB held 19.0 percent of the deposit market share and ranked 2<sup>nd</sup> compared to the other institutions within the assessment area. Additionally, the top ranked institution holds 53.4 percent of market share and the 3<sup>rd</sup> ranked institution holds 5.7 percent.

## **Community Contact**

As part of the evaluation process, examiners contact third parties in the assessment area to assist in identifying the credit and community development needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit and community development opportunities are available.

Examiners contacted an economic development organization serving 25 counties in the Texas Panhandle, including Potter and Randall Counties. The contact indicated the economy is growing,

noting the local government collected more sales tax revenue than they historically accumulate because residents are buying local to support local businesses affected by COVID-19. The housing market is thriving and property values continue to increase. Additionally, neighboring residents generally commute to Potter and Randall Counties for employment. The contact further stated local and regional financial institutions are making a big impact through serving the general banking and credit needs of the area, including those of small businesses.

However, the contact noted that although banks appear more cautious in lending because of COVID-19, new business in the area have been collaborating with larger businesses on projects starting around \$100,000. Subsequently, the larger businesses are the ones seeking the financing. Lastly, the contact stressed that affordable housing continues to be a dire credit need but also expressed that small business financing remains a need as well. Finally, the contact expressed the need for financial literacy programs.

### **Credit and Community Development Needs and Opportunities**

Consistent with other metropolitan areas, the Amarillo MSA AA demonstrated loan demand for a variety of products. Considering information obtained from the community contacts, bank management, and demographic and economic information, examiners concluded that the primary credit needs of this assessment area include small business loans and home mortgage lending.

Community development opportunities in the Amarillo MSA AA include affordable housing. In addition, the presence of low- and moderate-income census tracts and borrowers in the assessment area exhibits a need for economic development and revitalization and stabilization activities.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN AMARILLO MSA AA**

### **LENDING TEST**

HSB demonstrated a high satisfactory record in the Amarillo MSA AA regarding the Lending Test. Excellent lending activity levels, a relatively high level of community development loans, and excellent responsiveness coupled with a good borrower profile lending distribution sufficiently lifted the adequate record regarding geographic distribution to support this conclusion.

#### **Lending Activity**

Lending levels reflect excellent responsiveness to assessment area credit needs in the Amarillo MSA AA. Excellent performance regarding home mortgage, small business, and small farm lending supports this conclusion.

#### ***Home Mortgage Loans***

Home mortgage lending levels reflect excellent responsiveness to the credit needs in the Amarillo MSA AA. According to 2019 peer mortgage data, the bank originated 451 reportable home mortgage loans totaling nearly \$91.0 million in this assessment area. HSB captured a 5.6 percent market share of the total number and a 6.2 percent market share of the total dollar volume of home

mortgage loans.

The bank's activity by number of loans ranks it 2<sup>nd</sup> out of 299 total lenders in the Amarillo MSA AA. This ranking lands the bank in the top 1.0 percent of lenders reporting such loans in this assessment area. The ranking considers the total number and dollar amount of loans made by each institution. Given the considerations previously noted, the activity level reflects excellent performance for home mortgage loans.

### ***Small Business Loans***

Small business lending levels excellent responsiveness to the credit needs in the Amarillo MSA AA. According to 2019 peer small business data, the bank originated 835 reportable small business loans totaling approximately nearly \$116.8 million in the assessment area. HSB captured a 13.0 percent market share of the total number of loans and a 29.8 percent market share of the total dollar volume of loans.

The bank's activity by number of loans ranks it 2<sup>nd</sup> out of 77 total lenders in the Amarillo MSA AA. This ranking lands the bank in the top 3.0 percent of lenders reporting such loans in this assessment area. The ranking considers the total number and dollar volume of loans made by each institution. Given the considerations previously noted, the activity level reflects excellent performance for small business loans.

### ***Small Farm Loans***

Small farm lending levels reflect excellent responsiveness to the credit needs in the Amarillo MSA AA. According to 2019 peer small farm data, the bank originated 179 reportable small farm loans totaling approximately \$20.3 million in the assessment area. HSB captured a 35.4 percent market share of the total number of loans and a 44.4 percent market share of the total dollar volume of loans.

The bank's activity by number of loans ranks it 1<sup>st</sup> out of 18 total lenders in the Amarillo MSA AA. The ranking considers the total number and dollar volume of loans made by each institution. Given the considerations previously noted, the activity level reflects excellent performance for small farm loans.

## **Geographic Distribution**

The geographic distribution of loans reflects adequate penetration throughout the Amarillo MSA AA. Adequate performances regarding home mortgage, small business, and small farm lending support this conclusion.

### ***Home Mortgage Loans***

The geographic distribution of home mortgage loans reflects adequate performance in the Amarillo MSA AA. Adequate performances in low- and moderate-income geographies support this conclusion.

As seen in the table below, the bank's lending in low-income census tracts is slightly higher than the aggregate figure by 0.4 percentage points, reflective of adequate performance. The table further shows that in moderate-income census tracts the bank's lending level is slightly below the aggregate figure by 0.5 percentage points, reflecting an adequate performance.

Geographic Distribution of Home Mortgage Loans Amarillo MSA AA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low	1.0	0.3	3	0.7	319	0.4
Moderate	22.2	10.5	44	10.0	5,344	6.1
Middle	33.6	33.5	138	31.4	24,118	27.6
Upper	43.2	55.7	255	58.0	57,603	65.9
Not Available	0.0	0.0	0	0.0	0	0.0
<b>Totals</b>	<b>100.0</b>	<b>100.0</b>	<b>440</b>	<b>100.0</b>	<b>87,384</b>	<b>100.0</b>
<i>Source: 2015 ACS; Bank Data, 2019 HMDA Aggregate Data, "--" data not available, Due to rounding, totals may not equal 100.0%</i>						

### ***Small Business Loans***

The geographic distribution of small business loans reflects adequate performance in the Amarillo MSA AA. Adequate performance in both low- and moderate-income geographies supports this conclusion.

As seen in the table below, the bank's lending in low-income census tracts falls slightly below the aggregate data by 1.8 percentage points, reflective of adequate performance. The table further shows that in moderate-income census tracts the bank's lending level trails aggregate by 5.2 percentage points, which reflects an adequate record.

Geographic Distribution of Small Business Loans Amarillo MSA AA						
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
Low	5.5	5.0	27	3.2	3,477	3.0
Moderate	24.1	20.4	127	15.2	20,269	17.4
Middle	30.3	29.5	230	27.5	36,644	31.4
Upper	39.9	45.0	450	53.9	56,311	48.2
Not Available	0.2	0.1	1	0.1	60	0.1
<b>Totals</b>	<b>100.0</b>	<b>100.0</b>	<b>835</b>	<b>100.0</b>	<b>116,761</b>	<b>100.0</b>
<i>Source: 2019; Bank Data; 2019 CRA Aggregate Data, "--" data not available, Due to rounding, totals may not equal 100.0%</i>						

### ***Small Farm Loans***

The geographic distribution of small farm loans reflects adequate performance in the Amarillo MSA AA. Adequate performances in low-income and moderate-income geographies support this conclusion.

As seen in the table below, the bank did not originate any lending in low-income census tracts, typically reflective of poor performance. However, aggregate data also illustrates a nominal number of loans; therefore, showing limited opportunity and reflecting reasonable performance. The table further shows that in moderate-income census tracts the bank's lending level falls slightly below aggregate by 3.0 percentage points; however, performance is adequate.

<b>Geographic Distribution of Small Farm Loans Amarillo MSA AA</b>						
<b>Tract Income Level</b>	<b>% of Farms</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low	2.7	0.8	0	0.0	0	0.0
Moderate	11.2	4.1	2	1.1	135	0.7
Middle	27.2	16.8	33	18.4	3,941	19.4
Upper	58.9	78.3	144	80.4	16,233	79.9
Not Available	0.0	0.0	0	0.0	0	0.0
<b>Totals</b>	<b>100.0</b>	<b>100.0</b>	<b>179</b>	<b>100.0</b>	<b>20,309</b>	<b>100.0</b>
<i>Source: 2019 D&amp;B Data; Bank Data; 2019 CRA Aggregate Data, "--" data not available, Due to rounding, totals may not equal 100.0%</i>						

### **Borrower Profile**

The distribution of borrowers reflects, given the product lines offered by the institution, good penetration among retail customers of different income levels and business customers of different sizes. Given equal product weighting, the excellent record regarding small business performance sufficiently lifted the adequate home mortgage performance, to support this conclusion. While small farm conclusions carry less weight, the excellent small farm performance further supports the overall conclusion.

### ***Home Mortgage Loans***

The distribution of home mortgage loans, based on the borrowers' profiles, reflects adequate performance in the Amarillo MSA AA. Adequate performance to low- and moderate-income borrowers supports this conclusion.

As seen in the table below, the bank's lending to low-income borrowers falls slightly below the aggregate data figure by 1.2 percentage points, reflective of adequate performance. The table further shows that to moderate-income borrowers the bank's lending level slightly exceeds aggregate by 0.3 percentage points, also reflecting adequate performance.

Distribution of Home Mortgage Loans by Borrower Income Level Amarillo MSA AA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	21.8	6.7	24	5.5	2,116	2.4
Moderate	16.9	16.3	73	16.6	9,319	10.7
Middle	19.7	19.9	74	16.8	12,297	14.1
Upper	41.5	32.7	143	32.5	39,448	45.1
Not Available	0.0	24.4	126	28.6	24,205	27.7
<b>Totals</b>	<b>100.0</b>	<b>100.0</b>	<b>440</b>	<b>100.0</b>	<b>87,384</b>	<b>100.0</b>
<i>Source: 2015 ACS; Bank Data, 2019 HMDA Aggregate Data, "--" data not available, Due to rounding, totals may not equal 100.0%</i>						

### ***Small Business Loans***

The distribution of small business loans based on the borrowers' profiles reflects excellent performance in the Amarillo MSA AA. Excellent performance to businesses with gross annual revenues of \$1 million or less supports this conclusion.

As seen in the table below, the bank's level of lending to small businesses with gross annual revenues of \$1 million or less lands 29.0 percentage points higher than the aggregate level. As a result, this reflects an excellent level of small business lending in the Amarillo MSA AA.

