

# **PUBLIC DISCLOSURE**

**February 7, 2022**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Patriot Bank  
RSSD #3120646**

**8376 Highway 51 North  
Millington, Tennessee 38053**

**Federal Reserve Bank of St. Louis**

**P.O. Box 442  
St. Louis, Missouri 63166-0442**

**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 the 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'S CRA RATING: This institution is rated SATISFACTORY.**

**The Lending Test is rated:**

**Satisfactory**

**The Community Development Test is rated:**

**Satisfactory**

Patriot Bank's CRA performance meets the criteria for a Satisfactory rating based on the evaluation of the bank's lending and community development activities. The factors supporting the institution's rating are as follows:

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- A majority of loans and other lending-related activities are in the assessment area.
- The borrower's profile analysis reveals reasonable penetration among individuals of different income levels, including low- and moderate-income (LMI) levels, and businesses of different revenue sizes.
- The geographic distribution of loans reflects a poor dispersion throughout the assessment area.
- There were no CRA-related complaints filed against the bank since the previous CRA evaluation.
- The bank's overall community development performance demonstrates adequate responsiveness to the community development needs of its assessment area, considering the bank's capacity and the need and availability of such opportunities for community development. The bank has responded to these needs through community development loans, qualified investments, and community development services.

**SCOPE OF EXAMINATION**

The bank's CRA performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC's) Intermediate Small Institution Examination Procedures. The intermediate small bank examination procedures entail two performance tests: the Lending Test and the Community Development Test. Home mortgage loans reported under the Home Mortgage Disclosure Act (HMDA) and small business loans were used to evaluate the bank's lending performance. These loan categories are considered the bank's core business lines based on lending volume and the bank's stated business strategy. Therefore, the loan activity represented by these credit products is deemed indicative of the bank's overall lending performance. However, as the bank has a particular emphasis on home mortgage lending, performance based on the HMDA loan category carried the most significance toward the bank's overall performance conclusions. The following table details the performance criterion and the corresponding time periods used in each analysis.

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Performance Criterion	Time Period
LTD Ratio	March 31, 2019 – December 31, 2021
Assessment Area Concentration	January 1, 2020 – December 31, 2020
Geographic Distribution of Loans	January 1, 2020 – December 31, 2020
Loan Distribution by Borrower's Profile	January 1, 2020 – December 31, 2020
Response to Written CRA Complaints	March 4, 2019 – February 6, 2022
Community Development Activities	March 4, 2019 – February 6, 2022

Lending Test analyses often entail comparisons of bank performance to assessment area demographics and the performance of other lenders, based on HMDA and CRA aggregate lending data. Unless otherwise noted, assessment area demographics are based on 2015 U.S. Census data; certain business and farm demographics are based on 2020 Dun & Bradstreet data. When analyzing bank performance by comparing lending activity to both demographic data and aggregate lending data, greater emphasis is generally placed on the aggregate lending data, because it is expected to describe many factors impacting lenders within an assessment area. Aggregate lending datasets are updated annually and are, therefore, expected to predict more relevant comparisons. In addition, the bank's lending levels were evaluated in relation to those of comparable financial institutions operating in the same general region. Three other banks were identified as similarly situated peers, with asset sizes ranging from \$444.6 million to \$538.8 million as of December 31, 2021.

As part of the Community Development Test, the bank's performance was evaluated using the following criteria, considering the bank's capacity and the need and availability of such opportunities for community development in the assessment area:

- The number and dollar amount of community development loans.
- The number and dollar amount of qualified investments and grants.
- The extent to which the bank provides community development services.

The review included community development activities initiated from the date of the bank's previous CRA evaluation to this review date. In addition, investments made prior to the date of the previous CRA evaluation but still outstanding as of this review date were also considered.

To augment this evaluation, two community contact interviews with members of the local community were referenced to ascertain specific credit needs, opportunities, and local market conditions within the assessment area. Information from these interviews also assisted in evaluating the bank's responsiveness to identified community credit needs and community development opportunities. Key details from these community contact interviews are included in the *Description of Assessment Area* section.

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## DESCRIPTION OF INSTITUTION

Patriot Bank is a full-service community bank offering both consumer and commercial loan and deposit products. Patriot Bank is wholly owned by Patriot of Tennessee Corporation, Millington, Tennessee, which in turn is 45.0 percent owned by Security Bancorp of Tennessee, Inc., a multibank holding company headquartered in Halls, Tennessee. Security Bancorp has a 36.0 percent interest in another one-bank holding company, Westenn Bancorp, Inc., Jackson, Tennessee, which owns state member bank the Bank of Jackson, Jackson, Tennessee. In addition to the Bank of Jackson, Patriot Bank has four other affiliate banks that are also located in Tennessee: Security Bank, Newbern, Tennessee; Bank of Crockett, Bells, Tennessee; Bank of Halls, Halls, Tennessee; and Gates Banking and Trust Company, Gates, Tennessee.

