

PUBLIC DISCLOSURE

July 18, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Memphis State Bank
RSSD 495857

621 Noel Street
Memphis, Texas 79245

Federal Reserve Bank of Dallas
2200 North Pearl Street
Dallas, Texas 75201

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.

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

The performance of Memphis State Bank in originating loans to meet the credit needs of all segments of its community is rated satisfactory for the period covered by the evaluation. The factors supporting this rating include:

- A majority of agricultural and consumer motor vehicle loans, 81.7% of the number and 61.1% of the dollar volume, were originated inside its assessment areas.
- A reasonable penetration of loans among individuals of different income levels and farms of different sizes.

Detracting from the bank's performance is a less than reasonable loan-to-deposit ratio of 23.9% as of March 31, 2011 with a quarterly average of 28.3% for 16 quarters since the last examination. The low lending volume diminishes the overall performance.

SCOPE OF EXAMINATION

Memphis State Bank's performance with respect to the CRA was assessed by analyzing a sample of 60 agricultural loans totaling \$8 million and 65 consumer motor vehicle loans totaling \$310 thousand originated by the bank between January 1, 2010 and December 31, 2010.

The evaluation was conducted using the CRA small bank performance standards. Small bank CRA performance standards evaluate:

- average loan-to-deposit ratio since the last CRA evaluation;
- the overall level of lending within the assessment area;
- the bank's lending to borrowers of different income levels, and businesses and farms of different sizes;
- the bank's geographic distribution of loans within its assessment area; and,
- the bank's response to written complaints with respect to CRA performance in the assessment area.

Each standard is viewed as part of an overall picture of the bank's performance in meeting the credit needs of its delineated assessment areas. A majority of the bank's deposits and loans are in the Hall County assessment area; therefore, it will receive a greater weight in the bank's performance. Further, the bank's primary lending product is agricultural loans and it will receive the greatest weight.

DESCRIPTION OF INSTITUTION

Baylor Bancshares, Inc. (Baylor) owns 100% of Memphis State Bank (MSB). Affiliated entities include Citizens State Bank, Princeton, Texas; Baylor Mortgage Company, Seymour, Texas; and First National Banks of Seymour and Whitney, Texas. Baylor Mortgage Company provides commercial and agricultural loans nationally.

MSB operates three locations. Two locations are in Hall County, the main office in Memphis, Texas, and a branch in Turkey, Texas. The third branch is located in White Deer, Carson County, Texas. The bank does not own or operate an automated teller machine. MSB offers agricultural, commercial, construction, and consumer secured and unsecured loans. Deposit products offered include checking, certificates of deposit, money market deposit accounts, savings, and NOW accounts. Additionally, MSB provides its customers direct deposit, preauthorized withdrawals, telephone transfers, gift cards, and debit cards. Personal internet banking includes account transfers, bill pay, and the ability to make internal loan payments.

The bank’s hours of operation are 9:00 a.m. – 3:00 p.m., Monday through Friday at each location. The locations are shown in the following table:

RETAIL BRANCHES		
BRANCH ADDRESS	CENSUS TRACT/ INCOME LEVEL	COUNTY
Main Branch 621 Noel Memphis, Texas 79245	9502.00 Moderate	Hall
Turkey Branch 201 Main Street Turkey, Texas 79261	9504.00 Moderate	Hall
White Deer Branch 221 South Main White Deer, Texas 79097	9501.00 Middle	Carson

As of March 31, 2011, the bank reported total assets of \$32.1 million, gross loans of \$6.8 million, and total deposits of \$28.2 million. The following table reflects the loan portfolio mix:

PRODUCT	3/31/2011 \$(000's)	% OF LOANS
<u>Real Estate</u>		
Other Const Lns & Land Dev & Other	70	1.03
Farm Land	123	1.81
1-4 Family Res Secured by First Liens	371	5.45
Lns Secured by Other NonFrm NonRes	1,270	18.65
Total Real Estate	1,834	26.93
Agricultural	2,925	42.95
Commercial and Industrial	1,180	17.33
Consumer	858	12.60
State and Political	1	0.01
Other	12	0.18
Gross Loans	6,810	100.00

*Percentage may not equal 100 due to rounding.

MSB’s ability to meet various credit needs of the community has not been hampered by its capacity to lend, its financial condition and size, product offerings, prior performance, legal

impediments, or other factors. The bank received a satisfactory rating on its last CRA performance evaluation dated April 23, 2007, performed by the Federal Reserve Bank of Dallas.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LOAN-TO-DEPOSIT RATIO

The general purpose of CRA is to encourage banks to meet the credit needs in their assessment areas while operating in a safe and sound manner. To gain an understanding of the bank’s lending activity, the net loan-to-deposit (LTD) ratio is reviewed to approximate the credit demand of the assessment areas and assess the bank’s willingness to meet the community’s demand for credit.

MSB’s net LTD ratio is less than reasonable given the bank’s size and financial condition, the credit needs of the assessment areas, and the local banking environment. As of March 31, 2011, the net LTD ratio was 23.9%, and the quarterly average since the previous evaluation was 28.3%.