Distribution of Small Business Loans by Gross Annual Revenue Category Amarillo MSA AA						
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
<=\$1,000,000	83.5	42.9	600	71.9	66,710	57.1
>1,000,000	4.8	--	226	27.1	49,734	42.6
Revenue Not Available	11.7	--	9	1.1	317	0.3
<b>Totals</b>	<b>100.0</b>	<b>100.0</b>	<b>835</b>	<b>100.0</b>	<b>116,761</b>	<b>100.0</b>
<i>Source: 2019 D&amp;B Data; Bank Data; 2019 CRA Aggregate Data; "--" data not available, Due to rounding, totals may not equal 100.0%</i>						

### ***Small Farm Loans***

The distribution of small farm loans based on the borrowers' profiles reflects excellent performance in the Amarillo MSA AA. Excellent performance to farms with gross annual revenues of \$1 million or less supports this conclusion.

As seen in the table below, the bank's level of lending to small farms with gross annual revenues of \$1 million or less rises 29.1 percentage points above the aggregate level. As a result, this reflects an excellent level of small farm lending in the Amarillo MSA AA.

Distribution of Small Farm Loans by Gross Annual Revenue Category Amarillo MSA AA						
Gross Revenue Level	% of Farms	Aggregate Performance % of #	#	%	\$(000s)	%
<=\$1,000,000	94.6	65.3	169	94.4	18,401	90.6
>1,000,000	3.9	--	8	4.5	1,768	8.7
Revenue Not Available	1.5	--	2	1.1	140	0.7
<b>Totals</b>	<b>100.0</b>	<b>100.0</b>	<b>179</b>	<b>100.0</b>	<b>20,309</b>	<b>100.0</b>
<i>Source: 2019 D&amp;B Data; Bank Data; 2019 CRA Aggregate Data; "--" data not available, Due to rounding, totals may not equal 100.0%</i>						

### **Community Development Loans**

HSB made a relatively high level of community development loans in the Amarillo MSA AA. The relatively high level of community development loans and the excellent responsiveness to assessment area needs support this conclusion.

As noted under the institution level, the bank originated 12 community development loans totaling nearly \$9.5 million in the Amarillo MSA AA. By dollar volume, this equates to 5.0 percent of the bank's leadership level of community development loans in the State of Texas. This is significantly below the 41.3 percent of reported loans originated in this assessment area. While the amount compared to the whole bank is small, examiners noted that the Amarillo MSA AA has some challenges given its rural location near the Texas panhandle. A community organization noted in a published Notice of Proposed Rulemaking CRA comment in February 2021 that the area experienced persistent poverty, coupled with the rural location and a lack of access to CDFIs, continues to make reinvestment in the area a challenge. Consequently, given the challenges/lack of opportunities in the assessment area, the \$9.5 million directly benefitting the Amarillo MSA AA, significantly exceeds performance of some other local institutions operating in the same assessment area.

Community Development Loans Amarillo MSA										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize Or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2019*	0	0	2	366	0	0	0	0	2	366
2020	1	4,446	2	366	1	800	1	2,528	5	8,140
2021	5	987	0	0	0	0	0	0	5	987
Total	6	5,433	4	732	1	800	1	2,528	12	9,493
Source: Bank records, *4/01/2019 – 03/31/2021, numbers vary due to rounding										

The following points provide examples of the bank's community development loans in the Amarillo MSA AA.



- ***Revitalization or Stabilization:*** The bank refinanced a loan for \$2.5 million and added funds for tenant improvements for an industrial building located in a low-income census tract in downtown Amarillo. HUD designated the area through the Community Development Block Grant (CDBG) Program that provides annual grants following a formula to states, cities, and counties to develop viable urban communities by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low- and moderate-income persons.
- ***Economic Development:*** The bank participated in a consortium of Amarillo banks that agreed to fund the \$4.0 million construction of a commercial laundry facility and purchase associated equipment. The facility is located in Amarillo in a CDBG designated area. The bank purchased \$800,000 of the interim-construction loan. The facility anticipated creation of 100 jobs, of which the majority will be low- and moderate-income. The facility is located in a moderate-income tract.
- ***Affordable Housing:*** The bank originated a loan totaling nearly \$4.5 million to purchase a mobile home community. The complex assesses rents below published HUD Fair Market Rents; thus, the funds provide affordable housing to low- and moderate-income tenants in the Amarillo MSA AA.

Additionally, as noted under the institution discussion, the community development loans reflect excellent responsiveness to the credit needs of the assessment area. The bank originated with 57.2 percent of the dollar volume of community development lending to affordable housing, a primary need in the assessment area. The bank also originated 26.6 percent of their community developments loans for revitalization and stabilization efforts.

## INVESTMENT TEST

HSB demonstrated a high satisfactory record regarding its qualified investments in the Amarillo MSA AA. A significant level of qualified investments coupled with their excellent responsiveness to the area's community development needs and extensive use of innovative and/or complex investments support this conclusion.

### Investment and Grant Activity

HSB demonstrated a significant level of investment and grant activity in Amarillo MSA assessment area, occasionally in a leadership position, particularly those that are not routinely provided by private investors. The bank purchased or retained seven qualified investments totaling \$13.9 million and made 139 qualified donations totaling \$790,000. This level of qualified investment activity represents 11.5 percent of overall bank's outstanding level of qualified investments and donations by dollar and 41.4 percent by number for the review period, demonstrating good performance when compared to the 48.5 percent of deposits originating from the area.

The following table illustrates the bank's qualified investments by year and category.

Qualified Investments Amarillo MSA										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize Or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	0	0	4	10,482	1	20	0	0	5	10,502
2019	0	0	0	0	0	0	2	3,446	2	3,446
2020	0	0	0	0	0	0	0	0	0	0
2021	0	0	0	0	0	0	0	0	0	0
<b>Subtotal</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>10,482</b>	<b>1</b>	<b>20</b>	<b>2</b>	<b>3,446</b>	<b>7</b>	<b>13,948</b>
Qualified Grants and Donations	10	154	117	580	12	56	0	0	139	790
<b>Total</b>	<b>10</b>	<b>154</b>	<b>121</b>	<b>11,062</b>	<b>13</b>	<b>76</b>	<b>2</b>	<b>3,446</b>	<b>146</b>	<b>14,738</b>
<i>Source: Bank records 03/31/2019 – 03/31/2021 *numbers vary due to rounding</i>										

Notable examples of the bank's qualified investments and donations in the Amarillo MSA AA include:

- **Community Service:** The bank purchased a Potter County Bond for \$2.3 million that enhances county infrastructure and services. In Potter County, 52 percent of families qualify as low- or moderate-income.
- **Community Service:** The bank donated \$100,000 to the Opportunity School-Amarillo, which provides early childhood education and family support to children from low-income families.

### **Responsiveness to Credit and Community Development Needs**

HSB exhibits excellent responsiveness to credit and community development needs in the Amarillo MSA AA. The qualified investment table shows responsiveness to the Amarillo MSA AA community development needs primarily through community services, at 75.1 percent, and revitalization and stabilization activities. Examiners also noted a variety of organizations benefitted from the donations, including several housing and community service organizations, which were identified credit needs.

As noted under the community development lending discussion, while the amount of qualified investments compared to the whole bank is small, examiners noted that the Amarillo MSA AA has some challenges given its rural location near the Texas panhandle. Consequently, given the challenges/lack of opportunities in the assessment area, the \$14.7 million that directly benefitted the Amarillo MSA AA, significantly exceeded performance of some other local institutions operating in the same assessment area.

## **Community Development Initiatives**

In the Amarillo MSA AA, the bank made extensive use of innovative and/or complex investments and donations, which support community development initiatives given the opportunities within the area. Specifically, the bank served as a founding principal of the CDFI program at the Amarillo Area Foundation. The bank, along with other principals, identified the lack of CDFI organizations that served Amarillo and the panhandle of Texas, and thus assisted in the creation of one. In addition to being a lender for the CDFI activities, the bank also provides donations that pay for staff, materials, and facilities. This initiative increased the availability of lending for small businesses throughout the assessment area. Consequently, this demonstrates outstanding use of innovative products.

## **SERVICE TEST**

HSB demonstrated an outstanding record in the Amarillo MSA AA regarding the Service Test. The leader level of community development services enhanced the accessibility of delivery systems to primarily supports this conclusion.

## **Accessibility of Delivery Systems**

HSB's delivery systems are accessible to essentially all portions of the institution's Amarillo MSA AA. The accessible branch distribution and alternative delivery systems supports this conclusion.

The bank's branch distribution is accessible to essentially all portions of the Amarillo MSA AA. The bank operated 14 branches and 18 ATMs within this assessment area. The bank maintains one branch in the low-income census tracts, exceeding the population percentage by 5.0 percentage points and exceeding the census tract percentage by 2.5 percentage points. The bank maintains four branches in moderate-income census tracts, which is comparable to both demographic and census tract percentages. Consequently, the branch distribution performance in the Amarillo MSA AA exceeds the conclusion noted the overall institution.

Branch and ATM Distribution by Geography Income Level Amarillo MSA AA												
Tract Income Level	Census Tracts		Population		Branches		ATMs		Open Branches		Closed Branches	
	#	%	#	%	#	%	#	%	#	%	#	%
Low	3	4.6	5,433	2.1	1	7.1	1	5.6	0	0.0	0	0.0
Moderate	19	29.2	73,250	28.7	4	28.6	8	44.4	2	66.7	0	0.0
Middle	22	33.8	91,500	35.9	2	14.3	2	11.2	0	0.0	0	0.0
Upper	20	30.8	85,019	33.3	7	50.0	7	38.8	1	33.3	0	0.0
NA	1	1.5	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
<b>Totals</b>	<b>65</b>	<b>100.0</b>	<b>255,202</b>	<b>100.0</b>	<b>14</b>	<b>100.0</b>	<b>18</b>	<b>100.0</b>	<b>3</b>	<b>100.0</b>	<b>0</b>	<b>100.0</b>
<i>Source: 2015 ACS &amp; Bank Data, Due to rounding, totals may not equal 100.0%</i>												

The bank's delivery systems and product offerings demonstrate accessibility to essentially all portions in the Amarillo MSA AA. The bank operates an ATM in the low-income tract and maintains two ATMs and six ITMs in the moderate-income census tracts. In addition to ATM access, the bank's deposit accounts are accessible online, by phone, via text messaging, through debit cards, and through a mobile banking application for smart phones.