The bank's branch network consists of its main office, seven branches, and three loan production offices (LPOs). The bank's main office, four branches, and LPOs are located in Shelby County, Tennessee. The bank operates three full-service branches in an adjoining county, Tipton County, Tennessee, along with a stand-alone, cash-dispensing only automated teller machine (ATM). During this review period, the bank opened two branches in Shelby County. The bank did not close any branch offices. However, the bank did relocate one Shelby County branch and convert the existing location to an LPO.

The bank's branches and ATMs, as described above, are located in Tipton County and the northern and eastern portions of Shelby County. Although two of the bank's branches are located in a low-income census tract in Tipton County, the majority of LMI census tracts in the assessment area are located in western Shelby County within the city of Memphis. Based on this branch network and other service delivery systems such as full-service online banking capabilities, the bank is adequately positioned to deliver financial services to substantially all of the assessment area.

For this review period, no legal impediments or financial constraints were identified that would have hindered the bank from serving the credit needs of its customers, and the bank appeared capable of meeting assessment area credit needs based on its available resources and financial products. As of December 31, 2021, the bank reported total assets of \$471.4 million. As of the same date, loans and leases outstanding were \$238.0 million (50.5 percent of total assets), and deposits totaled \$393.7 million. The bank's loan portfolio composition by credit category is displayed in the following table.

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<b>Distribution of Total Loans as of December 31, 2021</b>		
<b>Credit Category</b>	<b>Amount (\$ 000s)</b>	<b>Percentage of Total Loans</b>
Construction and Development	\$39,109	16.4%
Commercial Real Estate	\$73,540	30.9%
Multifamily Residential	\$8,568	3.6%
1-4 Family Residential	\$67,218	28.2%
Farmland	\$5,139	2.2%
Farm Loans	\$6,205	2.6%
Commercial and Industrial	\$31,144	13.1%
Loans to Individuals	\$6,326	2.7%
Total Other Loans	\$756	0.3%
<b>TOTAL</b>	<b>\$238,005</b>	<b>100%</b>

As indicated by the table above, a significant portion of the bank's lending resources is directed to commercial real estate loans and loans secured by 1-4 family residential properties. The bank also originates and subsequently sells a significant volume of loans related to residential real estate. As these loans are sold on the secondary market shortly after origination, this activity would not be captured in the table. During 2020, Patriot Bank originated 1,636 loans totaling \$409.2 million, which were sold into the secondary market.

At its previous CRA evaluation, conducted on March 4, 2019, by this Reserve Bank, the bank received a Needs to Improve rating due to substantive violations of the Equal Credit Opportunity Act and the Fair Housing Act.

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## DESCRIPTION OF ASSESSMENT AREA

### General Demographics

The bank's assessment area consists of Shelby, Tipton, and Fayette Counties in their entirety, which represents the Tennessee portion of the Memphis, Tennessee-Mississippi-Arkansas Metropolitan Statistical Area (Memphis MSA). Based on 2015 U.S. Census data, the assessment area population was 1,038,238, with the vast majority of the population (90.3 percent) residing in Shelby County. The eastern portion of Shelby County and most of Fayette and Tipton Counties are largely suburban compared to western Shelby County, which is primarily urban. Also, certain portions of Tipton and Fayette Counties are rural.

According to the Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report data as of June 30, 2021, there are 36 FDIC-insured depository institutions in the assessment area, which operate 252 offices. Patriot Bank ranked 18<sup>th</sup> in terms of deposit market share, with 1.1 percent of the total assessment area deposit dollars.

As discussed previously, the assessment area includes a mix of urban, suburban, and rural areas, which contributes to a variety of credit needs. According to community contacts, specific credit-related needs include affordable single-family housing, flexible and equitable underwriting practices, and addressing the banking deserts in certain lower-income neighborhoods, as the lack of access to banking services allows for predatory practices to exist. Community contacts also described a high level of opportunity for financial institutions to collaborate with Community Development Financial Institutions to address the credit needs of LMI individuals.

### Income and Wealth Demographics

The following table summarizes the distribution of assessment area census tracts by income level and the family population within those tracts.

Assessment Area Demographics by Geography Income Level						
Dataset	Low-	Moderate-	Middle-	Upper-	Unknown	TOTAL
Census Tracts	66	49	48	76	6	<b>245</b>
	26.9%	20.0%	19.6%	31.0%	2.4%	<b>100%</b>
Family Population	45,546	47,068	50,150	104,616	404	<b>247,784</b>
	18.4%	19.0%	20.2%	42.2%	0.2%	<b>100%</b>

As shown above, 46.9 percent of the census tracts in the assessment area are LMI geographies, but only 37.4 percent of the family population resides in these census tracts. These LMI areas are primarily concentrated in the western portion of Shelby County in the urban areas of Memphis.

Based on 2015 U.S. Census data, the median family income for the assessment area was \$58,268, which was above the median family income for the state of Tennessee of \$56,110. More recently, the FFIEC estimates the 2020 median family income for the Memphis MSA to be \$65,900. The

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following table displays population percentages of assessment area families by income level compared to the statewide Tennessee family population as a whole.

