

PUBLIC DISCLOSURE

July 16, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Monarch Bank

2718345

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Federal Reserve Bank of Richmond

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NOTE: 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

Institution's CRA Rating	1
Scope of Examination	1
Description of Institution	2
Conclusions with Respect to Performance Tests	3

Commonwealth of Virginia

Virginia Rating.....	6
Scope of Examination	6
Description of the Institution's Operations in the Virginia Beach-Norfolk-Newport News, VA-NC MSA Assessment Area.....	6
Conclusions with Respect to Performance Tests	8

State of North Carolina

North Carolina Rating	13
Scope of Examination	13
Description of the Institution's Operations in the Dare, NC NonMSA Assessment Area .	13
Conclusions with Respect to Performance Tests	15

Appendices

Appendix A: Scope of Examination and Summary of State Ratings	18
Appendix B: Loan, Branch, and Deposit Volume by Assessment Area	19
Appendix C: Glossary	20

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

INSTITUTION'S CRA RATING: This institution is rated: Satisfactory

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Outstanding

The major factors supporting this rating include:

- The bank's loan-to-deposit ratio is considered more than reasonable in relation to demand for credit in the bank's assessment areas.
- Given its business strategy, an adequate percentage of the institution's loans were originated within the local assessment areas.
- Lending to borrowers of different income levels and businesses of different sizes is considered reasonable in the Commonwealth of Virginia and the State of North Carolina.
- The bank's geographic distribution performance is considered reasonable in both the Commonwealth of Virginia and the State of North Carolina.
- The bank's community development performance demonstrates an excellent responsiveness to the community development needs of the bank's assessment areas.

SCOPE OF EXAMINATION

The institution was evaluated using the interagency examination procedures developed by the Federal Financial Institutions Examination Council (FFIEC). Monarch Bank (MB) is required to report certain information regarding its home mortgage lending in accordance with the Home Mortgage Disclosure Act (HMDA). Accordingly, MB's 2010 and 2011 HMDA loan originations/purchases were considered in the evaluation. While residential mortgage lending is a primary product of the bank, small business lending is also an important product offered by the bank and was also included in the analysis. Accordingly, a sample of 176 such loans was randomly selected from a universe of 526 small business loans totaling \$110 million that were originated by the bank during 2011.

Qualified community development loans and services since the previous evaluation (May 10, 2010) were evaluated under the community development test. All qualified investments made during this same period and those outstanding as of the date of this evaluation, regardless of when made, were also considered.

Based on the FFIEC's evaluation procedures, an overall rating and ratings for the Lending and Community Development Tests are assigned to the institution, the Commonwealth of Virginia, and the State of North Carolina. The bank operates within one assessment area in each state, and the ratings for each state are based on the bank's performance in each respective assessment area. Appendix B includes information detailing the lending volume, branch locations, and deposit volume by assessment area.

DESCRIPTION OF INSTITUTION

MB is headquartered in Chesapeake, Virginia, and operates 11 full-service branch offices in the Tidewater region of Virginia and the Outer Banks region of North Carolina. The bank also operates a network of residential mortgage loan production offices located in Richmond (Virginia), Northern Virginia, Maryland, North Carolina, and South Carolina. The bank is a subsidiary of Monarch Financial Holdings, a single-bank holding company, also headquartered in Chesapeake, Virginia. The bank received a satisfactory rating at its prior CRA evaluation dated May 10, 2010. No known legal impediments exist that would prevent the bank from meeting the credit needs of its assessment areas.

As of March 31, 2012, the bank reported \$937.4 million in assets, of which 88.7% were net loans and .9% were securities. Various deposit and loan products are available through the institution including loans for residential mortgage, business, and consumer purposes. The composition of the loan portfolio (using gross loans) as of March 31, 2012, is represented in the following table:

Composition of Loan Portfolio

Loan Type	3/31/2012	
	\$(000s)	%
Secured by 1-4 Family dwellings	402,538	47.8
Multifamily	20,964	2.5
Construction and Development	139,485	16.6
Commercial & Industrial/ NonFarm NonResidential	272,215	32.3
Consumer Loans and Credit Cards	4,231	0.5
Agricultural Loans/ Farmland	2,118	0.3
All Other	0	0.0
Total	841,551	100.0

As indicated in the preceding table, the bank is an active commercial/small business and residential mortgage lender. While the percentages detail the composition of the bank’s existing loan portfolio, they understate the volume of residential mortgage originations because the bank sells a large portion of its residential mortgage loans to secondary market investors. The bank also continues to offer other loans, such as consumer and farm loans; however, the volume of such lending is relatively small in comparison to the commercial/small business and residential mortgage lending.

The bank serves two assessment areas located in southeastern Virginia and northeastern North Carolina. One of the assessment areas is located within a metropolitan statistical area (MSA) in the Commonwealth of Virginia and the other is located in a nonmetropolitan area of North Carolina. The following table reflects the composition of the bank’s assessment areas.