HSB also has a network of 38 ATMs conveniently located throughout the assessment area, including at 7-Eleven, Pak A Sak, CEFCO, and Toot'N'Totum. Two network ATMs operate in low-income tracts and 14 network ATMs operate in moderate-income tracts. Refer to the Institution Service Test section for specific details of retail banking services available through alternative delivery systems.

### **Changes in Branch Locations**

To the extent changes have been made, the institution's record of opening and closing branches has improved the accessibility of its delivery systems, particularly in low- and moderate-income geographies and/or to low- and moderate-income individuals. As noted in the table above, HSB opened two branches in this assessment area in the moderate-income tracts, which doubled the branch presence in moderate-income tracts since the prior evaluation.

### **Reasonableness of Business Hours and Services**

Services, including business hours, do not vary in a way that inconveniences certain portions of the assessment area(s), particularly low-and moderate-income geographies and/or individuals. The Amarillo MSA AA reflects product offerings, services, and branch hours consistent with the discussion for the overall institution.

## **Community Development Services**

The institution is a leader in providing community development services in the Amarillo MSA AA. A leader level of services provided combined with the excellent responsiveness of community development services to primarily support this conclusion.

The table below shows that the bank provided 696 community development services since the previous evaluation in the Amarillo MSA AA. Based on the length of time since the last evaluation (2.0 years) and an average of 10.2 branches (accounting for length of time each branch opened), the bank provided an average of 34.1 services per branch per year. Community development services demonstrate the responsiveness to various community needs, such as small business technical assistance, general financial literacy, and housing and shelter for the homeless population. Bank staff serve as Board members and committee members, speakers and presenters, and financial literacy teachers.

<b>Community Development Services Amarillo MSA</b>					
<b>Activity Year</b>	<b>Affordable Housing</b>	<b>Community Services</b>	<b>Economic Development</b>	<b>Revitalize or Stabilize</b>	<b>Totals</b>
	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>
2019	7	443	17	1	<b>468</b>
2020	4	166	12	0	<b>182</b>
YTD 2021	0	41	5	0	<b>46</b>
<b>Total</b>	<b>11</b>	<b>650</b>	<b>34</b>	<b>1</b>	<b>696</b>
<i>Source: Bank Records</i>					

The following are notable examples of community development services specific to the Amarillo MSA AA.

- **Community Services:** In 2019, HSB collaborated with the Amarillo Independent School District, as presenting investors of Lemonade Day. Lemonade Day is a free experiential learning program that teaches kids how to start, own, and operate their own business – starting with a lemonade stand. Students from around the area set up lemonade stands at homes and businesses, giving members of the community the chance to purchase lemonade from the students. Students complete a series of entrepreneurship lessons, with bank staff providing financial expertise and input to participating students. COVID-19 paused the event in 2020, but the event resumed in 2021.
- **Community Services:** A large number of bank employees teach financial literacy classes in schools throughout the assessment area through the Kid's Bank program. The program promotes savings and provides valuable experiences to participants including bank operations and customer service skills. A majority of the students' families in the schools served are eligible for the free or reduced lunch programs.

## LUBBOCK MSA AA – Full-Scope Review

### DESCRIPTION OF INSTITUTION’S OPERATIONS IN LUBBOCK MSA AA

The Lubbock MSA AA consists of Lubbock County in its entirety. There have been no changes to the assessment area since the prior evaluation. The bank operates six full-service branches in this area after acquiring four branches from the Centennial Bank acquisition. The bank also maintains six proprietary ATMs and eighteen network ATMs conveniently located throughout the assessment area.

#### Economic and Demographic Data

The assessment area consists of 68 census tracts which reflect the following income designations based on 2015 ACS Census data: 6 low-, 15 moderate-, 24 middle-, and 22 upper-income tracts, as well as one tract with no income designation. The following table includes additional demographic data for the area.

Demographic Information of the Assessment Area Lubbock MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	68	8.8	22.1	35.3	32.4	1.5
Population by Geography	290,782	5.6	22.0	39.9	32.5	0.0
Housing Units by Geography	119,565	6.5	21.9	38.1	33.5	0.0
Owner-Occupied Units by Geography	61,164	2.5	16.4	38.1	42.9	0.0
Occupied Rental Units by Geography	46,376	10.6	27.9	38.5	23.0	0.0
Vacant Units by Geography	12,025	10.7	26.6	36.5	26.2	0.0
Businesses by Geography	27,134	3.5	15.2	36.1	45.1	0.1
Farms by Geography	1,229	1.5	8.5	35.2	54.8	0.0
Family Distribution by Income Level	66,941	22.1	16.4	19.5	41.9	0.0
Household Distribution by Income Level	107,540	24.4	16.0	17.7	41.9	0.0
Median Family Income MSA - 31180 Lubbock, TX MSA		\$57,914	Median Housing Value			\$110,016
			Median Gross Rent			\$827
			Families Below Poverty Level			12.5%
Source: 2015 ACS and 2020 D&B Data Due to rounding, totals may not equal 100.0% (* ) The NA category consists of geographies that have not been assigned an income classification.						

While the Lubbock MSA AA does not contain any distressed or underserved census tracts, all counties in the State of Texas were declared designated disaster areas due to the COVID-19 pandemic, (DR-4485-TX declared on March 25, 2020, and EM-3458-TX declared on March 13, 2020).

A number of industries support the Lubbock MSA AA, but the key economic drivers of the area include professional and business services, education and health services, information systems and technology, and manufacturing. Major employers include Convergys, Purina Mills, Suddenlink Communications, Tyco Fire Protection Products, and X-Fab.

Examiners use the applicable FFIEC-updated median family income levels to analyze home mortgage loans under the borrower profile criterion. The following table presents the low-, moderate-, middle-, and upper-income ranges based on the FFIEC-updated median family income.

<b>Lubbock, TX MSA Median Family Income (31180)</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>
2018 (\$62,800)	<\$31,400	\$31,400 to <\$50,240	\$50,240 to <\$75,360	≥\$75,360
2019 (\$61,900)	<\$30,950	\$30,950 to <\$49,520	\$49,520 to <\$74,280	≥\$74,280
2020 (\$69,400)	<\$34,700	\$34,700 to <\$55,520	\$55,520 to <\$83,280	≥\$83,280
<i>Source: FFIEC</i>				

The following table presents the unemployed rates for the county as of year-end as well as the state and nationwide percentages. As shown, the unemployment rates nearly doubled in 2020, the effects of the COVID-19 pandemic, but recovered slightly in 2021.

<b>Unemployment Rates</b>			
<b>Area</b>	<b>2019</b>	<b>2020</b>	<b>2021*</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Lubbock County	2.4	5.1	4.7
State	3.5	6.9	6.6
National Average	3.6	6.7	5.8
<i>Source: Bureau of Labor Statistics; Year-End, *As of 5/30/2021</i>			

## **Competition**

HSB faces moderate competition from numerous other regional and national banks, mortgage companies, and credit unions in all the Lubbock MSA AA market in which it operates. According to the June 30, 2020, FDIC Summary of Deposits Report, 24 financial institutions operates 105 offices within the Lubbock MSA AA. HSB held 2.1 percent of the deposit market share and ranked 12<sup>th</sup> compared to the other institutions within the assessment area. The top three rated institutions held 45.7 percent of the market share.

## **Community Contact(s)**

Examiners used an existing community contact to help assess the current economic condition, community credit needs, and potential opportunities for local bank involvement in the bank's assessment area.

Examiners contacted a representative from an economic development organization serving Lubbock and surrounding counties. The organization's mission is to strengthen Lubbock's business community to ensure economic development and growth. The organization provides a number of programs and services to meet the needs of companies looking to relocate or expand in the Lubbock market as these additional jobs strengthen the Lubbock economy. The contact stated that the COVID-19 pandemic negatively affected the Lubbock area with a peak in April 2020 followed by a steady economic recovery. The current business demographics show the majority of Lubbock businesses are small with 500 or fewer employees.

The contact stated local banks currently meet the credit needs of the Lubbock area. The contact noted positive outcomes from bank staff working overtime to meet the high demand for PPP loans through the CARES Act and banks collaborating with the contact's organization to obtain loan participations for infrastructure and incentives for companies. However, the contact also stated a current challenge for banks in meeting the lending needs is motivating people to return to work after unemployment payment extensions and stimulus payments. The contact did not state any additional community development opportunities for bank participation. However, the contact considered affordable housing a primary credit need in the Lubbock area.

### **Credit and Community Development Needs and Opportunities**

Consistent with other metropolitan areas, the Lubbock MSA AA demonstrated loan demand for a variety of loan products. Considering information obtained from bank management, and demographic and economic information, examiners concluded that the primary credit needs of this assessment area include small business loans and home mortgage lending.

Additionally, community development opportunities in the Lubbock MSA AA include affordable housing and the need for economic development and revitalization and stabilization activities.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN LUBBOCK MSA AA**

### **LENDING TEST**

HSB demonstrated a high satisfactory record in the Lubbock MSA AA regarding the Lending Test. Good lending activity levels, a leader level of community development loans, and excellent responsiveness coupled with a good borrower profile distribution sufficiently lifted the adequate performance record regarding geographic distribution to support this conclusion.

### **Lending Activity**

Lending levels reflect good responsiveness to assessment area credit needs in the Lubbock MSA AA. Excellent performance regarding home mortgage lending hampered by the good performance of small business lending supports this conclusion.



### ***Home Mortgage Loans***

Home mortgage lending levels reflect excellent responsiveness to the credit needs in the Lubbock MSA AA. According to 2019 peer mortgage data, the bank originated 109 reportable home mortgage loans totaling approximately \$23.6 million in this assessment area. HSB captured a 1.1 percent market share of the total number and a 1.2 percent market share of the total dollar volume of home mortgage loans.

The bank's activity by number of loans ranks it 26<sup>th</sup> out of 317 total lenders in the Lubbock MSA AA. This ranking lands the bank in the top 9.0 percent of lenders reporting such loans in this assessment area. The ranking considers the total number and dollar amount of loans made by each institution. Given the considerations previously noted, the activity level reflects excellent performance for home mortgage loans.