Family Population by Income Level					
Dataset	Low-	Moderate-	Middle-	Upper-	TOTAL
Assessment Area	63,393	37,939	41,136	105,316	<b>247,784</b>
	25.6%	15.3%	16.6%	42.5%	<b>100%</b>
State of Tennessee	363,187	288,774	326,437	687,047	<b>1,665,445</b>
	21.8%	17.3%	19.6%	41.3%	<b>100%</b>

As shown in the table above, 40.9 percent of families within the assessment area were considered LMI, which is slightly higher than the statewide LMI family percentage of 39.1. The percentage of families living below the poverty threshold in the assessment area, 16.0 percent, is also higher than the statewide figure of 13.2 percent. Considering these factors, the assessment area appears slightly less affluent than the state of Tennessee, despite having a higher median family income.

### **Housing Demographics**

Based on housing values, income levels, and rental costs, housing affordability varies significantly by assessment area county.

Housing Demographics			
Dataset	Median Housing Value	Affordability Ratio	Median Gross Rent (Monthly)
Shelby County	\$130,800	35.3%	\$859
Tipton County	\$139,600	38.4%	\$741
Fayette County	\$181,700	30.2%	\$613
Assessment Area	\$134,012	35.1%	\$852
State of Tennessee	\$142,100	31.8%	\$764

The median housing values for Shelby and Tipton Counties (\$130,800 and \$139,600, respectively) are below that of the state of Tennessee (\$142,100), while the median housing value in Fayette County (\$181,700) is well above the state figure. Similarly, the affordability ratio, which measures the extent to which a family earning the median household income can afford a median-priced home, is higher in Shelby and Tipton Counties (35.3 and 38.4 percent, respectively) compared to the state of Tennessee (31.8 percent). While these figures suggest that affordable housing exists in Shelby and Tipton counties, a community contact specializing in affordable housing in Memphis noted that much of what could be considered affordable housing stock is in poor condition. When accounting for costs to repair or renovate homes prior to occupancy, a greater portion of the assessment area housing is out of reach of the LMI population.

Additionally, the assessment area has a higher percentage of rental units (35.6 percent) as compared to the state of Tennessee (29.2 percent). The median gross rent for the assessment area



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of \$852 exceeds state of Tennessee levels (\$764), and a significant portion of renters in the assessment area are cost-burdened. The percentage of renters with rental costs exceeding 30 percent of their income was higher in the assessment area (51.4 percent) than the statewide Tennessee average (45.2 percent), indicating that rental costs are relatively higher in the assessment area when accounting for renter income. These higher rental costs relative to income make it difficult for those renters trying to save for a down payment to buy a home.

### **Industry and Employment Demographics**

The assessment area supports a diverse business community, including a small business sector. County business patterns indicate that there are 438,081 paid employees in the assessment area within the private sector. By percentage of employees, the three largest job categories are healthcare and social assistance (16.2 percent), followed by transportation and warehousing (13.7 percent) and retail trade (11.9 percent). The table below details unemployment data from the U.S. Department of Labor, Bureau of Labor Statistics (not seasonally adjusted) for the assessment area compared to the state of Tennessee as a whole.

<b>Unemployment Levels for the Assessment Area</b>		
<b>Time Period (Annual Average)</b>	<b>Assessment Area</b>	<b>State of Tennessee</b>
2021	6.8%	4.3%
2020	9.4%	7.5%
2019	4.0%	3.4%

As shown in the table above, unemployment levels for the assessment area, as well as the state of Tennessee, more than doubled in 2020 largely due to the COVID-19 pandemic. The unemployment rate has shown a declining trend since reaching its peak in 2020. However, unemployment levels in the assessment area are consistently higher compared to the state of Tennessee.

### **Community Contact Information**

Information from two community contacts was used to help shape the performance context in which the bank's activities in this assessment area were evaluated. As it relates to the current economic conditions within the assessment area, both contacts agree there is room for improvement, especially in impoverished communities such as North and South Memphis, Orange Mound, Frayser, and Hickory Hill. Although there are new economic development projects in the downtown area, and the eastern portion of Memphis was described as thriving, there is a need for jobs, affordable housing, and investments in certain neighborhoods, with many people living in poverty. The city of Memphis has also been impacted by population loss over the last several years. Additionally, during this review period, entrepreneurs and LMI individuals were hit particularly hard financially by the COVID-19 pandemic.

Of these community contact interviews, one was with an individual specializing in affordable housing. As referenced in the *Housing Demographics* section, the contact stated that there is a

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significant need for quality affordable single-family housing for LMI families within certain parts of the city, because much of the existing affordable housing is in need of repairs or renovations. As such, credit needs include purchase loans with down payment assistance and small dollar mortgage loans for home repairs/renovations. The contact also noted that many LMI individuals lack personal finance education and do not qualify for traditional credit products from financial institutions due to poor credit histories and lack of down payments.

The second contact was an individual from a nonprofit organization specializing in small business development. The contact noted that although business activity is spread throughout the MSA, resources for business growth are not equally dispersed. Resources are directed toward affluent areas, while poorer areas such as South Memphis have experienced a divestment; for example, businesses have been leaving the South Memphis area due to its aging infrastructure. Furthermore, small businesses often lack access to capital, creditworthiness, or the capacity necessary for expanding or relocating in the Memphis MSA, a situation exacerbated during the COVID-19 pandemic. Accordingly, the contact described a need for banks to provide programs that assist small businesses.