Assessment Area Names	County/City	State	Census Tracts
Virginia Beach-Norfolk-Newport News, VA-NC MSA	Chesapeake	VA	All
	Norfolk	VA	All
	Portsmouth	VA	All
	Virginia Beach	VA	All
Dare, NC NonMSA	Dare County	NC	All

Since the previous evaluation, the bank has opened one office (March 2011) and closed one office (March 2011) in its Dare, NC NonMSA assessment area. Both branch offices were located in the same upper-income census tract within the assessment area. On May 14, 2012, the bank opened a branch in an upper-income census tract in Suffolk, VA. Because the branch was opened only shortly before the examination began, it was excluded from this evaluation and the bank's Virginia Beach-Norfolk-Newport News, VA-NC MSA assessment area was not adjusted to account for it. Following a routine review of its lending activity, bank management added the City of Portsmouth to the Virginia Beach-Norfolk-Newport News, VA-NC MSA assessment area to better reflect its market strategy and lending patterns.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

When evaluating the bank's performance under the Lending Test, consideration is generally given to the bank's level of lending in conjunction with relevant demographic data from the 2000 census, Dun & Bradstreet (D&B) business demographic data from 2010, and aggregate HMDA data from calendar year 2010. Analyses of lending during the review period are discussed in greater detail in subsequent sections of this evaluation.

While HMDA data from calendar years 2010 and 2011 were fully analyzed and considered in the evaluation, only bank and aggregate HMDA data from 2010 are presented in the assessment area analyses. In instances where the performance during 2011 varies significantly from the performance in 2010, such variance and the corresponding impact on the overall performance are discussed. The small business lending tables reflect loans made by the bank during 2011, and aggregate data are not included in the tables because the 2011 aggregate data are not yet available. Although not reflected in the small business tables, aggregate small business data for 2010 are considered in the narrative evaluation sections as elements of performance context.

When evaluating the geographic and borrower distribution for a specific loan category within an assessment area, primary emphasis is placed on the number of loans originated. To arrive at an overall assessment area level conclusion regarding the distribution of lending, performance in each loan category is then weighted by the dollar volume of such loans in the assessment area. Because the bank operates branches in two states, CRA performance ratings are required for each state, as well as for the institution overall. Given that the bank has only one assessment area in each state, the statewide ratings are based solely on the bank's performance in each assessment area. The institution's overall rating is based on the overall performance of each state, and primary consideration is given to the dollar volume each market contributes to the overall activity considered in the evaluation.

When considering the institution's overall rating, the bank's performance in the Commonwealth of Virginia is given substantially more weight than its performance in the State of North Carolina because more than three-fourths of the bank's operations (loans, branches, and deposits) are located in the bank's Virginia assessment area.

Loan-To-Deposit Ratio

The bank's current loan-to-deposit ratio equals 102.3% and averaged 103.8% for the eight-quarter period ending March 31, 2012. In comparison, the quarterly average loan-to-deposit ratios of all banks headquartered in metropolitan areas of Virginia and of a similar asset size to MB ranged from 73.1% to 82.5% during the same eight-quarter period. Since March 31, 2010, loans, deposits, and assets have increased by 31.7%, 37.3%, and 33%, respectively. From a CRA perspective, the bank's loan-to-deposit ratio is considered more than reasonable given the institution's size, financial condition, and local credit needs.

Lending In Assessment Area

To determine the institution's volume of lending within its assessment areas, the geographic location of the bank's HMDA loans originated during 2010 and 2011 and the sampled small business loans originated during 2011 were considered. The lending distribution inside and outside of the bank's assessment areas is represented in the following table.

Comparison of Credit Extended Inside and Outside of Assessment Area(s)

Loan Type	Inside				Outside			
	#	%	\$(000)	%	#	%	\$(000)	%
Home Purchase	2,148	27.1	496,903	27.4	5,772	72.9	1,316,205	72.6
Home Improvement	34	73.9	7,347	69.1	12	26.1	3,289	30.9
Refinancing	1,349	26.3	332,673	23.3	3,780	73.7	1,097,678	76.7
Multi-Family Housing	11	91.7	5,776	93.7	1	8.3	391	6.3
Total HMDA related	3,542	27.0	842,699	25.8	9,565	73.0	2,417,563	74.2
Small Business*	154	87.5	37,818	87.2	22	12.5	5,536	12.8
TOTAL LOANS	3,696	27.8	880,517	26.7	9,587	72.2	2,423,099	73.3

*The number and dollar amount of loans reflects a sample of such loans originated during the evaluation period and does not reflect loan data collected or reported by the institution.

A substantial majority of small business loans (87.5%) were extended in the bank's assessment areas, while less than a majority (27 %) of HMDA loans were extended inside the bank's assessment areas. The distribution is somewhat skewed since the small business lending in the table captures only a portion of such lending during 2011 while the HMDA data represents the entire volume of reportable residential mortgage loans originated or purchased during 2010 and 2011. Even recognizing this difference, less than a majority of loans considered in the evaluation have been made within the bank's assessment areas.

As previously noted, the bank operates a network of residential mortgage loan production offices in a region that includes four contiguous states and is much larger than the bank's branch network and corresponding assessment areas in Virginia and North Carolina. While less than a majority of loans were originated within bank assessment areas, the vast majority of residential mortgage loans originated by the bank are sold to secondary market investors rather than funded by deposits. Sale of these loans allows the bank to originate a larger volume of loans than if such loans were held in the bank's portfolio, thus generating a reasonable volume of lending, though a lower overall percentage, within its assessment areas. Overall, the percentage of loans made within the assessment areas is considered adequately responsive to community credit needs.

Lending To Borrowers of Different Incomes and To Businesses of Different Sizes

Within the bank's market areas, a high level of small business lending activity has been reported by specialized lenders, who often originate small business loans in the form of credit cards. These loans, however, tend to be much smaller in size than traditional small business bank loans, and a substantial majority of such loans do not have revenue data reported. The presence of these lenders is reflected in a smaller market share for traditional lenders and tends to understate the percentage of aggregate lending to businesses with annual revenues of \$1 million or less. These factors were considered as an aspect of performance context when evaluating the level and distribution of small business lending.

