

PUBLIC DISCLOSURE

August 9, 2022

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Liberty Bank, Inc.
Certificate Number: 26816

326 South 500 East
Salt Lake City, Utah 84102

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

25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105

This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION RATING

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

An institution in this group has a substantially deficient record of helping to meet the credit needs of its assessment area (AA), including low- and moderate-income (LMI) neighborhoods, in a manner consistent with its resources and capabilities.

Liberty Bank, Inc.'s (LBI) performance has remained the same since the previous evaluation. The following narrative supports the bank's performance:

- The loan-to-deposit (LTD) ratio is less than reasonable given the institution's size, financial conditions, and AA's credit needs.
- All of the loans were originated outside of the institution's AA.
- The geographic distribution of loans was not analyzed because all of the loans were originated outside of the institution's AA.
- The borrower profile was not analyzed because all of the loans were originated outside of the institution's AA.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.
- Examiners identified an illegal credit practice during the CRA evaluation period. However, considering the bank's already substantially deficient performance, this factor did not affect the rating.

DESCRIPTION OF INSTITUTION

LBI is headquartered in Salt Lake City, Utah and operates one branch. LBI is wholly-owned by the Phillips Family and has no holding company, subsidiaries, or relevant affiliates. There have been no branches opened or closed, and no merger or acquisition activity, since the previous CRA Performance Evaluation.

The institution received a "Substantial Noncompliance" CRA Rating at its previous CRA Performance Evaluation dated April 12, 2021, based on the Interagency Small Institution Examination Procedures.

The bank's primary lending product is a consumer loan product referred to as Tiny Home Loans. The bank has not originated any small farm or home mortgage loans during the review period. LBI brokers home mortgage loans to other brokers/investors as a service. The bank does not originate the loans or make the credit decision; therefore, these loans were not evaluated under the Lending Test.

LBI offers deposit services including savings products and certificates of deposits. Alternative banking services include a website; however, customers can only view account balances.

As of June 30, 2022, the Consolidated Reports of Conditions and Income (Call Report) reported assets totaling \$12.6 million, loans totaling \$7.7 million, deposits totaling \$10.8 million and securities of \$691,000. The following table indicates the loan portfolio distribution.

Loan Portfolio Distribution as of June 30, 2022		
Loan Category	\$(000s)	%
Construction and Land Development	0	0.0
Secured by Farmland	0	0.0
Secured by 1-4 Family Residential Properties	563	7.3
Secured by Multifamily (5 or more) Residential Properties	0	0.0
Secured by Nonfarm Nonresidential Properties	70	0.9
Total Real Estate Loans	633	8.2
Commercial and Industrial Loans	125	1.6
Agricultural Loans	0	0.0
Consumer	6,988	90.2
Other Loans & Leases	0	0.0
Less: Unearned Income	0	0.0
Total Loans & Leases	7,746	100.0
<i>Source: Call Report</i>		

The bank is operating under formal enforcement actions, presenting legal and/or financial impediments, which have prohibited the bank from certain lending activities. While the bank is facing financial and legal impediments, LBI has been able to originate loans, but all of those activities have occurred outside of their designated AA, as described later in this evaluation.

DESCRIPTION OF ASSESSMENT AREA

The bank's AA has not changed since the previous performance evaluation. LBI has defined its AA as all of Salt Lake County, which is part of the Salt Lake City, Utah Metropolitan Statistical Area (MSA) #41620 and is located along the Wasatch Mountain front. The AA meets regulatory requirements and does not arbitrarily exclude LMI geographies. Examiners relied on bank records, public financial information, demographic data from the 2015 American Community Survey (ACS) Census, business demographics, and other public sources, as well as information obtained from a community contact.

Economic and Demographic Data

The AA consists of 212 census tracts: 7 low-, 51 moderate-, 86 middle-, 65 upper-income, and 3 census tracts where income information was not available. There were no distressed or underserved non-metropolitan middle-income census tracts within the AA. The following table shows select demographic, housing, and business information of the AA.