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## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### LENDING TEST

#### Loan-to-Deposit (LTD) Ratio

One indication of the bank's overall level of lending activity is its LTD ratio. The table below displays the bank's average LTD ratio in comparison to those of regional peers. The average LTD ratio represents a 12-quarter average, dating back to the bank's last CRA evaluation.

LTD Ratio Analysis			
Name	Headquarters	Asset Size (\$ 000s) as of December 31, 2021	Average LTD Ratio
Patriot Bank	Millington, Tennessee	\$471,428	59.8%
Regional Banks	Memphis, Tennessee	\$538,832	92.8%
	Brownsville, Tennessee	\$444,605	88.0%
	Bartlett, Tennessee	\$491,950	72.3%

Based on data from the previous table, the bank's level of lending is below that of other banks in the region, with a 12-quarter average of 59.8 percent; however, during the review period, the LTD ratio had an overall increasing trend. In comparison, the three regional peer banks each experienced an overall decreasing trend. Although the bank's average LTD performance is below regional peers, the majority of the bank's loan originations involve mortgage loans sold to secondary market investors, which would not be reflected in the LTD ratio. As discussed previously, the bank originated 1,636 home loans totaling \$409.2 million that were sold into the secondary market during 2020. Moreover, based on home mortgage lending activity, the bank was a prominent mortgage lender in the assessment area in 2020. This business model is a significant factor in the bank's lower LTD ratio when compared to peers. Given this information, as well as the bank's size, financial condition, and assessment area credit needs, the LTD ratio is reasonable.

For the loan activity reviewed as part of this evaluation, the following table displays the number and dollar volume of loans inside and outside the bank's assessment area.

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<b>Lending Inside and Outside of Assessment Area January 1, 2020 through December 31, 2020</b>						
<b>Loan Type</b>	<b>Inside Assessment Area</b>		<b>Outside Assessment Area</b>		<b>TOTAL</b>	
HMDA	1,503	88.7%	191	11.3%	<b>1,694</b>	<b>100%</b>
	\$373,958	89.5%	\$43,929	10.5%	<b>\$417,887</b>	<b>100%</b>
Small Business	67	95.7%	3	4.3%	<b>70</b>	<b>100%</b>
	\$9,276	96.8%	\$307	3.2%	<b>\$9,583</b>	<b>100%</b>
<b>TOTAL LOANS</b>	<b>1,570</b>	<b>89.0%</b>	<b>194</b>	<b>11.0%</b>	<b>1,764</b>	<b>100%</b>
	<b>\$383,234</b>	<b>89.7%</b>	<b>\$44,236</b>	<b>10.3%</b>	<b>\$427,470</b>	<b>100%</b>

A majority of loans and other lending-related activities were made in the bank's assessment area. As shown above, 89.0 percent of the total loans were made inside the assessment area, accounting for 89.7 percent of the dollar volume of total loans.

### **Loan Distribution by Borrower's Profile**

Overall, the bank's loan distribution by borrower's profile is reasonable, based on performance from both loan categories reviewed. In reaching overall conclusions, greater significance is placed on performance in the HMDA loan category given the bank's emphasis on HMDA lending.

Borrowers are classified into low-, moderate-, middle-, and upper-income categories by comparing their reported income to the applicable median family income figure as estimated by the FFIEC (\$65,900 for the Memphis MSA as of 2020). The following table shows the distribution of HMDA-reported loans by borrower income level in comparison to family population income demographics for the assessment area. Additionally, 2020 aggregate data for the assessment area is displayed.