Borrower lending performance for both the bank's HMDA and its small business lending is consistently considered reasonable in each assessment area and state with the exception of excellent small business performance in the Dare, NC NonMSA assessment area. Overall, the bank's borrower distribution performance is considered reasonable in the Commonwealth of Virginia and in the State of North Carolina. The bank's performance is discussed in greater detail later in this evaluation.

Geographic Distribution of Loans

The bank's geographic distribution performance is considered reasonable in both the Commonwealth of Virginia and State of North Carolina. Accordingly, the bank's overall geographic distribution performance is considered reasonable.

Community Development Loans, Investments, and Services

MB supports community development initiatives and organizations that benefit its local markets and larger regional areas by funding community development loans and providing financial expertise and other support to local organizations providing community development services.

During the evaluation period, MB originated nine community development loans totaling approximately \$12.6 million. In general, bank lending supported organizations that provide qualified community development services and aided in the creation and/or retention of permanent jobs primarily benefiting low- and moderate-income people. Specific information regarding the bank's community development lending is included in each assessment area discussion as applicable.

In addition, the bank and its employees support numerous organizations that provide community development services within the bank's assessment areas. These services and the bank's community development lending are detailed in the discussion of the assessment areas where the activities took place.

The bank's community development performance within the Commonwealth of Virginia is considered excellent, while its performance in the State of North Carolina is adequate. The bank's overall performance is considered excellent. In reaching this conclusion, the bank's performance in the Commonwealth of Virginia was given significantly more weight because a substantial majority of the bank's operations are located in the Commonwealth of Virginia.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.

COMMONWEALTH OF VIRGINIA

CRA RATING FOR VIRGINIA: Satisfactory

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Outstanding

Major factors supporting the rating include:

- The bank's borrower distribution performance (lending to low- and moderate-income borrowers and small businesses having annual revenues of \$1 million or less) is reasonable for both residential mortgage and small business lending.
- The bank's geographic distribution performance (lending to residents and businesses located in low- and moderate-income census tracts) is reasonable for both residential mortgage and small business lending.
- Relative to the available community development opportunities, bank capacity, and local market impact, the bank's community development activities demonstrate an excellent level of responsiveness to area needs.

SCOPE OF EXAMINATION

HMDA and small business loans were analyzed to determine the bank's performance regarding the borrower and geographic distribution of lending. The HMDA data are from calendar years 2010 and 2011, while the small business data consists of a sample of such lending from 2011. The institution's efforts to serve its markets through qualified community development loans, investments, and services were also reviewed.

The bank has delineated one assessment area (Virginia Beach-Norfolk-Newport News, VA-NC MSA) in the Commonwealth of Virginia. Statewide ratings for Virginia are based solely on the bank's performance in this assessment area.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN VIRGINIA BEACH-NORFOLK-NEWPORT NEWS, VA-NC MSA ASSESSMENT AREA

The bank's assessment area is located in southeastern Virginia, and includes all of the cities of Chesapeake, Norfolk, Portsmouth, and Virginia Beach, Virginia. These cities constitute a portion of the Virginia Beach-Norfolk-Newport News, VA-NC MSA. Although the MSA extends into North Carolina, none of the bank's branches are located in the North Carolina portion of the MSA. The bank operates nine branches within the assessment area and ranks 7th out of 17 financial institutions in deposit market share having 4.4% of the assessment area's available FDIC insured deposits, as of June 2011.

According to the 2000 census data, the assessment area has a population of 959,409 and a median housing value of \$108,923. The owner-occupancy rate for the market equals 58%, which is less than the commonwealth's rate (63.3%) but is consistent with the MSA's rate (58.8%). The percentage of families living below the poverty level in the assessment area (8.4%) exceeds the commonwealth's rate (7%) but is equal to the rate within the entire MSA (8.4%). The 2010 and 2011 median family incomes for the Virginia Beach-Norfolk-Newport News, VA-NC MSA equaled \$68,200 and \$69,900, respectively. The following table includes pertinent demographic data for the market area.

Assessment Area Demographics

Virginia Beach-Norfolk-Newport News, VA-NC MSA								
Income Categories*	Tract Distribution		Families by Tract		Families < Poverty as a % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	21	8.8	12,631	5.2	5,126	40.6	46,378	19.0
Moderate	67	27.9	53,049	21.7	7,809	14.7	46,093	18.9
Middle	82	34.2	93,562	38.3	5,626	6.0	56,347	23.1
Upper	68	28.3	85,048	34.8	1,993	2.3	95,472	39.1
NA	2	0.8	0	0.0	0	0.0		
Total	240	100.0	244,290	100.0	20,554	8.4	244,290	100.0
	Owner Occupied Units by Tract		Households					
			HHs by Tract		HHs < Poverty by Tract		HHs by HH Income	
	#	%	#	%	#	%	#	%
Low	5,165	2.4	19,548	5.6	7,787	39.8	71,627	20.5
Moderate	34,194	15.9	84,489	24.2	13,588	16.1	61,145	17.5
Middle	86,259	40.1	130,950	37.5	9,806	7.5	74,198	21.3
Upper	89,588	41.6	113,798	32.6	4,923	4.3	141,815	40.7
NA	0	0.0	0	0.0	0	0.0		
Total	215,206	100.0	348,785	100.00	36,104	10.4	348,785	100.0
	Total Businesses by Tract		Businesses by Tract and Revenue Size					
			Less than or = \$1 Million		Over \$1 Million		Revenue not Reported	
	#	%	#	%	#	%	#	%
Low	1,409	3.5	1,226	3.4	124	5.0	59	3.0
Moderate	8,267	20.3	7,142	19.7	653	26.3	472	24.2
Middle	14,913	36.6	13,256	36.6	936	37.7	721	37.0
Upper	15,952	39.2	14,550	40.1	726	29.3	676	34.7
NA	153	0.4	91	0.3	41	1.7	21	1.1
Total	40,694	100.0	36,265	100.0	2,480	100.0	1,949	100.0
	Percentage of Total Businesses:			89.1		6.1		4.8