### ***Small Business Loans***

Small business lending levels good responsiveness to the credit needs in the Lubbock MSA AA. According to 2019 peer small business data, the bank originated 176 reportable small business loans totaling approximately \$28.1 million in the assessment area. HSB captured a 2.5 percent market share of the total number of loans and an 8.6 percent market share of the total dollar volume of loans.

The bank's activity by number of loans ranks it 13<sup>th</sup> out of 83 total lenders in the Lubbock MSA AA. This ranking lands the bank in the top 16.0 percent of lenders reporting such loans in this assessment area. The ranking considers the total number and dollar volume of loans made by each institution. Given the considerations previously noted, the activity level reflects good performance for small business loans.

### **Geographic Distribution**

The geographic distribution of loans reflects adequate penetration throughout the Lubbock MSA AA. Adequate performance in small business lending and adequate performance regarding home mortgage lending support this conclusion.

### ***Home Mortgage Loans***

The geographic distribution of home mortgage loans reflects adequate performance in the Lubbock MSA AA. The adequate performance in low- and moderate-income geographies supports this conclusion.

As seen in the table below, the bank's lending in low-income census tracts lands higher than the aggregate figure by 5.9 percentage points, reflective of adequate performance. The table further shows that in moderate-income census tracts the bank's lending level rises 5.1 percentage points above the aggregate figure, reflecting an adequate level.

Geographic Distribution of Home Mortgage Loans Lubbock MSA AA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low	2.5	1.5	8	7.4	869	3.7
Moderate	16.4	8.8	15	13.9	1,157	5.0
Middle	38.2	42.0	48	44.4	11,966	51.3
Upper	42.9	47.6	37	34.3	9,321	40.0
Not Available	0.0	0.0	0	0.0	0	0.0
<b>Totals</b>	<b>100.0</b>	<b>100.0</b>	<b>108</b>	<b>100.0</b>	<b>23,312</b>	<b>100.0</b>
<i>Source: 2015 ACS; Bank Data, 2019 HMDA Aggregate Data, "--" data not available, Due to rounding, totals may not equal 100.0%</i>						

### ***Small Business Loans***

The geographic distribution of small business loans reflects adequate performance in the Lubbock MSA AA. Adequate performance in the low- and moderate-income geographies supports this conclusion.

As seen in the table below, the bank's lending in low-income census tracts falls slightly below the aggregate data by 1.6 percentage points, reflective of adequate performance. The table further shows that in moderate-income census tracts the bank's lending level also falls slightly below aggregate by 4.7 percentage points, which reflects an adequate record.

Geographic Distribution of Small Business Loans Lubbock MSA AA						
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
Low	3.6	3.3	3	1.7	1,288	4.6
Moderate	15.8	13.8	16	9.1	3,394	12.1
Middle	36.1	34.5	59	33.5	10,632	37.8
Upper	44.4	48.4	98	55.7	12,818	45.6
Not Available	0.1	0.1	0	0.0	0	0.0
<b>Totals</b>	<b>100.0</b>	<b>100.0</b>	<b>176</b>	<b>100.0</b>	<b>28,132</b>	<b>100.0</b>
<i>Source: 2019D&amp;B Data; Bank Data; 2019 CRA Aggregate Data, "--" data not available, Due to rounding, totals may not equal 100.0%</i>						

### **Borrower Profile**

The distribution of borrowers reflects, given the product lines offered by the institution, good penetration among retail customers of different income levels and business customers of different sizes. Given the equal weighting, the excellent record regarding small business loan performance, sufficiently lifted the adequate home mortgage performance support this conclusion.

### ***Home Mortgage Loans***

The distribution of home mortgage loans, based on the borrowers' profiles, reflects adequate performance in the Lubbock MSA AA. The adequate performances to both low- and moderate-income borrowers support this conclusion.

As seen in the table below, the bank's lending to low-income borrowers is slightly below the aggregate data by 0.4 percentage points, reflective of adequate performance. The table further shows that to moderate-income borrowers the bank's lending level falls below aggregate by 2.4 percentage points, also reflecting adequate performance.

<b>Distribution of Home Mortgage Loans by Borrower Income Level Lubbock MSA AA</b>						
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low	22.1	2.3	2	1.9	236	1.0
Moderate	16.4	10.7	9	8.3	1,069	4.6
Middle	19.5	17.4	16	14.8	2,578	11.1
Upper	41.9	48.3	46	42.6	12,545	53.8
Not Available	0.0	21.3	35	32.4	6,885	29.5
<b>Totals</b>	<b>100.0</b>	<b>100.0</b>	<b>108</b>	<b>100.0</b>	<b>23,312</b>	<b>100.0</b>
<i>Source: 2015 ACS; Bank Data, 2019 HMDA Aggregate Data, "--" data not available, Due to rounding, totals may not equal 100.0%</i>						

### ***Small Business Loans***

The distribution of small business loans based on the borrowers' profiles reflects excellent performance in the Lubbock MSA AA. Excellent performance to businesses with gross annual revenues of \$1 million or less supports this conclusion.

As seen in the table below, the bank's level of lending to small businesses with gross annual revenues of \$1 million or less rises 41.7 percentage points above the aggregate level. As a result, this reflects an excellent level of small business lending in the Lubbock MSA AA.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category Lubbock MSA AA</b>						
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<=\$1,000,000	85.3	43.0	149	84.7	21,524	76.5
>1,000,000	4.2	--	27	15.3	6,608	23.5
Revenue Not Available	10.5	--	0	0.0	0	0.0
<b>Totals</b>	<b>100.0</b>	<b>100.0</b>	<b>176</b>	<b>100.0</b>	<b>28,132</b>	<b>100.0</b>
<i>Source: 2019 D&amp;B Data; Bank Data; 2019 CRA Aggregate Data; "--" data not available, Due to rounding, totals may not equal 100.0%</i>						

## **Community Development Loans**

The institution is a leader in making community development loans in the Lubbock MSA AA. The excellent level of community development loans and the excellent responsiveness to assessment area needs support this conclusion.

As noted under the rated area level, the bank originated 12 community development loans totaling approximately \$11.4 million in the Lubbock MSA AA. By dollar volume, this equates to 6.0 percent of the bank's leadership level of community development loans in the State of Texas and compares favorably to the 13.5 percent of reported loans originated in this assessment area.

The table below illustrates the bank's Lubbock MSA AA community development loans by year and category. As shown, all loans benefitted affordable housing purposes, a primary need in the assessment area, demonstrating excellent responsiveness.

<b>Community Development Loans Lubbock MSA AA</b>										
<b>Activity Year</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize Or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
2019*	2	3,301	0	0	0	0	0	0	2	3,301
2020	8	4,756	0	0	0	0	0	0	8	4,756
2021	2	3,316	0	0	0	0	0	0	2	3,316
<b>Total</b>	<b>12</b>	<b>11,373</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>12</b>	<b>11,373</b>
<i>Source: Bank records, *4/1/2019 – 03/31/2021, numbers vary due to rounding</i>										

The following points provide notable examples of the bank's community development lending efforts in the Lubbock MSA AA.

- ***Affordable Housing:*** The bank financed four loans totaling \$464,000 for the construction of affordable housing. The housing edition is located in a qualified CDBG area. HSB, in collaboration with the City of Lubbock and the North & East Community Development Corporation (CDC), provided the financing for the affordable housing project. Borrowers must meet income restrictions to qualify. Additionally, borrowers may be eligible for down payment assistance through the CDC.
- ***Affordable Housing:*** The bank originated three loans totaling \$7.0 million to refinance a mobile home community and purchase homes. The provided funds also allowed for improvements. Rent rolls provided during the evaluation verified that the complex assesses rents well below published HUD Fair Market Rents (FMRs); thus, the funds provide affordable housing to low- and moderate-income tenants in the Lubbock MSA AA.

## INVESTMENT TEST

HSB demonstrated an outstanding record regarding its qualified investments in the Lubbock MSA AA. An excellent level of qualified community development investments and grants coupled with their good responsiveness to the area's community development needs overcome the occasional use of complex and innovative investments, supporting this conclusion.

### Investment and Grant Activity

HSB demonstrated an excellent level of qualified community development investment and grant activity in the Lubbock MSA AA. The bank purchased or retained three qualified investments totaling \$7.8 million and made 28 qualified donations totaling \$64,000. This level of qualified investment activity represents 6.1 percent of the bank's overall excellent level of qualified investments and donations by dollar and 8.8 percent by number for the review period. The bank's level in this assessment area demonstrated comparable performance to the 6.0 percent of deposits captured from the area.

The following table illustrates the bank's qualified investments by years and category.

Qualified Investments Lubbock MSA AA										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize Or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	0	0	0	0	0	0	0	0	0	0
2019	0	0	2	3,799	0	0	0	0	2	3,799
2020	0	0	1	3,980	0	0	0	0	1	3,980
2021	0	0	0	0	0	0	0	0	0	0
<b>Subtotal</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>7,779</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>7,779</b>
Qualified Grants and Donations	2	2	21	58	5	4	0	0	28	64
<b>Total</b>	<b>2</b>	<b>2</b>	<b>24</b>	<b>7,837</b>	<b>5</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>31</b>	<b>7,843</b>
<i>Source: Bank records 03/31/2019 – 03/31/2021 *numbers vary due to rounding</i>										

Notable examples of the bank's qualified investments and donations in the Lubbock MSA AA include:

- **Community Service:** The bank purchased a \$4.0 million bond in the Lubbock Independent School District for the purpose of acquiring, constructing, renovating, equipping, and demolishing school facilities. Economically disadvantaged students account for 72.5 percent of the student population.

- ***Community Service:*** The bank donated \$6,000 to the Family Guidance Outreach Center whose mission is building and empowering families through education and awareness. The outreach center primarily assists low- and moderate-income individuals.

### **Responsiveness to Credit and Community Development Needs**

HSB exhibits good responsiveness to credit and community development needs in the Lubbock MSA AA. The qualified investments table shows responsiveness to the Lubbock MSA AA community development needs primarily funding community service initiatives, an identified need in the area given the percentage of low- and moderate-income individuals. Examiners also noted different organizations benefitted from the donations, including economic development organizations, which was an identified credit need.