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Borrower Distribution of Residential Real Estate Loans								
Assessment Area: Memphis Partial MSA								
Product Type	Borrower Income Levels	2020						
		Count			Dollar			Families
		Bank		HMDA Aggregate	Bank		HMDA Aggregate	
		#	%	%	\$ (000s)	\$ %	\$ %	%
Home Purchase	Low	14	8.9%	3.2%	1,143	0.6%	1.4%	25.6%
	Moderate	109	17.3%	14.4%	16,638	9.1%	9.5%	15.3%
	Middle	196	19.3%	20.1%	42,790	23.3%	17.9%	16.6%
	Upper	407	42.1%	46.1%	121,178	66.1%	56.4%	42.5%
	Unknown	9	12.4%	16.3%	1,536	0.8%	14.8%	0.0%
	<b>TOTAL</b>	<b>735</b>	<b>100.0%</b>	<b>100.0%</b>	<b>183,285</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Refinance	Low	5	12.0%	1.7%	484	0.3%	0.7%	25.6%
	Moderate	53	18.0%	7.1%	7,510	4.0%	4.2%	15.3%
	Middle	159	29.0%	15.5%	29,668	15.6%	11.5%	16.6%
	Upper	497	31.0%	52.5%	136,537	72.0%	60.0%	42.5%
	Unknown	50	10.0%	23.1%	15,486	8.2%	23.6%	0.0%
	<b>TOTAL</b>	<b>764</b>	<b>100.0%</b>	<b>100.0%</b>	<b>189,685</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Home Improvement	Low	0	8.3%	3.8%	0	0.0%	1.3%	25.6%
	Moderate	0	8.3%	10.0%	0	0.0%	5.6%	15.3%
	Middle	0	16.7%	17.4%	0	0.0%	14.0%	16.6%
	Upper	1	50.0%	63.4%	96	100.0%	73.5%	42.5%
	Unknown	0	16.7%	5.4%	0	0.0%	5.6%	0.0%
	<b>TOTAL</b>	<b>1</b>	<b>100.0%</b>	<b>100.0%</b>	<b>96</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Multifamily	Low	0	0.0%	0.0%	0	0.0%	0.0%	25.6%
	Moderate	0	0.0%	0.8%	0	0.0%	0.1%	15.3%
	Middle	0	0.0%	0.0%	0	0.0%	0.0%	20.2%
	Upper	2	14.3%	7.5%	510	57.2%	1.0%	39.5%
	Unknown	1	85.7%	91.7%	382	42.8%	98.8%	0.0%
	<b>TOTAL</b>	<b>3</b>	<b>100.0%</b>	<b>100.0%</b>	<b>892</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
HMDA TOTALS	Low	19	1.3%	2.3%	1,627	0.4%	1.0%	25.6%
	Moderate	162	10.8%	9.9%	24,148	6.5%	6.1%	15.3%
	Middle	355	23.6%	16.7%	72,458	19.4%	13.3%	16.6%
	Upper	907	60.3%	48.4%	258,321	69.1%	55.0%	42.5%
	Unknown	60	4.0%	22.7%	17,404	4.7%	24.6%	0.0%
	<b>TOTAL</b>	<b>1,503</b>	<b>100.0%</b>	<b>100.0%</b>	<b>373,958</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

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As displayed in the preceding table, the bank's percentage of lending to low-income borrowers (1.3 percent) is substantially below the low-income family population figure (25.6 percent). However, the bank's performance is similar to the 2020 aggregate lending level to low-income borrowers (2.3 percent), reflecting reasonable performance. Next, the bank's level of lending to moderate-income borrowers (10.8 percent) is below the moderate-income family population percentage (15.3 percent) but similar to the 2020 aggregate lending level to moderate-income borrowers (9.9 percent), reflecting reasonable performance. While performance was below demographic comparators, it was acknowledged that elevated poverty levels, at 16.0 percent, may be an impeding factor for this performance criterion. A community contact indicated that many LMI individuals in the assessment area do not qualify for traditional mortgage loan products due to credit issues, indicating that aggregate lending is a better comparator. Therefore, considering performance relative to peer institutions and elevated poverty levels in the assessment area, the bank's overall distribution of loans by borrower's profile is reasonable.

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Next, small business loans were reviewed to determine the bank's lending levels to businesses of different sizes. The following table shows the distribution of 2020 small business loans by loan amount and business revenue size compared to Dun & Bradstreet and aggregate data.

Small Business Loans by Revenue and Loan Size								
Assessment Area: Memphis Partial MSA								
Business Revenue and Loan Size		2020						
		Count			Dollars			Total Businesses
		Bank		Aggregate	Bank		Aggregate	
		#	%	%	\$ (000s)	\$ %	\$ %	%
Business Revenue	\$1 Million or Less	46	68.7%	33.7%	\$6,427	69.3%	22.6%	90.0%
	Over \$1 Million/Unknown	21	31.3%	66.3%	\$2,849	30.7%	77.4%	10.0%
	<b>TOTAL</b>	<b>67</b>	<b>100.0%</b>	<b>100.0%</b>	<b>\$9,276</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Loan Size	\$100,000 or Less	44	65.7%	86.6%	\$1,559	16.8%	29.1%	
	\$100,001–\$250,000	11	16.4%	7.5%	\$1,693	18.3%	20.3%	
	\$250,001–\$1 Million	11	16.4%	5.9%	\$4,756	51.3%	50.6%	
	Over \$1 Million	1	1.5%	0.0%	\$1,268	13.7%	0.0%	
	<b>TOTAL</b>	<b>67</b>	<b>100.0%</b>	<b>100.0%</b>	<b>\$9,276</b>	<b>100.0%</b>	<b>100.0%</b>	
Loan Size Revenue \$1 Million or Less	\$100,000 or Less	29	63.0%		\$1,123	17.5%		
	\$100,001–\$250,000	7	15.2%		\$930	14.5%		
	\$250,001–\$1 Million	10	21.7%		\$4,374	68.1%		
	Over \$1 Million	0	0.0%		\$0	0.0%		
	<b>TOTAL</b>	<b>46</b>	<b>100.0%</b>		<b>\$6,427</b>	<b>100.0%</b>		

The bank's level of lending to small businesses is reasonable. The bank originated the majority of its small business loans (68.7 percent) to businesses with revenues of \$1 million or less. In comparison, assessment area demographics estimate that 90.0 percent of businesses in the assessment area had annual revenues of \$1 million or less, and the 2020 aggregate lending level to small businesses is 33.7 percent.