*NA-Tracts without household or family income as applicable

The local economy has a diversified employment and industrial base. The area's major employers include U.S. Department of Defense (various military bases), academic institutions (Old Dominion University, Norfolk State University, and Tidewater Community College), Stihl (power equipment manufacturer), area hospitals (Sentara, Chesapeake General, and Maryview), NORSHIPCO (shipbuilding and repair), Walmart stores, local governments, and area school systems. Current and recent periodic unemployment rates are included in the following table:

Geographic Area	Unemployment Rate Trend							
	June 2010	Sept 2010	Dec 2010	Mar 2011	June 2011	Sept 2011	Dec 2011	Mar 2012
Chesapeake City	7%	6.7%	6.5%	6.2%	6.8%	6.7%	6.2%	6%
Norfolk City	9.3%	8.7%	8.3%	8%	8.8%	8.4%	8.2%	7.5%
Portsmouth City	9.3%	8.9%	8.4%	8%	8.9%	9.1%	8.7%	8%
Virginia Beach City	6.3%	6.1%	6%	5.8%	6.1%	6.2%	5.9%	5.6%
Virginia Beach-Norfolk-Newport News, VA-NC MSA	7.4%	7.1%	7%	6.9%	7.1%	7.1%	6.8%	6.5%
Virginia	7%	6.6%	6.4%	6.3%	6.5%	6.3%	5.9%	5.7%

Despite some fluctuation, area unemployment rates have been trending down since the bank’s previous evaluation (May 2010). Nonetheless, unemployment rates in the cities of Norfolk and Portsmouth are noticeably higher than the commonwealth’s overall current rate of unemployment. Prospects for changes in future unemployment rates are mixed, in part, because a large area employer recently announced that it intended to cease operations during the first quarter of 2013 which will eliminate approximately 425 area jobs.

An individual knowledgeable of the local market area was recently contacted to discuss local economic conditions and community credit needs. The contact stated that local economic conditions have highlighted the need for more affordable housing units in the market area and, in particular, in Virginia Beach. The contact suggested that additional tax credit incentives and assistance programs targeted to low-income residents could provide additional affordable housing resources within the local market. Despite difficult economic conditions, the contact noted that local financial institutions are adequately serving the needs of their communities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

During 2011, MB reported originating \$405.4 million in residential mortgage loans within this assessment area. During the same time period, it is estimated that the bank originated small business loans totaling \$85.2 million within the market. Accordingly, the bank’s residential mortgage lending performance is weighted more heavily when considering the bank’s combined product performance.

Lending To Borrowers of Different Incomes and To Businesses of Different Sizes

Within this assessment area, MB’s borrower distribution performance is considered reasonable for both residential mortgage and small business lending during the evaluation period.

Distribution of HMDA Loans by Income Level of Borrower

Assessment Area: Virginia Beach-Norfolk-Newport News, VA-NC MSA (2010)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	%\$	#	%	\$(000s)	%\$
HMDA Totals								
Low	103	6.7	12,010	3.4	2,354	6.5	272,795	3.5
Moderate	372	24.4	61,038	17.2	8,087	22.3	1,277,250	16.6
Middle	436	28.6	94,285	26.5	10,204	28.1	2,009,401	26.1
Upper	616	40.3	188,426	53.0	15,663	43.1	4,149,527	53.8
Total	1,527	100.0	355,759	100.0	36,308	100.0	7,708,973	100.0
Unknown	122		31,703		10,397		2,522,579	

Percentage's (%) are calculated on all loans where incomes are known

The bank primarily originates residential mortgage loans for the purpose of home purchase and refinance. The bank does not originate a significant volume of home improvement or multi-family loans. Consequently, the bank's borrower distribution performance associated with home improvement and multi-family loans was not a meaningful factor in the analysis. During 2010, a majority of the bank's loans were for home purchases, while the aggregate lenders reported a larger volume of refinance loans. While the performance associated with the bank's home purchase and its refinance loans is considered reasonable, the bank's home purchase performance was slightly stronger than its refinance performance.

When considering the bank's 2010 performance overall, lending to low-income borrowers (6.7%) lagged the percentage of low-income families in the assessment area (19%) but approximated the aggregate lending level to such borrowers (6.5%). The bank's level of lending to moderate-income borrowers (24.4%) exceeded both the percentage of moderate-income families living in the assessment area (18.9%) and the aggregate lending level (22.3%). The bank's performance is considered reasonable and its performance during 2011 was substantially similar.