### **Community Development Initiatives**

HSB occasionally uses innovative and/or complex investments to support community development initiatives, given the size of the institution and opportunities available in the Lubbock MSA AA. The bank acquired an investment the Lubbock Downtown Development Corporation, which seeks to revitalize downtown Lubbock. Both the city and local government have a revitalization plan in place, including providing a Tax Increment Financial District designation to facilitate revitalization efforts.

### **SERVICE TEST**

HSB demonstrated a high satisfactory record in the Lubbock MSA AA regarding the Service Test. The limited accessibility of delivery systems hampered the leader level of community development services to support this conclusion.

### **Accessibility of Delivery Systems**

HSB's delivery systems are accessible to limited portions of the institution's Lubbock MSA AA. The limited branch distribution and reasonably accessible alternative delivery systems support this conclusion.

The bank's branch distribution is accessible to limited portions of the Lubbock MSA AA. As of this evaluation, the bank operated six branches and six ATMs within this assessment area. The bank does not maintain any branches in low-income census tracts, falling 5.6 percentage points below the demographic. The bank also does not maintain any branches in the moderate-income census tracts, trailing 22.0 percentage points below the demographic. While examiners noted the bank did not maintain any branches in low- or moderate-income census tract, two of the six branches lie immediately adjacent to these tracts enhancing the ability to provide services to low- and moderate-income areas. Further, while not immediately adjacent, a third branch lies within one mile of a moderate-income census tract. The branch distribution performance in the Lubbock MSA AA falls below performance for that noted in the overall institution conclusion.

Branch and ATM Distribution by Geography Income Level Lubbock MSA AA												
Tract Income Level	Census Tracts		Population		Branches		ATMs		Open Branches		Closed Branches	
	#	%	#	%	#	%	#	%	#	%	#	%
Low	6	8.8	16,246	5.6	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	15	22.1	63,846	22.0	0	0.0	0	0.0	0	0.0	0	0.0
Middle	24	35.3	116,068	39.9	3	50.0	3	50.0	3	75.0	0	0.0
Upper	22	32.3	94,622	32.5	3	50.0	3	50.0	1	25.0	0	0.0
NA	1	1.5	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
<b>Totals</b>	<b>68</b>	<b>100.0</b>	<b>290,782</b>	<b>100.0</b>	<b>6</b>	<b>100.0</b>	<b>6</b>	<b>100.0</b>	<b>4</b>	<b>100.0</b>	<b>0</b>	<b>100.0</b>
<i>Source: 2015 ACS &amp; Bank Data, Due to rounding, totals may not equal 100.0%</i>												

The bank's alternative delivery systems and product offerings are reasonably accessible to essentially all portions of the bank's assessment areas. As noted above, the bank does not operate any ATMs in low- or moderate-income census tracts directly; however, three of the six ATMs lie in close proximity to these tracts. Additionally, the bank's deposit accounts are accessible online, by phone, via text messaging, through debit cards, and through a mobile banking application for smart phones. Refer to the Institution Service Test section for specific details of retail banking services available through alternative delivery systems.

### **Changes in Branch Locations**

To the extent changes have been made, the institution's opening and closing of branches has generally not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and/or to low- and moderate-income individuals. As noted in the table above, no branches opened or closed in low- or moderate-income tracts during the evaluation period.

### **Reasonableness of Business Hours and Services**

Services, including business hours, do not vary in a way that inconveniences portions of the Lubbock MSA AA, particularly low- and moderate-income geographies and/or individuals. The Lubbock MSA AA reflects product offerings, services, and branch hours consistent with the discussion for the institution as a whole.

### **Community Development Services**

The institution provides a leader level of community development services in the Lubbock MSA AA. A leader level of services provided combined with the excellent responsiveness of community development services primarily support this conclusion.

The table below shows that the bank provided 133 community development services since the previous evaluation in the Lubbock MSA AA. Based on the time since the last evaluation (2.0 years) and an average of 3.0 branches (accounting for length of time opened), the bank provided an average of 22.2 services per branch per year. Community development services demonstrate the responsiveness to various community needs, such as small business technical assistance, general financial literacy, and affordable housing needs. Bank staff serve as Board members and committee members, speakers and presenters, and financial literacy teachers.

Community Development Services Lubbock MSA AA					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2019	3	89	12	0	104
2020	2	15	6	0	23
YTD 2021	0	4	2	0	6
<b>Total</b>	<b>5</b>	<b>108</b>	<b>20</b>	<b>0</b>	<b>133</b>
<i>Source: Bank Records</i>					

The following are notable examples of community development services specific to Lubbock MSA AA.

- **Affordable Housing:** A member of the bank sits on the Board for Habitat for Humanity. This organization provides affordable housing to low- and moderate-income individuals.
- **Community Service:** An employee serves on the Board of an organization that provides support to low- and moderate-income individuals through afterschool care, homework assistance, and life skills training.

## OTHER ASSESSMENT AREAS – Limited-Scope Review

### CONCLUSIONS ON PERFORMANCE CRITERIA IN THE LIMITED-SCOPE REVIEW ASSESSMENT AREAS

The following table summarizes the conclusions for this rated area's assessment areas reviewed using limited-scope examination procedures. Examiners drew conclusions regarding the institution's CRA performance from reviewing available facts and data, including performance figures, aggregate lending data comparisons, and demographic information. The conclusions did not alter the bank's overall performance rating.



<b>Assessment Area</b>	<b>Lending Test</b>	<b>Investment Test</b>	<b>Service Test</b>
Abilene MSA AA	Consistent	Consistent	Consistent
Austin MSA AA	Not Evaluated	Not Evaluated	Not Evaluated
Dallas MSA AA	Consistent	Consistent	Consistent
San Antonio MSA AA	Not Evaluated	Not Evaluated	Not Evaluated
Garza County Non-MSA	Not Evaluated	Not Evaluated	Not Evaluated
Gillespie-Kerr Non-MSA	Not Evaluated	Not Evaluated	Not Evaluated
North Non-MSA	Consistent	Below	Consistent
South Non-MSA	Consistent	Consistent	Consistent

Facts and data supporting conclusions for each limited-scope assessment area follow, including a summary of HSB's operations and activities as well as geographic distribution and borrower profile tables by loan type. Examiners utilized the same review period as that noted for the whole institution. The demographic data and deposit market share information for the limited-scope assessment areas are in the appendix.

#### **Abilene MSA AA**

The Abilene MSA AA consists of all of Taylor County. HSB operates one branch and ATM located in a middle-income census tract. The bank originated and engaged in the following activities in the assessment area during the review period.

<b>Activity</b>	<b>#</b>	<b>\$(000s)</b>
Small Business Loans	27	2,161
Home Mortgage Loans	13	1,788
Small Farm Loans	2	410
Community Development Loans	0	0
Qualified Investments	14	11,017
CD Services	12	-
<i>Source: 2019 Bank Data</i>		

#### **Austin MSA AA**

The Austin MSA AA consists of all of Travis County. HSB operates one branch and ATM located in a middle-income census tract. The bank acquired this branch through the Centennial Bank acquisition. Given the recent timing of the acquisition, HSB did not own the branch during the 2019 review period and examiners could not reach any meaningful conclusions. However, examiners noted the following activities in the assessment area during the review period.

Activity	#	\$(000s)
Small Business Loans	0	0
Home Mortgage Loans	0	0
Small Farm Loans	0	0
Community Development Loans	0	0
Qualified Investments	1	5
CD Services	0	-
<i>Source: 2019 Bank Data</i>		

### **Dallas MSA AA**

The Dallas MSA AA consists of all of Collin, Dallas, and Tarrant Counties. HSB operates four branches in this assessment area: one in a middle- and three in an upper-income census tracts and one ATM located in an upper-income census tract. The bank originated and engaged in the following activities in the assessment area during the review period.

Activity	#	\$(000s)
Small Business Loans	166	36,220
Home Mortgage Loans	176	78,222
Small Farm Loans	2	440
Community Development Loans	62	51,996
Qualified Investments	67	73,574
CD Services	155	-
<i>Source: 2019 Bank Data</i>		

### **San Antonio MSA AA**

The San Antonio MSA AA consists of all of Comal and Kendall Counties. HSB operates two branches: one located in a middle- and one located in an upper-income census tract. The bank also operates two ATMs, each located in a middle- and upper-income census tract. The bank acquired both branches through the Centennial Bank acquisition. Given the recent timing of the acquisition, HSB did not own the branches during the 2019 review period and examiners could not reach any meaningful conclusions. However, examiners noted the following activities in the assessment area during the review period.

Activity	#	\$(000s)
Small Business Loans	0	0
Home Mortgage Loans	0	0
Small Farm Loans	0	0
Community Development Loans	0	0
Qualified Investments	1	325
CD Services	1	-
<i>Source: 2019 Bank Data</i>		

### Garza County Non-MSA AA

The bank took all of Garza County located in the Texas Non-MSA AA. HSB operates two branches and one ATM in this assessment area: all in middle-income census tracts. The bank acquired one of the branches through the Centennial Bank acquisition and the other via the First National Bank of Tahoka acquisition. Given the recent timing of the acquisitions, HSB did not own either branch during the 2019 review period and examiners could not reach any meaningful conclusions. However, examiners noted the following activities in the assessment area during the review period.

Activity	#	\$(000s)
Small Business Loans	0	0
Home Mortgage Loans	0	0
Small Farm Loans	0	0
Community Development Loans	0	0
Qualified Investments	0	0
CD Services	0	-
<i>Source: 2019 Bank Data</i>		

### Gillespie-Kerr Non-MSA AA

The bank took all of Gillespie and Kerr Counties, which are contiguous and located in the Texas Non-MSA AA. HSB operates three branches and three ATMs in this assessment area: one branch and ATM in a moderate- and two branches and ATMs in middle-income census tracts. The bank acquired all three of the branches through the Centennial Bank acquisition. Given the recent timing of the acquisitions, HSB did not own either branch during the 2019 review period and examiners could not reach any meaningful conclusions. However, examiners noted the following activities in the assessment area during the review period.