Demographic Information of the Assessment Area						
Assessment Area: Salt Lake County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	212	3.3	24.1	40.6	30.7	1.4
Population by Geography	1,078,958	3.2	22.8	43.1	30.0	0.9
Housing Units by Geography	372,990	3.1	24.3	42.6	29.2	0.7
Owner-Occupied Units by Geography	233,092	1.5	17.5	44.9	35.6	0.5
Occupied Rental Units by Geography	118,800	6.4	36.9	39.4	16.1	1.2
Vacant Units by Geography	21,098	2.3	28.9	35.3	33.3	0.2
Businesses by Geography	128,724	2.8	20.8	38.9	36.6	0.9
Farms by Geography	1,995	2.6	19.4	40.6	37.0	0.4
Family Distribution by Income Level	247,693	19.9	17.6	22.0	40.5	0.0
Household Distribution by Income Level	351,892	22.3	16.6	20.4	40.6	0.0
Median Family Income MSA - #41620 Salt Lake City, UT MSA		\$71,849	Median Housing Value			\$247,942
			Median Gross Rent			\$966
			Families Below Poverty Level			9.2%
Source: 2015 ACS and 2021 D&B Data. Due to rounding, totals may not equal 100.0 percent. (*) The NA category consists of geographies that have not been assigned an income classification.						

According to data obtained from the U.S. Bureau of Labor Statistics, the Salt Lake County unemployment rate as of January 2022 has improved since the previous evaluation. Overall, the AA is below the national unemployment average. The following table depicts the unemployment rates for 2022 in the bank's AA in comparison with the state and national levels.

Unemployment Rates		
Area	January 2021	January 2022
	%	%
Salt Lake County	3.6	2.4
State of Utah	3.3	2.2
National Average	6.3	4.0
<i>Source: Bureau of Labor Statistics</i>		

According to Moody's Analytics as of March 2022, house price appreciation will cool in the near term because of lower affordability, an increased supply of homes, and rising mortgage rates. However, low housing affordability takes a toll on population growth. The jobless rates in the AA are among the lowest nationally and payrolls are about 3 percent above their pre-pandemic peak. The current top employers for Salt Lake County are as follows: University of Utah, Intermountain Health Care, Wal-Mart Stores, Zions Bancorp and Delta Airlines.

Competition

The AA reflects a high level of competition for financial services. According to the FDIC Deposit Market Share Report as of June 30, 2021, 44 financial institutions operate full-service branches within the AA. Of these institutions, LBI ranked second to last with \$10.6 million in total deposits. The two largest stakeholders in the deposit market for the AA consist of Morgan Stanley Bank and Ally Bank. These competitors hold 20.9 percent and 19.5 percent, respectively, of the AA's deposits.

Community Contact

As part of the evaluation process, examiners reviewed a recent community contact with an economic development organization that serves Salt Lake County. The organization focuses on creating prosperity and economic opportunity for county residents. The contact noted that financial institutions have been responsive to community credit needs; however, there continues to be a need for affordable, multi-family units and for providing technical support to small businesses.

Credit Needs

Considering the information from the community contacts, bank management, and demographic and economic data, examiners determined that small business and affordable housing represent the primary credit needs of the AA.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the previous evaluation dated April 12, 2021, to the current evaluation dated August 9, 2022. Examiners used the Interagency Small Institution Examination Procedures to evaluate LBI's CRA performance, which evaluates the bank's performance under the Lending Test.

The Lending Test considered the institution's performance according to the following criteria:

- LTD ratio;
- AA concentration;
- Geographic distribution;
- Borrower profile; and
- Response to CRA-related complaints.

Activities Reviewed

According to bank management and a review of the composition of the bank's loan portfolio, examiners determined that the institution's primary product line to be consumer Tiny Home Loans. This conclusion considered the bank's business strategy and number and dollar volume of loans originated during the evaluation period.

Examiners also reviewed the bank's small business loans. In 2022, LBI originated 2 small business loans for \$65,268, which represents 3.3 percent of total originations by number and 1.6 percent by dollar volume. The bank did not make any small farm or home mortgage loans in the review period. No other loan products represent a major product line, therefore, they provided no material support for conclusions or ratings and are not presented. The AA concentration received the most weight in the overall rating. Since no loans were originated inside the AA, the geographic distribution and borrower profile criteria were not analyzed as a meaningful conclusion could not be reached.