### Geographic Distribution of Loans

As noted previously, the assessment area includes 66 low-income and 49 moderate-income census tracts, representing 46.9 percent of all assessment area census tracts. Overall, the bank's geographic distribution of loans in this assessment area reflects poor penetration throughout these LMI census tracts, based on the HMDA and small business loan categories. The following table

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displays the geographic distribution of 2020 HMDA loans compared to owner-occupied housing demographics and aggregate performance for the assessment area.

Geographic Distribution of Residential Real Estate Loans								
Assessment Area: Memphis Partial MSA								
Product Type	Tract Income Levels	2020						
		Count			Dollar			Owner-Occupied Units
		Bank		HMDA Aggregate	Bank		HMDA Aggregate	
		#	%	%	\$ (000s)	\$ %	\$ %	
Home Purchase	Low	11	1.5%	5.6%	1,025	0.6%	2.1%	12.6%
	Moderate	32	4.4%	10.7%	3,412	1.9%	5.0%	16.6%
	Middle	167	22.7%	20.8%	33,490	18.3%	16.4%	21.6%
	Upper	525	71.4%	62.9%	145,358	79.3%	76.5%	49.0%
	Unknown	0	0.0%	0.0%	0	0.0%	0.0%	0.1%
	<b>TOTAL</b>	<b>735</b>	<b>100.0%</b>	<b>100.0%</b>	<b>183,285</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Refinance	Low	10	1.3%	1.5%	1,040	0.5%	0.8%	12.6%
	Moderate	15	2.0%	4.6%	3,110	1.6%	2.4%	16.6%
	Middle	129	16.9%	15.6%	24,935	13.1%	11.7%	21.6%
	Upper	610	79.8%	78.3%	160,600	84.7%	85.1%	49.0%
	Unknown	0	0.0%	0.0%	0	0.0%	0.0%	0.1%
	<b>TOTAL</b>	<b>764</b>	<b>100.0%</b>	<b>100.0%</b>	<b>189,685</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Home Improvement	Low	0	0.0%	5.3%	0	0.0%	2.3%	12.6%
	Moderate	0	0.0%	8.4%	0	0.0%	5.1%	16.6%
	Middle	0	0.0%	15.0%	0	0.0%	9.8%	21.6%
	Upper	1	100.0%	71.3%	96	100.0%	82.8%	49.0%
	Unknown	0	0.0%	0.1%	0	0.0%	0.0%	0.1%
	<b>TOTAL</b>	<b>1</b>	<b>100.0%</b>	<b>100.0%</b>	<b>96</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Multifamily	Low	1	33.3%	37.5%	290	32.5%	15.2%	12.6%
	Moderate	0	0.0%	15.0%	0	0.0%	11.0%	16.6%
	Middle	2	66.7%	21.7%	602	67.5%	20.8%	21.6%
	Upper	0	0.0%	25.0%	0	0.0%	47.0%	49.0%
	Unknown	0	0.0%	0.8%	0	0.0%	6.0%	0.1%
	<b>TOTAL</b>	<b>3</b>	<b>100.0%</b>	<b>100.0%</b>	<b>892</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
HMDA TOTALS	Low	22	1.5%	3.6%	2,355	0.6%	2.1%	12.6%
	Moderate	47	3.1%	7.7%	6,522	1.7%	4.0%	16.6%
	Middle	298	19.8%	18.0%	59,027	15.8%	14.1%	21.6%
	Upper	1,136	75.6%	70.7%	306,054	81.8%	79.5%	49.0%
	Unknown	0	0.0%	0.0%	0	0.0%	0.3%	0.1%
	<b>TOTAL</b>	<b>1,503</b>	<b>100.0%</b>	<b>100.0%</b>	<b>373,958</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>



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The analysis of HMDA loans revealed poor lending performance to borrowers residing in low-income geographies. The bank's total penetration of low-income census tracts by number of loans (1.5 percent) is well below the percentage of owner-occupied housing units in low-income census tracts (12.6 percent). The bank's performance in low-income census tracts is also slightly below other lenders in the assessment area based on 2020 HMDA aggregate data, which indicate that 3.6 percent of aggregate HMDA loans inside this assessment area were made to borrowers residing in low-income geographies.

Bank performance in moderate-income census tracts was significantly below comparison data and deemed poor. The bank's total penetration of moderate-income census tracts by number of loans (3.1 percent) is well below the percentage of owner-occupied housing units in moderate-income census tracts (16.6 percent). The bank's performance in moderate-income census tracts is also below that of other lenders based on aggregate lending data, which indicate that 7.7 percent of aggregate HMDA loans inside this assessment area were made to borrowers residing in moderate-income census tracts. Consequently, the bank's geographic distribution of HMDA loans in LMI geographies, 4.6 percent, is poor.

Second, the bank's geographic distribution of small business loans was reviewed. The following table displays 2020 small business loan activity by geography income level compared to the location of businesses throughout the bank's assessment area and 2020 small business aggregate data.