Distribution of Lending by Loan Amount and Size of Business

Assessment Area: Virginia Beach-Norfolk-Newport News, VA-NC MSA (2011)								
by Revenue	Bank				Aggregate*			
	#	%	\$(000s)	%\$	#	%	\$(000s)	%\$
\$1 Million or Less	71	53.4	12,309	36.6	NA	NA	NA	NA
Over \$1 Million	62	46.6	21,291	63.4	NA	NA	NA	NA
Unknown	0	0.0	0	0.0	NA	NA	NA	NA
by Loan Size	Bank				Aggregate*			
\$100,000 or less	59	44.4	3,127	9.3	NA	NA	NA	NA
\$100,001-\$250,000	30	22.6	5,624	16.7	NA	NA	NA	NA
\$250,001-\$1 Million	44	33.1	24,847	74.0	NA	NA	NA	NA
Total	133	100.0	33,599	100.0	NA	NA	NA	NA

* No data is available for Aggregate loans with Revenues over \$1 million and those with Unknown revenues

D&B data indicates that 89.1% of all local businesses have revenues that do not exceed \$1 million per year. During 2010, 31.5% of the aggregate loans were extended to businesses with annual revenues of \$1 million or less. The remaining loans were made to businesses with revenues exceeding \$1 million or with revenues that were unknown. Aggregate lending data from 2010 is considered as an element of performance context in the analysis because the 2011 aggregate data is not yet available. In particular,

the aggregate data was considered after excluding certain specialty lenders. Of the small business loans reported by traditional bank lenders, 50.2% were made to businesses having annual revenues of \$1 million or less. Based on the small business loan sample, 53.4% of the bank's loans were to businesses with annual revenues of \$1 million or less. The bank's performance is considered reasonable.

Geographic Distribution of Loans

Overall, the bank's geographic distribution performance for HMDA and its performance for small business lending within the assessment area are considered reasonable.

Distribution of HMDA Loans by Income Level of Census Tract

Assessment Area: Virginia Beach-Norfolk-Newport News, VA-NC MSA (2010)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
	(974)				Home Purchase (17,097)			
Low	30	3.1	5,556	2.5	485	2.8	98,350	2.5
Moderate	162	16.6	26,370	11.9	2,710	15.9	452,805	11.4
Middle	381	39.1	73,400	33.1	6,709	39.2	1,400,325	35.1
Upper	401	41.2	116,568	52.5	7,193	42.1	2,036,753	51.1
	(666)				Refinance (26,924)			
Low	10	1.7	1,988	1.2	441	1.6	79,014	1.4
Moderate	55	8.3	9,585	5.9	3,011	11.2	476,602	8.2
Middle	196	29.4	41,424	25.4	9,789	36.4	1,855,615	32.0
Upper	405	60.8	110,114	67.5	13,683	50.8	3,378,815	58.4
	(5)				Home Improvement (2,645)			
Low	0	0.0	0	0.0	40	1.5	3,264	1.0
Moderate	2	40.0	113	52.1	377	14.3	28,527	9.2
Middle	1	20.0	71	32.7	1,063	40.2	103,209	33.2
Upper	2	40.0	33	15.2	1,165	44.0	176,224	56.6
	(4)				Multi-Family (39)			
Low	1	25.0	295	13.2	4	10.3	11,545	8.1
Moderate	2	50.0	1,585	70.8	12	30.8	42,417	29.9
Middle	1	25.0	360	16.1	12	30.8	43,950	30.9
Upper	0	0.0	0	0.0	11	28.2	44,137	31.1
	HMDA Totals							
Low	41	2.5	7,839	2.0	970	2.1	192,173	1.9
Moderate	221	13.4	37,653	9.7	6,110	13.1	1,000,351	9.8
Middle	579	35.1	115,255	29.7	17,573	37.6	3,403,099	33.3
Upper	808	49.0	226,715	58.5	22,052	47.2	5,635,929	55.1
NA*	0	0.0	0	0.0	0	0.0	0	0.0
Total	1,649	100.0	387,462	100.0	46,705	100.0	10,231,552	100.0

NA*-Tracts without household of family income as applicable

() represents the total number of bank loans for the specific Loan Purpose

Loans where the geographic location is unknown are excluded from this table.

Based on bank and aggregate data, home purchase and refinance loans are the dominate HMDA loan products in the market area. Accordingly, performance associated with these two products is given the most weight when considering the bank's performance. The bank's level of home purchase lending in low- and moderate-income tracts was generally consistent with the proportion of owner-occupied housing units located in such areas (2.4% and 15.9%, respectively); however, its level of refinancings in low- and moderate-income census tracts lagged the percentage of owner-occupied housing units. As previously indicated, the bank extends a large volume of home purchase loans, and its performance has the greatest impact on the bank's overall performance level.

Overall, MB’s level of lending in low-income (2.5%) and moderate-income (13.4%) tracts is consistent with the aggregate lending levels in such tracts (2.1% and 13.1%, respectively). The bank’s geographic distribution performance is considered reasonable and the performance during 2011 is substantially similar.

Distribution of Small Business Loans by Income Level of Census Tract

Assessment Area: Virginia Beach-Norfolk-Newport News, VA-NC MSA (2011)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
Low	2	1.5	263	0.8	NA	NA	NA	NA
Moderate	24	18.0	8,247	24.5	NA	NA	NA	NA
Middle	39	29.3	8,445	25.1	NA	NA	NA	NA
Upper	65	48.9	15,653	46.6	NA	NA	NA	NA
NA*	3	0.0	992	3.0	NA	NA	NA	NA
Total	133	97.8	33,600	100.0	NA	NA	NA	NA

*NA-Tracts without household or family income as applicable
Loans where the geographic location is unknown are excluded from this table.