Activity	#	\$(000s)
Small Business Loans	0	0
Home Mortgage Loans	0	0
Small Farm Loans	0	0
Community Development Loans	0	0
Qualified Investments	0	0
CD Services	0	-
<i>Source: 2019 Bank Data</i>		

### North Non-MSA AA

The bank took all of Dallam, Gray, Hartley, Hemphill, Hutchinson, Lipscomb, Moore, Sherman, and Wheeler Counties, which are contiguous and located in the Texas Non-MSA AA. HSB operates 12 branches and 10 ATMs in this assessment area: 1 branch and ATM in moderate-, 7 branches and 5 ATMs in middle-, and 4 branches and 4 ATMs in upper-income census tracts. The bank acquired two of the branches through the First State Bank of Mobeetie acquisition. The bank originated and engaged in the following activities in the assessment area during the review period.

Activity	#	\$(000s)
Small Business Loans	309	32,277
Home Mortgage Loans	138	16,145
Small Farm Loans	177	24,581
Community Development Loans	12	8,871
Qualified Investments	43	4,287
CD Services	163	-
<i>Source: 2019 Bank Data</i>		

### South Non-MSA AA

The bank took all of Bailey, Briscoe, Castro, Deaf Smith, Floyd, Hale, Hall, Lamb, Motley, Parmer, and Swisher Counties, which are contiguous and located in the Texas Non-MSA AA. HSB operates 16 branches and 10 ATMs in this assessment area: 4 branches and an ATM in moderate-, 10 branches and 8 ATMs in middle-, and 2 branches and 2 ATMs in upper-income census tracts.

Prior to the acquisitions, the bank took all of Briscoe, Deaf Smith, Floyd, Hale, and Lamb Counties. However, Deaf Smith County was not contiguous to the other counties and operated as a separate AA. With the acquisitions, the bank added Bailey, Castro, Hall, Motley, Parmer, and Swisher Counties, which joined Deaf Smith County into one AA.

The First Bank & Trust acquisition added two branches in Hall County and a branch in Motley County. The Centennial Bank acquisition added a branch each in Castro, Hale, and Swisher Counties. The First Bank of Muleshoe acquisition added a branch each in Bailey, Castro, and Parmer Counties.

The bank originated and engaged in the following activities in the assessment area during the review period.

Activity	#	\$(000s)
Small Business Loans	171	16,060
Home Mortgage Loans	40	4,031
Small Farm Loans	172	22,460
Community Development Loans	67	15,206
Qualified Investments	37	3,163
CD Services	106	-
<i>Source: 2019 Bank Data</i>		

### Geographic Distribution and Borrower Profile

The following tables demonstrate the bank's geographic and borrower profile distribution performances for the limited-scope assessment areas. The tables only include data for the assessment areas that existed in 2019; therefore, the following does not include tables for the Austin MSA AA, San Antonio MSA AA, Garza County Non-MSA AA, and Gillespie-Kerr Non-MSA AA.

## Home Mortgage Loans

### Geographic Distribution

Geographic Distribution of Home Mortgage Loans Abilene MSA AA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low	0.0	0.0	0	0.0	0	0.0
Moderate	19.4	10.5	3	23.1	195	10.9
Middle	34.6	25.8	5	38.5	344	19.2
Upper	46.0	63.5	5	38.5	1,249	69.8
Not Available	0.0	0.2	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>13</b>	<b>100.0</b>	<b>1,788</b>	<b>100.0</b>
Source: 2015 ACS; Bank Data, 2019 HMDA Aggregate Data, "--" data not available, Due to rounding, totals may not equal 100.0%						

Geographic Distribution of Home Mortgage Loans Dallas MSA AA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low	6.3	4.0	18	10.2	4,568	5.8
Moderate	22.5	16.2	45	25.6	36,195	46.3
Middle	27.3	28.0	47	26.7	9,756	12.5
Upper	43.7	51.6	66	37.5	27,704	35.4
Not Available	0.1	0.2	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>176</b>	<b>100.0</b>	<b>78,223</b>	<b>100.0</b>
Source: 2015 ACS; Bank Data, 2019 HMDA Aggregate Data, "--" data not available, Due to rounding, totals may not equal 100.0%						

Geographic Distribution of Home Mortgage Loans North Non MSA AA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low	0.0	0.0	0	0.0	0	0.0
Moderate	10.6	6.0	8	5.8	1,323	8.2
Middle	48.6	47.3	56	40.6	4,967	30.8
Upper	40.8	46.8	74	53.6	9,856	61.0
Not Available	0.0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>138</b>	<b>100.0</b>	<b>16,145</b>	<b>100.0</b>
Source: 2015 ACS; Bank Data, 2019 HMDA Aggregate Data, "--" data not available, Due to rounding, totals may not equal 100.0%						

Geographic Distribution of Home Mortgage Loans South Non MSA AA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low	0.0	0.0	0	0.0	0	0.0
Moderate	20.0	10.5	7	17.5	390	9.7
Middle	65.6	67.5	30	75.0	3,342	83.3
Upper	14.4	22.0	3	7.5	282	7.0
Not Available	0.0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>40</b>	<b>100.0</b>	<b>4,013</b>	<b>100.0</b>
Source: 2015 ACS; Bank Data, 2019 HMDA Aggregate Data, "--" data not available, Due to rounding, totals may not equal 100.0%						

### Borrower Profile

Distribution of Home Mortgage Loans by Borrower Income Level Abilene MSA AA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	21.3	3.3	0	0.0	0	0.0
Moderate	17.7	13.2	0	0.0	0	0.0
Middle	20.1	21.1	1	7.7	50	2.8
Upper	40.9	44.5	4	30.8	1,030	57.6
Not Available	0.0	17.9	8	61.5	708	39.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>13</b>	<b>100.0</b>	<b>1,788</b>	<b>100.0</b>
Source: 2015 ACS; Bank Data, 2019 HMDA Aggregate Data, "--" data not available, Due to rounding, totals may not equal 100.0%						

Distribution of Home Mortgage Loans by Borrower Income Level Dallas MSA AA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	25.1	4.1	3	1.7	279	0.4
Moderate	16.8	14.6	16	9.1	2,664	3.4
Middle	17.9	20.0	23	13.1	4,392	5.6
Upper	40.2	45.0	53	30.1	20,919	26.7
Not Available	0.0	16.2	81	46.0	49,969	63.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>176</b>	<b>100.0</b>	<b>78,223</b>	<b>100.0</b>
Source: 2015 ACS; Bank Data, 2019 HMDA Aggregate Data, "--" data not available, Due to rounding, totals may not equal 100.0%						

Distribution of Home Mortgage Loans by Borrower Income Level North Non-MSA AA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	16.0	2.5	11	8.0	478	3.0
Moderate	17.9	12.6	15	10.9	1,020	6.3
Middle	20.9	23.2	25	18.1	2,487	15.4
Upper	45.3	41.5	63	45.7	10,085	62.5
Not Available	0.0	20.3	24	17.4	2,076	12.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>138</b>	<b>100.0</b>	<b>16,145</b>	<b>100.0</b>
Source: 2015 ACS; Bank Data, 2019 HMDA Aggregate Data, "--" data not available, Due to rounding, totals may not equal 100.0%						

Distribution of Home Mortgage Loans by Borrower Income Level South Non-MSA AA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	24.1	3.3	3	7.5	149	3.7
Moderate	18.1	14.3	5	12.5	295	7.3
Middle	22.1	21.1	9	22.5	694	17.3
Upper	35.7	37.4	11	27.5	1,443	35.9
Not Available	0.0	23.9	12	30.0	1,433	35.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>40</b>	<b>100.0</b>	<b>4,013</b>	<b>100.0</b>
Source: 2015 ACS; Bank Data, 2019 HMDA Aggregate Data, "--" data not available, Due to rounding, totals may not equal 100.0%						

## ***Small Business Loans***

### Geographic Distribution

Geographic Distribution of Small Business Loans Abilene MSA AA						
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
Low	0.0	0.0	0	0.0	0	0.0
Moderate	28.3	22.5	10	37.0	943	43.6
Middle	31.1	35.3	10	37.0	609	28.2
Upper	39.6	42.0	7	25.9	609	28.2
Not Available	0.9	0.2	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>27</b>	<b>100.0</b>	<b>2,161</b>	<b>100.0</b>
Source: 2019 D&B Data; Bank Data; 2019 CRA Aggregate Data, "--" data not available, Due to rounding, totals may not equal 100.0%						

Geographic Distribution of Small Business Loans Dallas MSA AA						
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
Low	7.7	7.9	25	15.1	5,879	16.2
Moderate	20.5	21.4	32	19.3	6,467	17.9
Middle	24.4	22.8	31	18.7	6,381	17.6
Upper	46.7	47.1	78	47.0	17,493	48.3
Not Available	0.7	0.8	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>166</b>	<b>100.0</b>	<b>36,220</b>	<b>100.0</b>
Source: 2019 D&B Data; Bank Data; 2019 CRA Aggregate Data, "--" data not available, Due to rounding, totals may not equal 100.0%						

Geographic Distribution of Small Business Loans North Non-MSA AA						
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
Low	0.0	0.0	0	0.0	0	0.0
Moderate	17.5	12.3	31	10.0	3,269	10.1
Middle	44.3	45.8	166	53.7	17,969	55.7
Upper	38.1	41.9	112	36.2	11,039	34.2
Not Available	0.0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>309</b>	<b>100.0</b>	<b>32,277</b>	<b>100.0</b>
Source: 2019 D&B Data; Bank Data; 2019 CRA Aggregate Data, "--" data not available, Due to rounding, totals may not equal 100.0%						

Geographic Distribution of Small Business Loans South Non-MSA AA						
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
Low	0.0	0.0	0	0.0	0	0.0
Moderate	20.7	18.5	16	9.4	1,639	10.2
Middle	58.7	61.9	121	70.8	10,017	62.4
Upper	20.6	19.6	34	19.9	4,404	27.4
Not Available	0.0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>171</b>	<b>100.0</b>	<b>16,060</b>	<b>100.0</b>
Source: 2019 D&B Data; Bank Data; 2019 CRA Aggregate Data, "--" data not available, Due to rounding, totals may not equal 100.0%						