Geographic Distribution of Small Business Loans Assessment Area: Memphis Partial MSA							
Tract Income Levels	2020						
	Count			Dollar			Businesses
	Bank		Aggregate	Bank		Aggregate	
	#	%	%	\$ 000s	\$ %	\$ %	%
Low	4	6.0%	12.1%	\$146	1.6%	12.1%	14.6%
Moderate	5	7.5%	15.0%	\$320	3.5%	17.1%	16.1%
Middle	22	32.8%	17.7%	\$2,812	30.3%	17.2%	18.9%
Upper	36	53.7%	53.7%	\$5,997	64.7%	51.0%	49.4%
Unknown	0	0.0%	1.5%	\$0	0.0%	2.6%	1.0%
<b>TOTAL</b>	<b>67</b>	<b>100.0%</b>	<b>100.0%</b>	<b>\$9,275</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

The bank's level of lending in low-income census tracts (6.0 percent) is below the estimated percentage of businesses operating inside these census tracts (14.6 percent) and 2020 aggregate lending levels in low-income census tracts (12.1 percent). Consequently, the bank's performance in low-income areas is poor. The bank's percentage of loans in moderate-income census tracts (7.5 percent) is below the 2020 aggregate lending percentage in moderate-income census tracts (15.0 percent) and below the percentage of small businesses in moderate-income census tracts (16.1 percent), representing poor performance. Therefore, the bank's overall geographic distribution of small business loans is poor.

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Lastly, based on reviews from both loan categories, Patriot Bank's loan activity reached 61.3 percent of all assessment area census tracts. However, the bank made loans in 89.5 of all middle- and upper-income geographies, compared to having loan activity in only 21.2 percent of low-income census tracts and 53.1 percent of moderate-income census tracts. As previously mentioned, the substantial majority of LMI census tracts are located in the western portion of Shelby County, where the analysis of the bank's HMDA and small business lending activity revealed multiple conspicuous lending gaps. This disparity in the bank's lending is consistent with the overall poor geographic distribution of loans.

### **Responses to Complaints**

No CRA-related complaints were filed against the bank during this review period (March 4, 2019 through February 6, 2021).

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### **COMMUNITY DEVELOPMENT TEST**

The bank's overall community development performance demonstrates adequate responsiveness to the community development needs of the assessment area, considering the bank's capacity and the need and availability of such opportunities for community development in the assessment area. The bank has addressed the community development needs of the assessment area through community development loans, qualified investments, and community development services.

During the review period, the bank made 37 qualifying loans totaling approximately \$19.7 million. Of this total, five loans totaling \$11.3 million were to provide affordable housing for LMI individuals in Shelby County. The remaining 32 loans totaling \$8.4 million were Paycheck Protection Program loans to small business in LMI census tracts.

Community development investments and donations made in the assessment area totaled \$16.0 million. This amount included the purchase of 17 municipal bonds for \$14.1 million, with proceeds used to fund infrastructure projects that revitalized and stabilized LMI census tracts in Memphis. In addition, the bank had \$509,414 in investment renewals of certificate of deposit accounts at a Memphis community development financial institution. Furthermore, the bank made 33 donations totaling \$679,200 to 17 different organizations having a community development purpose. Of this amount, the bank donated \$516,500 to organizations with an affordable housing community development purpose.

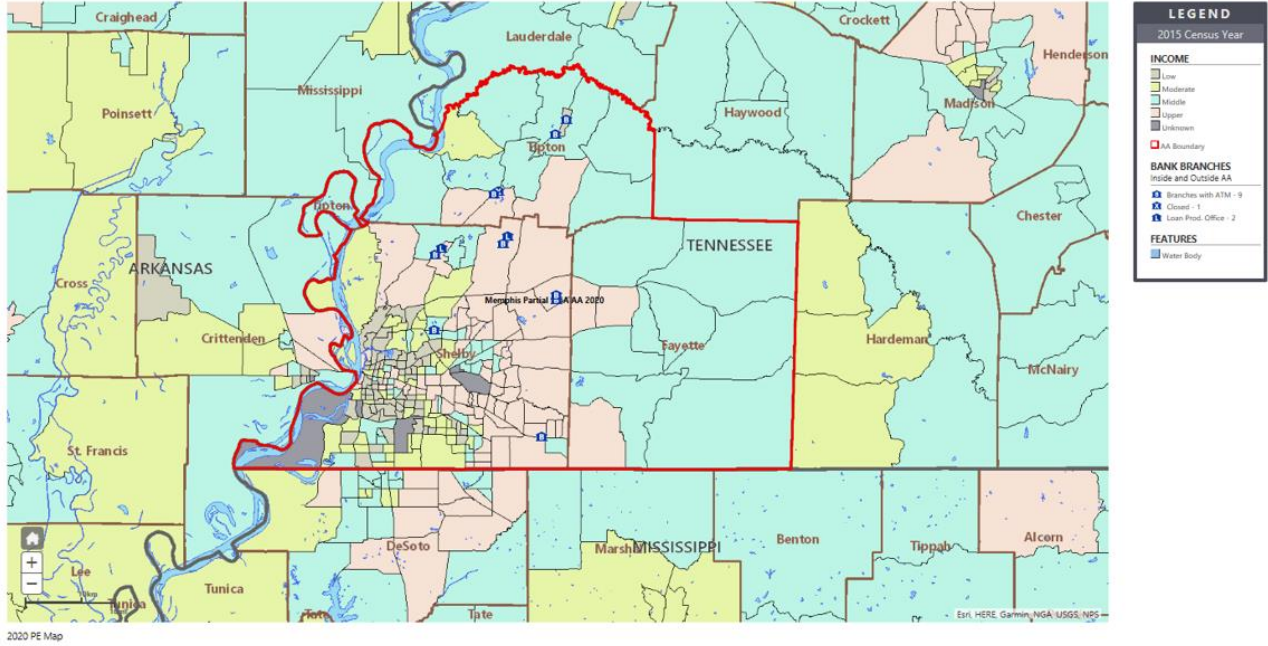
Additionally, seven bank employees provided approximately 201 service hours, benefiting eight organizations with a community development purpose. Some qualified services include providing financial expertise to an affordable housing organization and a community development financial institution and providing credit counseling services to LMI individuals within the assessment area.