MB’s level of small business lending in low-income (1.5%) and moderate-income (18%) areas lagged the percentage of businesses located in such areas (3.5% and 20.3%, respectively). Aggregate lending data from 2010 is considered as an element of performance context in the analysis because the 2011 aggregate data is not yet available. The bank’s lending approximates the 2010 aggregate data which indicates that 2.6% and 19% of such lending was in low- and moderate-income census tracts, respectively. The bank’s performance is considered to be reasonable.

Community Development Loans, Investments, and Services

MB supports community development initiatives and organizations that benefit the assessment area by funding community development loans and by providing community development services. Discussions with an individual knowledgeable of the local market area and reviews of the performance evaluations of other financial institutions having a local presence indicate that local community development opportunities are reasonably available in the assessment area. Given its current loan-to-deposit ratio (102.3%), the bank’s capacity for additional lending, including community development lending, is somewhat constrained. Additionally, the bank faces moderate constraints regarding investment activity when considering its balance sheet structure and funding strategies. The bank faces no constraints, however, in providing community development services.

Since its previous evaluation (May 2010), the bank originated the following qualified community development loans:

- A \$10 million loan to a local nonprofit organization to build and operate a clinic that provides medical services to low- and moderate-income area residents.
- Four Small Business Administration (SBA) loans totaling \$1.8 million that provided funding to a local business engaged in the environmental cleanup of an industrial site located in a moderate-income census tract. The cleanup is part of an overall redevelopment plan for the census tract and surrounding area.
- Two loans totaling \$400,000 to a local nonprofit organization that provides housing and other services to area low- and moderate income residents.

The bank and its employees provide financial expertise to the following organizations that provide community development services and/or financial education targeted to low-and moderate-income residents, facilitate small business development, or focus on job creation:

- Hampton Roads Community Foundation (community services)
- Hampton Road Chamber of Commerce (small business development)
- Horizons Hampton Roads (community services)
- Sentara Virginia Beach General Hospital Auxiliary (community services)
- St. Mary's Home (community services)
- Tidewater Business Finance Corporation (small business development and job creation)
- The Barry Robinson Center (community services)
- Virginia Beach CASA (community service)
- Virginia Beach Community Development Corporation (affordable housing and community services)
- Virginia Beach Minority Business Council (small business development and job creation)
- Virginia Housing Development Authority (homebuyer and financial education)

Overall, the bank has demonstrated an excellent level of responsiveness to local community development needs when considering the institution's capacity and available opportunities within the assessment area.

STATE OF NORTH CAROLINA

CRA RATING FOR NORTH CAROLINA: Satisfactory
The Lending Test is rated: Satisfactory
The Community Development Test is rated: Satisfactory

Major factors supporting the rating include:

- The bank's borrower distribution performance varies between reasonable (HMDA) and excellent (small business) by loan product. The bank's overall performance is considered reasonable and reflects the weight given to the performance of the bank's larger loan product within the assessment area.
- While this assessment area does not contain low- and moderate-income tracts, the bank's geographic distribution performance is reasonable.
- The bank's community development activities demonstrate an adequate level of responsiveness to community development needs when considering both opportunities available within the assessment area and the bank's capacity.

SCOPE OF EXAMINATION

HMDA and small business loans were analyzed to determine the bank's performance regarding the borrower and geographic distribution of lending. The HMDA data are from calendar years 2010 and 2011, while the small business data reflects a sample of such lending from 2011. The institution's efforts to serve its markets through qualified community development loans, investments, and services were also reviewed.

The bank has delineated one nonmetropolitan assessment area (Dare, NC NonMSA) in the State of North Carolina. Statewide ratings for North Carolina are based solely on the bank's performance in this assessment area.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN DARE, NC NONMSA ASSESSMENT AREA

The bank's assessment area is located in the Outer Banks region of North Carolina and includes all of Dare County, North Carolina. The county is located in a nonmetropolitan area within the state. The bank operates two branches within the assessment area and ranked 4th out of 12 financial institutions in deposit market share having 8.2% of the assessment area's available FDIC insured deposits, as of June 2011.

According to the 2000 census data, the assessment area has a population of 29,967 and a median housing value of \$128,583. Because of its location on the coast, Dare County is a popular vacation destination and includes a large number of seasonal vacation homes. Accordingly, the owner-occupancy rate for the assessment area equals 35.5%, which is substantially lower than the corresponding rate in nonmetropolitan areas in North Carolina (62.7%) and the statewide rate (61.6%). The percentage of families living below the poverty level in the assessment area (5.5%) is much lower than the state's level (9%) and nonmetropolitan areas of North Carolina (11.3%). The 2010 and 2011 median family incomes for the nonmetropolitan areas of North Carolina equaled \$50,400 and \$49,500, respectively. The following table includes pertinent demographic data for the market area.