The following table represents the number and dollar volume of loans reviewed each year.

Loan Products Reviewed				
Loan Category	2021		2022 YTD	
	#	\$(000s)	#	\$(000s)
Consumer – Tiny Home Loans	37	2,401	22	1,696
Small Business Loans	0	0	2	65
Source: Bank Records Year-to-date (YTD)				

Examiners reviewed the number and dollar volume of consumer loans. While the number and dollar volume of loans are presented, examiners emphasized performance by number of loans because the number of loans is a better indicator of the individuals served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

LBI demonstrated very poor performance under the Lending Test. The LTD ratio and AA concentration performance criteria support this conclusion. Additionally, the geographic distribution and borrower profile criteria were excluded from the analysis due to the lack of lending in the AA. The AA concentration received the most weight in the overall performance.

Loan-to-Deposit Ratio

The LTD ratio is less than reasonable given the institution's size, financial condition, and AA credit needs. The bank's net LTD ratio, calculated from Call Report data, averaged 64.9 percent over the past five calendar quarters from June 30, 2021, to June 30, 2022. The ratio ranged from a low of 61.9 percent as of December 31, 2021, to a high of 69.7 percent as of June 30, 2022. The average net LTD ratio was 54.2 percent at the previous evaluation where it was also rated less than reasonable. There are no similarly situated financial institutions based on business strategy, loan portfolio composition, branching, or financial capacity from which to draw sound comparisons.

The bank made two investments during this review period totaling \$311,708, which helped augment the LTD ratio only slightly. After the investments, the June 30, 2022 average net LTD ratio is 65.5 percent over the same five calendar quarters. However, this did not materially impact the overall

conclusion as it only changes the average net LTD ratio by 0.6 percent; therefore, the LTD ratio remains less than reasonable.

Loan-to-Deposit Ratio		
Bank	Total Assets as of 6/30/2022 (\$000s)	Average Net LTD Ratio (%)
Liberty Bank, Inc.	12,614	64.9
<i>Source: Call Reports</i>		

Assessment Area Concentration

All of the loans and other lending related activities are outside the institution's AA. The bank's AA concentration performance declined since the previous evaluation period. LBI did not originate any loans inside the AA during the review period. The table below reflects the AA concentration performance.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Consumer – Tiny Home Loans										
2021	0	0.0	37	100.0	37	0	0.0	2,401	100.0	2,401
2022 YTD	0	0.0	22	100.0	22	0	0.0	1,696	100.0	1,696
Subtotal	0	0.0	59	100.0	59	0	0.0	4,097	100.0	4,097
Small Business Loans										
2021	0	0.0	0	0.0	0	0	0.0	0	0.0	0
2022 YTD	0	0.0	2	100.0	2	0	0.0	65	100.0	65
Subtotal	0	0.0	2	100.0	2	0	0.0	65	100.0	65
Total	0	0.0	61	100.0	61	0	0.0	4,162	100.0	4,162
Source: Evaluation Period: 1/1/2021 – 6/30/2022 Bank Data.										

Geographic Distribution

The geographic distribution of loans could not be analyzed since all of the loans were originated outside of the bank's AA.

Borrower Profile

The borrower profile could not be analyzed because all of the loans were originated outside the bank's AA.

Response to Complaints

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

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The FDIC identified illegal credit practices during the evaluation period. Examiners cited a violation of the Federal Trade Commission Act, Section 5 Unfair or Deceptive Acts of Practices (UDAP). The UDAP violation caused substantial harm to a majority of the bank's mortgage loan borrowers. Management has not completed corrective action to address the violation, and management has not committed to implementing corrective action. Further, the bank does not have sufficient policies, procedures, training programs, internal assessment efforts, or other practices in place to prevent illegal credit practices. Although the bank's practices harmed consumers, considering the bank's already substantially deficient performance, this illegal credit practice did not affect the CRA rating.

APPENDICES

SMALL 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) by considering the following criteria:

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

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.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

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

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

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.

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.

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.

Rated Area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

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

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

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.