### **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Based on findings from the Consumer Affairs examination, including a fair lending analysis performed under Regulation B – Equal Credit Opportunity and the Fair Housing Act requirements, conducted concurrently with this CRA evaluation, no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

### ASSESSMENT AREA DETAIL

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## 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.

**Assessment area:** One or more of the geographic areas delineated by the bank and used by the regulatory agency to assess an institution's record of CRA performance.

**Census tract:** A small subdivision of metropolitan and nonmetropolitan 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 on 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 contact:** Interviews conducted as part of the CRA examination to gather information that might assist examiners in understanding the bank's community, available opportunities for helping to meet local credit and community development needs, and perceptions on the performance of financial institutions in helping meet local credit needs. Communications and information gathered can help to provide a context to assist in the evaluation of an institution's CRA performance.

**Community development:** An activity associated with one of the following five descriptions: (1) affordable housing (including multifamily rental housing) for low- or moderate-income individuals; (2) community services targeted to low- or moderate-income individuals; (3) 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; (4) activities that revitalize or stabilize low- or moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies; or (5) Neighborhood Stabilization Program (NSP) eligible activities in areas with HUD-approved NSP plans, which are conducted within two years after the date when NSP program funds are required to be spent and benefit low-, moderate-, and middle-income individuals and geographies.

**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.

**Demographics:** The statistical characteristics of human populations (e.g., age, race, sex, and income) used especially to identify markets.

**Appendix B (continued)**

**Distressed nonmetropolitan middle-income geography:** A middle-income, nonmetropolitan 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 nonrelatives 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, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, 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 who 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 income of applicants; the amount of loan requested; and the disposition of the application (e.g., 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 refinancing of home improvement and home purchase loans.

**Household:** One or more persons who occupy a housing unit. The occupants may be a single family, one person living alone, two or more families living together, or any other group of related or unrelated persons who share living arrangements.

**Housing affordability ratio:** Calculated by dividing the median household income by the median housing value. It represents the amount of single family, owner-occupied housing that a dollar of income can purchase for the median household in the census tract. Values closer to 100 percent indicate greater affordability.

**Limited-scope review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Appendix B (continued)**

**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 family income:** The dollar amount that divides the family income distribution into two equal groups, half having incomes above the median, half having incomes below the median. The median family income is based on all families within the area being analyzed.

**Metropolitan area (MA):** A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. An 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. An MD is a division of an MSA based on specific criteria including commuting patterns. Only an 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.

**Nonmetropolitan statistical area (nonMSA):** Not part of a metropolitan area. (See metropolitan area.)

**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.

**Performance context:** The performance context is a broad range of economic, demographic, and institution- and community-specific information that an examiner reviews to understand the context in which an institution's record of performance should be evaluated. The performance context is not a formal or written assessment of community credit needs.

**Appendix B (continued)**

**Performance criteria:** These are the different criteria against which a bank's performance in helping to meet the credit needs of its assessment area(s) is measured. The criteria relate to lending, investment, retail service, and community development activities performed by a bank. The performance criteria have both quantitative and qualitative aspects. There are different sets of criteria for large banks, intermediate small banks, small banks, wholesale/limited purpose banks, and strategic plan banks.

**Performance evaluation (PE):** A written evaluation of a financial institution's record of meeting the credit needs of its community, as prepared by the federal financial supervision agency responsible for supervising the institution.

**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 businesses/small farms:** A small business/farm is considered to be one in which gross annual revenues for the preceding calendar year were \$1 million or less.

**Small loan(s) to business(es):** That is, "small business loans" are included in "loans to small businesses" as defined in the Consolidated Reports 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 secured by either 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):** That is, "small farm loans" are included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Reports 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.

**Underserved middle-income geography:** A middle-income, nonmetropolitan geography will be designated as underserved if it meets criteria for population size, density, and dispersion that indicate 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.