Assessment Area Demographics

Dare, NC NonMSA								
Income Categories*	Tract Distribution		Families by Tract		Families < Poverty as a % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	972	11.4
Moderate	0	0.0	0	0.0	0	0.0	1,353	15.9
Middle	3	50.0	4,525	53.2	305	6.7	1,856	21.8
Upper	3	50.0	3,979	46.8	163	4.1	4,323	50.8
NA	0	0.0	0	0.0	0	0.0		
Total	6	100.0	8,504	100.0	468	5.5	8,504	100.0
	Owner Occupied Units by Tract		Households					
			HHs by Tract		HHs < Poverty by Tract		HHs by HH Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	1,747	13.8
Moderate	0	0.0	0	0.0	0	0.0	1,697	13.4
Middle	4,995	52.8	6,825	53.8	629	9.2	2,439	19.2
Upper	4,459	47.2	5,860	46.2	402	6.9	6,802	53.6
NA	0	0.0	0	0.0	0	0.0		
Total	9,454	100.0	12,685	100.00	1,031	8.1	12,685	100.0
	Total Businesses by Tract		Businesses by Tract and Revenue Size					
			Less than or = \$1 Million		Over \$1 Million		Revenue not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	1,337	42.5	1,219	42.8	62	41.3	56	36.6
Upper	1,811	57.5	1,626	57.2	88	58.7	97	63.4
NA	0	0.0	0	0.0	0	0.0	0	0.0
Total	3,148	100.0	2,845	100.0	150	100.0	153	100.0
Percentage of Total Businesses:				90.4		4.8		4.9

*NA-Tracts without household or family income as applicable

The assessment area has a variety of employment opportunities in industries such as government, property management, food and retail services, and health care. Major area employers include Dare County (including the school system), East Carolina Health, North Carolina Department of Transportation, Food Lion, Wal-Mart, Coastal Staffing, and Home Depot.

Geographic Area	Unemployment Rate Trend							
	June 2010	Sept 2010	Dec 2010	Mar 2011	June 2011	Sept 2011	Dec 2011	Mar 2012
Dare County	7.5%	7%	15.5%	16.3%	8.2%	10.1%	16.1%	15.3%
North Carolina	10.9%	10.1%	10.5%	10.4%	10.9%	10.4%	10.2%	9.6%

Unemployment rates in Dare County are cyclical and reflect the effect of seasonal employment opportunities during the summer months that are not available during winter months. A cyclical employment pattern can affect the type and terms of credit the bank is able to extend to part-time, underemployed, or other applicants that have inconsistent income streams from which they can repay debt.

A local economic development official was contacted during the evaluation to assist in evaluating the bank's CRA performance. The contact stated that despite a decline in the purchase of vacation homes, the local economy continues to be heavily influenced by tourism, with many area residents relying on seasonal jobs as their primary source of income. The contact suggested that the local economy would benefit most from additional funding for existing small businesses and start-ups. In addition, the contact stated that the area was home to a large number of small businesses started and operated by entrepreneurs, and that some of these small business owner/operators would benefit from additional business and financial management education and operational resources. Despite difficult economic conditions, the contact observed that local financial institutions are adequately serving the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

During 2011, MB reported originating \$29 million in residential mortgage loans within this assessment area. During the same time period, it is estimated that the bank originated small business loans totaling \$10.7 million within the market. Accordingly, the bank's residential mortgage lending performance is weighted more heavily when considering the bank's combined product performance.

Lending To Borrowers of Different Incomes and To Businesses of Different Sizes

MB's HMDA borrower distribution performance is considered reasonable, while its small business lending performance is considered excellent. Overall, the bank's borrower distribution performance is considered reasonable. In reaching this conclusion, more weight was placed on the bank's HMDA lending performance because of the substantially larger dollar volume of such lending within the assessment area.

Distribution of HMDA Loans by Income Level of Borrower

Assessment Area: Dare, NC NonMSA (2010)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
	HMDA Totals							
Low	0	0.0	0	0.0	40	1.6	5,645	0.9
Moderate	5	6.1	796	4.1	133	5.2	18,850	2.9
Middle	7	8.5	927	4.8	344	13.3	58,994	8.9
Upper	70	85.4	17,612	91.1	2,063	80.0	577,340	87.4
Total	82	100.0	19,335	100.0	2,580	100.0	660,829	100.0
Unknown	9		1,539		434		111,267	

Percentage's (%) are calculated on all loans where incomes are known

When considering the bank's lending volume by product line during 2010, the bank extended a slightly larger volume of refinance loans than home purchase loans. Because the bank extends a comparatively small volume of home improvement and multi-family loans, the performance associated with these loan types received limited weight when determining the institution's overall rating. Within the assessment area, 11.4% and 15.9% of area families are low- and moderate-income, respectively. Aggregate lending levels indicate that the demand for credit by such borrowers is substantially less than the demographic data would suggest.

While bank lending to low-income borrowers (0%) lagged the aggregate lending level to such borrowers (1.6%), the aggregate lending level indicates that the demand for home mortgage loans from such borrowers is limited. The bank's level of lending to moderate-income borrowers (6.1%) exceeded the aggregate lending level (5.2%). The bank's performance is considered reasonable and its performance during 2011 was similar.