## Borrower Profile

Distribution of Small Business Loans by Gross Annual Revenue Category Abilene MSA AA						
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
<=\$1,000,000	81.7	36.0	26	96.3	2,124	98.3
>1,000,000	5.2	--	1	3.7	37	1.7
Revenue Not Available	13.1	--	0	0.0	0	0.0
<b>Totals</b>	<b>100.0</b>	<b>100.0</b>	<b>27</b>	<b>100.0</b>	<b>2,161</b>	<b>100.0</b>
Source: 2019 D&B Data; Bank Data; 2019 CRA Aggregate Data; "--" data not available, Due to rounding, totals may not equal 100.0%						

Distribution of Small Business Loans by Gross Annual Revenue Category Dallas MSA AA						
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
<=\$1,000,000	87.0	46.7	107	64.5	18,861	52.1
>1,000,000	4.6	--	59	35.5	17,359	47.9
Revenue Not Available	8.4	--	0	0.0	0	0.0
<b>Totals</b>	<b>100.0</b>	<b>100.0</b>	<b>166</b>	<b>100.0</b>	<b>36,220</b>	<b>100.0</b>
Source: 2019 D&B Data; Bank Data; 2019 CRA Aggregate Data; "--" data not available, Due to rounding, totals may not equal 100.0%						

Distribution of Small Business Loans by Gross Annual Revenue Category North Non-MSA AA						
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
<=\$1,000,000	76.0	39.8	231	74.8	16,755	51.9
>1,000,000	5.8	--	73	23.6	14,063	43.6
Revenue Not Available	18.2	--	5	1.6	1,459	4.5
<b>Totals</b>	<b>100.0</b>	<b>100.0</b>	<b>309</b>	<b>100.0</b>	<b>32,277</b>	<b>100.0</b>
Source: 2019 D&B Data; Bank Data; 2019 CRA Aggregate Data; "--" data not available, Due to rounding, totals may not equal 100.0%						

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b> <b>South Non-MSA AA</b>						
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<=\$1,000,000	77.4	44.4	140	81.9	10,649	66.3
>1,000,000	5.0	--	31	18.1	5,411	33.7
Revenue Not Available	17.5	--	0	0.0	0	0.0
<b>Totals</b>	<b>100.0</b>	<b>100.0</b>	<b>171</b>	<b>100.0</b>	<b>16,060</b>	<b>100.0</b>
<i>Source: 2019 D&amp;B Data; Bank Data; 2019 CRA Aggregate Data; "--" data not available, Due to rounding, totals may not equal 100.0%</i>						

## **APPENDICES**

### **LARGE BANK PERFORMANCE CRITERIA**

#### **Lending Test**

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) through its lending activities by considering a bank's home mortgage, small business, small farm, and community development lending. If consumer lending constitutes a substantial majority of a bank's business, the FDIC will evaluate the bank's consumer lending in one or more of the following categories: motor vehicle, credit card, other secured, and other unsecured. The bank's lending performance is evaluated pursuant to the following criteria:

- 1) The number and amount of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, in the bank's assessment area;
- 2) The geographic distribution of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, based on the loan location, including:
  - i. The proportion of the bank's lending in the bank's assessment area(s);
  - ii. The dispersion of lending in the bank's assessment areas(s); and
  - iii. The number and amount of loans in low-, moderate-, middle- and upper-income geographies in the bank's assessment area(s);
- 3) The distribution, particularly in the bank's assessment area(s), of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, based on borrower characteristics, including the number and amount of:
  - i. Home mortgage loans low-, moderate-, middle- and upper-income individuals
  - ii. Small business and small farm loans to businesses and farms with gross annual revenues of \$1 million or less;
  - iii. Small business and small farm loans by loan amount at origination; and
  - iv. Consumer loans, if applicable, to low-, moderate-, middle- and upper-income individuals;
- 4) The bank's community development lending, including the number and amount of community development loans, and their complexity and innovativeness; and
- 5) The bank's use of innovative or flexible lending practices in a safe and sound manner to address the credit needs of low- and moderate-income individuals or geographies.

#### **Investment Test**

The Investment Test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through qualified investments that benefit its assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s). Activities considered under the Lending or Service Test may not be considered under the investment test. The bank's investment performance is evaluated pursuant to the following criteria:

- 1) The dollar amount of qualified investments;
- 2) The innovativeness or complexity of qualified investments;
- 3) The responsiveness of qualified investments to available opportunities; and
- 4) The degree to which qualified investments are not routinely provided by private investors.

## **Service Test**

The Service Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the bank's systems for delivering retail banking services and the extent and innovativeness of its community development services.

The bank's retail banking services are evaluated pursuant to the following criteria:

- 1) The current distribution of the bank's branches among low-, moderate-, middle-, and upper-income geographies;
- 2) In the context of its current distribution of the bank's branches, the bank's record of opening and closing branches, particularly branches located in low- or moderate-income geographies or primarily serving low- or moderate-income individuals;
- 3) The availability and effectiveness of alternative systems for delivering retail banking services (*e.g.*, RSFs, RSFs not owned or operated by or exclusively for the bank, banking by telephone or computer, loan production offices, and bank-at-work or bank-by-mail programs) in low- and moderate-income geographies and to low- and moderate-income individuals; and
- 4) The range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

The bank's community development services are evaluated pursuant to the following criteria:

- 1) The extent to which the bank provides community development services; and
- 2) The innovativeness and responsiveness of community development services.

## SCOPE OF EVALUATION

LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
Amarillo MSA	Full-scope	None	N/A
Lubbock MSA	Full-scope	None	N/A
Abilene MSA	Limited-scope	None	N/A
Austin MSA	Limited-scope	None	N/A
Dallas MSA	Limited-scope	None	N/A
San Antonio MSA	Limited-scope	None	N/A
TX Non-MSAs	Limited-scope	None	N/A

LIST OF BANK AFFILIATES AND PRODUCTS REVIEWED			
AFFILIATES	AFFILIATE RELATIONSHIP	PRODUCTS REVIEWED	NEW SINCE LX
Happy Insurance Services, Inc	Holding company subsidiary	None	No
Happy Capital Trust I	Holding company subsidiary	None	No
Signature Capital Trust I	Holding company subsidiary	None	No
Haleco Statutory Trust II	Holding company subsidiary	None	No
Lubco Statutory Trust II	Holding company subsidiary	None	No
1908 Properties, LLC	Holding company subsidiary	None	No
Goldstar Protective Services, LLC	Holding company subsidiary	None	No
SAPH, LLC	Holding company subsidiary	None	No
Ag Excite, LLC	Holding company subsidiary	None	No
Air Happy, LLC	Holding company subsidiary	None	Yes

## DESCRIPTION OF LIMITED-SCOPE ASSESSMENT AREAS

### STATE OF TEXAS

#### Abilene MSA AA

The Abilene MSA AA consists of all of Taylor County. Demographic data is below.

Demographic Information of the Assessment Area Abilene MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	38	0.0	34.2	34.2	23.7	7.9
Population by Geography	134,435	0.0	28.8	32.9	37.2	1.1
Housing Units by Geography	56,492	0.0	28.1	35.6	36.3	0.0
Owner-Occupied Units by Geography	29,700	0.0	19.4	34.6	46.0	0.0
Occupied Rental Units by Geography	19,776	0.0	38.8	37.7	23.5	0.0
Vacant Units by Geography	7,016	0.0	35.1	33.6	31.3	0.0
Businesses by Geography	10,494	0.0	27.9	31.0	40.2	0.9
Farms by Geography	373	0.0	13.7	29.8	56.3	0.3
Family Distribution by Income Level	32,451	21.3	17.7	20.1	40.9	0.0
Household Distribution by Income Level	49,476	23.1	16.7	17.5	42.7	0.0
Median Family Income MSA - 10180 Abilene, TX MSA		\$56,448	Median Housing Value			\$101,913
			Median Gross Rent			\$804
			Families Below Poverty Level			12.2%
Source: 2015 ACS and 2020 D&B Data Due to rounding, totals may not equal 100.0% (* ) The NA category consists of geographies that have not been assigned an income classification						

The bank is competitive in the financial services market. According to the FDIC Deposit Market Share data as of June 30, 2020, 16 institutions operated 41 offices within this assessment area. Of these institutions, HSB ranked 10<sup>th</sup> with 1.8 percent deposit market share. The top three financial institutions account for 72.0 percent of the total deposit market share.

## Austin MSA AA

The Austin MSA AA consists of all of Travis County. Demographic data is below.

Demographic Information of the Assessment Area Austin MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	218	15.1	21.6	29.4	31.2	2.8
Population by Geography	1,121,645	15.4	22.0	28.5	32.3	1.8
Housing Units by Geography	464,197	14.8	18.8	30.7	34.4	1.4
Owner-Occupied Units by Geography	221,425	6.2	18.6	29.9	45.0	0.3
Occupied Rental Units by Geography	206,795	23.5	19.4	31.6	23.1	2.4
Vacant Units by Geography	35,977	17.2	16.4	30.4	33.7	2.4
Businesses by Geography	159,962	8.1	11.4	24.7	53.9	1.8
Farms by Geography	2,609	7.1	14.1	26.2	51.9	0.7
Family Distribution by Income Level	244,438	24.8	15.9	18.1	41.2	0.0
Household Distribution by Income Level	428,220	25.0	16.9	17.5	40.6	0.0
Median Family Income MSA - 12420 Austin-Round Rock-Georgetown, TX MSA		\$78,997	Median Housing Value			\$265,887
			Median Gross Rent			\$1,085
			Families Below Poverty Level			11.2%
Source: 2015 ACS and 2020 D&B Data Due to rounding, totals may not equal 100.0% (* ) The NA category consists of geographies that have not been assigned an income classification.						

The bank is competitive in the financial services market. According to the FDIC Deposit Market Share data as of June 30, 2020, 52 institutions operated 246 offices within this assessment area. Given the recent timing of the acquisition, there is no deposit data available in this assessment area. However, the acquired bank ranked 45<sup>th</sup> with 0.06 percent of the deposit market share. The top three financial institutions account for 55.1 percent of the total deposit market share.

## Dallas MSA AA

The Dallas MSA AA consists of all of Collin, Dallas, and Tarrant Counties. Demographic data is below.

Demographic Information of the Assessment Area Dallas MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	1,038	15.0	28.2	24.2	31.9	0.7
Population by Geography	5,261,744	12.8	28.3	25.4	33.3	0.2
Housing Units by Geography	2,018,127	13.2	26.7	26.1	33.8	0.2
Owner-Occupied Units by Geography	1,065,280	6.3	22.5	27.3	43.7	0.1
Occupied Rental Units by Geography	795,563	20.5	31.5	25.1	22.5	0.4
Vacant Units by Geography	157,284	23.0	29.9	22.0	24.7	0.3
Businesses by Geography	587,408	7.5	19.9	25.2	46.7	0.8
Farms by Geography	9,076	5.9	19.5	26.2	47.8	0.6
Family Distribution by Income Level	1,269,336	25.1	16.8	17.9	40.2	0.0
Household Distribution by Income Level	1,860,843	25.0	16.9	17.7	40.4	0.0
Median Family Income MSA - 19124 Dallas-Plano-Irving, TX		\$71,149	Median Housing Value			\$177,435
Median Family Income MSA - 23104 Fort Worth-Arlington-Grapevine, TX		\$69,339	Median Gross Rent			\$975
			Families Below Poverty Level			12.5%
Source: 2015 ACS and 2020 D&B Data Due to rounding, totals may not equal 100.0% (* ) The NA category consists of geographies that have not been assigned an income classification.						

The bank is competitive in the financial services market. According to the FDIC Deposit Market Share data as of June 30, 2020, 147 institutions operated 1,281 offices within this assessment area. Of these institutions, HSB ranked 58<sup>th</sup> with 0.09 percent deposit market share. The top three financial institutions account for 62.4 percent of the total deposit market share.



## San Antonio MSA AA

The San Antonio MSA AA consists of all of Comal and Kendall Counties. Demographic data is below.

Demographic Information of the Assessment Area San Antonio MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	30	0.0	10.0	36.7	53.3	0.0
Population by Geography	156,993	0.0	8.1	32.0	59.9	0.0
Housing Units by Geography	65,042	0.0	7.5	35.2	57.3	0.0
Owner-Occupied Units by Geography	43,207	0.0	5.6	28.6	65.8	0.0
Occupied Rental Units by Geography	14,296	0.0	13.0	49.2	37.9	0.0
Vacant Units by Geography	7,539	0.0	8.1	46.6	45.3	0.0
Businesses by Geography	21,516	0.0	5.6	32.9	61.5	0.0
Farms by Geography	833	0.0	2.5	24.6	72.9	0.0
Family Distribution by Income Level	42,780	14.1	15.3	16.5	54.1	0.0
Household Distribution by Income Level	57,503	17.0	14.4	15.7	52.9	0.0
Median Family Income MSA - 41700 San Antonio- New Braunfels, TX MSA		\$62,228	Median Housing Value			\$224,565
			Median Gross Rent			\$986
			Families Below Poverty Level			5.9%
Source: 2015 ACS and 2020 D&B Data Due to rounding, totals may not equal 100.0% (* ) The NA category consists of geographies that have not been assigned an income classification.						

The bank is competitive in the financial services market. According to the FDIC Deposit Market Share data as of June 30, 2020, 23 institutions operated 49 offices within this assessment area. Given the recent timing of the acquisition, there is no deposit data available in this assessment area. However, the acquired bank ranked 14<sup>th</sup> with 1.1 percent of the deposit market share. The top three financial institutions account for 50.4 percent of the total deposit market share.

## Garza County Non-MSA AA

The bank took all of Garza County in the Non-MSA. Demographic data is below.

Demographic Information of the Assessment Area Garza County Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	1	0.0	0.0	100.0	0.0	0.0
Population by Geography	6,410	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	2,040	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	1,027	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	505	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	508	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	306	0.0	0.0	100.0	0.0	0.0
Farms by Geography	31	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	1,166	21.3	14.3	23.4	41.0	0.0
Household Distribution by Income Level	1,532	20.2	14.6	18.5	46.7	0.0
Median Family Income Non-MSAs - TX		\$52,198	Median Housing Value			\$80,600
			Median Gross Rent			\$727
			Families Below Poverty Level			9.6%
Source: 2015 ACS and 2020 D&B Data Due to rounding, totals may not equal 100.0% (* ) The NA category consists of geographies that have not been assigned an income classification.						

The bank is competitive in the financial services market. According to the FDIC Deposit Market Share data as of June 30, 2020, 3 institutions operated 3 offices within this assessment area. Given the recent timing of the acquisition, there is no deposit data available in this assessment area. However, the acquired bank ranked 1<sup>st</sup> with 41.8 percent of the deposit market share.

## Gillespie-Kerr Non-MSA AA

The bank took all of Gillespie and Kerr Counties located in the Non-MSA. Demographic data is below.

Demographic Information of the Assessment Area Gillespie-Kerr Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	15	0.0	20.0	40.0	40.0	0.0
Population by Geography	75,547	0.0	23.2	33.2	43.6	0.0
Housing Units by Geography	36,845	0.0	20.8	32.5	46.7	0.0
Owner-Occupied Units by Geography	22,245	0.0	16.5	34.0	49.4	0.0
Occupied Rental Units by Geography	8,648	0.0	34.8	27.1	38.1	0.0
Vacant Units by Geography	5,952	0.0	16.5	34.9	48.7	0.0
Businesses by Geography	8,366	0.0	20.2	34.9	44.9	0.0
Farms by Geography	522	0.0	12.1	33.5	54.4	0.0
Family Distribution by Income Level	20,308	18.6	15.5	17.2	48.7	0.0
Household Distribution by Income Level	30,893	20.6	16.0	16.1	47.2	0.0
Median Family Income Non-MSAs - TX		\$52,198	Median Housing Value			\$188,836
			Median Gross Rent			\$810
			Families Below Poverty Level			11.0%
Source: 2015 ACS and 2020 D&B Data Due to rounding, totals may not equal 100.0% (* ) The NA category consists of geographies that have not been assigned an income classification.						

The bank is competitive in the financial services market. According to the FDIC Deposit Market Share data as of June 30, 2020, 18 institutions operated 39 offices within this assessment area. Given the recent timing of the acquisition, there is no deposit data available in this assessment area. However, the acquired bank ranked 4<sup>th</sup> with 8.3 percent of the deposit market share. The top three financial institutions account for 44.8 percent of the total deposit market share.

## North Non-MSA AA

The bank took all of Dallam, Gray, Hartley, Hemphill, Hutchinson, Lipscomb, Moore, Sherman, and Wheeler Counties, which are contiguous and located in the Texas Non-MSA AA.

Demographic data is below.

Demographic Information of the Assessment Area North Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	27	0.0	14.8	48.1	37.0	0.0
Population by Geography	96,539	0.0	12.1	49.1	38.8	0.0
Housing Units by Geography	40,674	0.0	13.0	48.7	38.3	0.0
Owner-Occupied Units by Geography	23,916	0.0	10.6	48.6	40.8	0.0
Occupied Rental Units by Geography	9,492	0.0	17.0	50.8	32.2	0.0
Vacant Units by Geography	7,266	0.0	15.8	46.1	38.1	0.0
Businesses by Geography	5,570	0.0	17.4	43.7	38.9	0.0
Farms by Geography	642	0.0	8.1	38.9	53.0	0.0
Family Distribution by Income Level	23,760	16.0	17.9	20.9	45.3	0.0
Household Distribution by Income Level	33,408	17.7	15.6	17.8	48.9	0.0
Median Family Income Non-MSAs - TX		\$52,198	Median Housing Value			\$86,749
			Median Gross Rent			\$673
			Families Below Poverty Level			11.1%
Source: 2015 ACS and 2020 D&B Data Due to rounding, totals may not equal 100.0% (* ) The NA category consists of geographies that have not been assigned an income classification.						

The bank is competitive in the financial services market. According to the FDIC Deposit Market Share data as of June 30, 2020, 12 institutions operated 35 offices within this assessment area. Of these institutions, HSB ranked 1<sup>st</sup> with 39.9 percent deposit market share. The top three financial institutions account for 60.4 percent of the total deposit market share.

## South Non-MSA AA

The bank took all of Bailey, Briscoe, Castro, Deaf Smith, Floyd, Hale, Hall, Lamb, Motley, Parmer, and Swisher Counties, which are contiguous and located in the Texas Non-MSA AA. Demographic data is below.

Demographic Information of the Assessment Area South Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	32	0.0	25.0	68.8	6.3	0.0
Population by Geography	113,404	0.0	24.8	66.5	8.8	0.0
Housing Units by Geography	46,326	0.0	26.4	64.1	9.5	0.0
Owner-Occupied Units by Geography	25,377	0.0	23.0	66.4	10.6	0.0
Occupied Rental Units by Geography	12,594	0.0	27.1	65.4	7.5	0.0
Vacant Units by Geography	8,355	0.0	35.9	55.3	8.8	0.0
Businesses by Geography	6,050	0.0	24.0	60.6	15.3	0.0
Farms by Geography	1,432	0.0	14.7	72.3	13.1	0.0
Family Distribution by Income Level	27,901	24.4	19.0	21.6	35.0	0.0
Household Distribution by Income Level	37,971	23.8	17.0	20.0	39.1	0.0
Median Family Income Non-MSAs - TX		\$52,198	Median Housing Value			\$71,620
			Median Gross Rent			\$637
			Families Below Poverty Level			17.0%
Source: 2015 ACS and 2020 D&B Data Due to rounding, totals may not equal 100.0% (* ) The NA category consists of geographies that have not been assigned an income classification.						

The bank is competitive in the financial services market. According to the FDIC Deposit Market Share data as of June 30, 2020, 26 institutions operated 57 offices within this assessment area. Of these institutions, HSB ranked 1<sup>st</sup> with 13.1 percent deposit market share. The top three financial institutions account for 33.1 percent of the total deposit market share.

## 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 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.

**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 Corporation (CDC):** A CDC allows banks and holding companies to make equity type of investments in community development projects. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Bank CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

**Community Development Financial Institutions (CDFIs):** CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

**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.

**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.

**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.



**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 (e.g., 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.

**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 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** (also known as **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 Investment Company (SBIC):** SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

**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.