Distribution of Lending by Loan Amount and Size of Business

Assessment Area: Dare, NC NonMSA (2011)								
by Revenue	Bank				Aggregate*			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
\$1 Million or Less	17	81.0	2,951	69.9	NA	NA	NA	NA
Over \$1 Million	4	19.0	1,268	30.1	NA	NA	NA	NA
Unknown	0	0.0	0	0.0	NA	NA	NA	NA
by Loan Size								
\$100,000 or less	11	52.4	577	13.7	NA	NA	NA	NA
\$100,001-\$250,000	7	33.3	1,383	32.8	NA	NA	NA	NA
\$250,001-\$1 Million	3	14.3	2,259	53.5	NA	NA	NA	NA
Total	21	100.0	4,219	100.0	NA	NA	NA	NA

* No data is available for Aggregate loans with Revenues over \$1 million and those with Unknown revenues

D&B data indicates that 90.4% of all local businesses have revenues that do not exceed \$1 million per year. Aggregate lending data from 2010 was considered as an element of performance context in the analysis because the 2011 aggregate data is not yet available. During 2010, 44.4% of the aggregate loans were to small business with annual revenues of \$1 million or less. The remaining loans were either to businesses that had revenues exceeding \$1 million or that had unknown revenues. Also as part of the performance context, the aggregate data was considered after excluding certain specialty lenders. Of the small business loans reported by traditional bank lenders, 64.1% were made to businesses having annual revenues of \$1 million or less. Based on the small business loan sample, 81% of the bank's loans were to businesses with annual revenues of \$1 million or less. The bank's performance is considered excellent.

Geographic Distribution of Loans

As indicated in the demographic table, there are no low-or moderate income census tracts within the assessment area; however, there are eleven middle-income and three upper-income census tracts within the assessment area. Consequently, the distribution of the bank's lending in middle- and upper-income census tracts is considered. The bank operates two branches in this assessment and each are located in census tracts that are contiguous to a middle-income census tract. However, the bank's branches are separated by water (the Albemarle and Pamlico Sound) from the remaining two middle-income census tracts. Overall, the bank's geographic distribution performance is considered reasonable for the Dare, NC NonMSA assessment area.

During 2010, the bank extended 91 HMDA loans within the assessment area totaling \$20.9 million. Of these loans, 33 (36.3%) totaling \$6.8 million (32.4%) were to residents of middle-income census tracts. The bank's level of performance lagged the proportion of owner-occupied housing units located in middle-income areas (52.8%) but approximated the aggregate level of lending in such tracts (39.3%). The bank's residential mortgage lending performance is considered reasonable, and its performance during 2011 is similar.

During 2011, the bank originated 21 small business loans totaling \$4.2 million. Of these loans, four (19%) totaling \$590,000 (14%) were to businesses located in the middle-income census tracts. The bank's lending performance lagged the percentage of businesses located in middle-income census tracts (42.5%). Considering aggregate data from 2010 for performance context, 31.2% of small business loans were to businesses located in middle-income census tracts. Overall, the bank's level of lending is considered reasonable.

Community Development Loans, Investments, and Services

Discussions with an individual knowledgeable of the local market area and reviews of the performance evaluations of other financial institutions having a local presence indicate that limited community development opportunities exist within the assessment area. The structure of the bank's balance sheet, its funding strategies, and current loan-to-deposit ratio (102.3%) may serve to constrain the bank's ability to originate community development loans and make qualified investments; however, it does not preclude the bank from reasonably taking advantage of available opportunities within the context of such constraints. The bank faces no constraints, however, in providing community development services.

Since its previous evaluation (May 2010), the bank originated the following qualified community development loans:

- The bank originated two loans totaling \$413,000 that financed the relocation of an existing business to the local market area. The business' relocation created approximately 71 new jobs in the assessment area that primarily benefited area low- and moderate-income residents.

The bank and its employees provide financial expertise to the following organizations that provide community development services and/or financial education targeted to low- and moderate-income residents, facilitate small business development, and focus on job creation:

- Community Care Clinic of Dare (community services)
- Outer Banks Community Development Corporation (affordable housing and community services)

Overall, the bank has demonstrated an adequate level of responsiveness to local community development needs when considering the institution's capacity and available opportunities within the assessment area.

CRA APPENDIX A

SCOPE OF EXAMINATION AND SUMMARY OF STATE RATINGS

ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED¹	OTHER INFORMATION
Virginia Beach-Norfolk-Newport News, VA-NC MSA	Full-Scope	750 Volvo Parkway Chesapeake, VA	None
Dare, NC NonMSA	Full-Scope	None	None

STATE	OVERALL STATE RATING
Virginia	Satisfactory
North Carolina	Satisfactory

¹ There is a statutory requirement that the written evaluation of a multistate institution's performance must list the individual branches examined in each state.

CRA APPENDIX B

LOAN, BRANCH, AND DEPOSIT VOLUME BY ASSESSMENT AREA

The following table includes the distribution of branch offices, along with deposit and loan volume. The deposit volume includes all bank deposits and is current as of June 30, 2011, while loan volume includes all HMDA and sampled small business loans considered in the evaluation.

Assessment Area	Combined 2010 and 2011 Loan Volume				Full-Service Branches		Deposit Volume	
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Virginia Beach-Norfolk-Newport News, VA-NC MSA	3,477	94.1%	\$826,446	93.9%	9*	81.8%	\$656,241	89.4%
Dare County, NC	219	5.9%	\$54,071	6.1%	2	18.2%	\$78,177	10.6%
TOTAL	3,696	100%	\$880,517	100%	11	100%	\$734,418	100%

* This branch total excludes the bank's new branch that was opened in Suffolk, Virginia, during May 2012.

CRA APPENDIX C

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.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: All Agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
 - a. Rates of poverty, unemployment, and population loss; or
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

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.

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, which 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).

Full-scope review: Performance under the Lending and Community Development Tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

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

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

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

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

Limited-scope review: Performance under the Lending and Community Development Tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, 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.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

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 percent 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 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

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 qualified investment is defined as any 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.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): 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, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.