To better understand the bank’s performance in relation to its assessment areas, a comparison of similarly situated local banks was performed. These banks were chosen for analysis based on their proximity and similar size and structure. As noted, MSB’s LTD ratios are noticeably low compared to its peers in their assessment areas and reflect unfavorably upon the bank’s efforts to meet the credit needs of its community. No ranking is implied in the order of the competitor banks listed below.

BANK	COUNTY	TOTAL ASSETS 3/31/2011 (\$000)	LTD RATIO 3/31/2011	QUARTERLY* AVERAGE LTD RATIO
Memphis State Bank Memphis, Texas	Hall	32,062	23.9%	28.3%
State National Bank Groom, Texas	Carson	38,175	69.8%	77.8%
First Bank and Trust Memphis, Texas	Hall	65,778	73.6%	75.8%

*Based on 16 quarters since the last CRA performance evaluation.

The low level of lending detracts from the bank’s overall performance.

LENDING IN ASSESSMENT AREAS

A majority of the bank’s loans were originated inside its assessment areas. As shown in the table below, the bank extended 81.7% of all loans, and 61.1% of the dollar volume, within the assessment areas.

ASSESSMENT AREAS CONCENTRATION								
LOAN TYPE	INSIDE ASSESSMENT AREAS				OUTSIDE ASSESSMENT AREAS			
	#	%	\$000's	% of \$	#	%	\$000's	% of \$
Consumer Motor Vehicle	53	88.3	288	92.9	7	11.7	22	7.1
Agricultural	49	75.4	1,750	57.8	16	24.6	1,275	42.2
TOTAL	102	81.7	2,039	61.1	23	18.3	1,297	38.9

The remaining analysis will be based on loans made inside the bank's assessment areas.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND FARMS OF DIFFERENT SIZES

The distribution of lending based on income and revenue levels of the borrowers reflects reasonable penetration among individuals of different income levels and farms of different sizes. A majority of the loans were made to low- and moderate-income (LMI) individuals and farms with gross annual revenue under \$1 million. Data supporting this analysis can be seen in detail under the separate assessment area discussions.

GEOGRAPHIC DISTRIBUTION OF LOANS

Because the bank's assessment areas are comprised solely of moderate-income census tracts in the Hall County assessment area and middle-income census tracts in the Carson County assessment area, no meaningful analysis could be conducted for this category.

RESPONSE TO COMPLAINTS

There were no complaints related to CRA during the review period. Consequently, the bank's performance in responding to complaints was not considered in evaluating its overall CRA performance.

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. The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations. Established policies and procedures are designed to ensure ongoing compliance with applicable laws and regulations.

FULL-SCOPE ASSESSMENT AREAS CONCLUSIONS

DESCRIPTION OF HALL COUNTY

Hall County is located in a rural non-metropolitan area. The 2010 estimated population for Hall County is 3,353, which declined 11% between 2000 and 2010. The county comprises 903 square miles. The population density is four people per square mile. Hall County is located in the southeastern Panhandle east of the High Plains on U.S. Highway 287 about ninety miles southeast of Amarillo. The city of Memphis is the county seat with an estimated population of 2,479. Hall County also includes the cities of Estelline, Lakeview, and Turkey.

As of the evaluation date, MSB operated two retail branches in Hall County which contained \$17.1 million in deposits at June 30, 2010. MSB ranks second in deposit market share out of three FDIC-insured financial institutions operating in Hall County. The deposits in the bank's Hall County branches represented 23% of the total deposits in FDIC-insured financial institutions. First Bank and Trust of Memphis dominates the market, with 62% of total deposits, and Wellington State Bank has 15% of total deposits.

Demographic and economic information impacting the bank's performance context are further discussed below. Information was obtained from publicly available sources including the U.S. Department of Commerce's Bureau of the Census, 2000; the U.S. Department of Labor; the U.S. Department of Housing and Urban Development (HUD); Dun & Bradstreet; and the Texas Workforce Commission.

The following table details selected characteristics of the assessment area:

Assessment Area Demographics
 Hall County

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income		
	#	%	#	%	#	%	#	%	
Low-income	0	0.0	0	0.0	0	0.0	317	31.9	
Moderate-income	2	100.0	994	100.0	215	21.6	215	21.6	
Middle-income	0	0.0	0	0.0	0	0.0	215	21.6	
Upper-income	0	0.0	0	0.0	0	0.0	247	24.8	
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0	
Total Assessment Area	2	100.0	994	100.0	215	21.6	994	100.0	
	Housing Units by Tract	Housing Types by Tract							
		Owner-Occupied		Rental		Vacant			
		#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	0	0.0	
Moderate-income	1,988	100.0	1,150	57.8	398	20.0	440	22.1	
Middle-income	0	0.0	0	0.0	0	0.0	0	0.0	
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0	
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0	
Total Assessment Area	1,988	100.0	1,150	57.8	398	20.0	440	22.1	
	Total Businesses by Tract	Businesses by Tract & Revenue Size							
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported			
		#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	0	0.0	
Moderate-income	184	100.0	159	86.4	10	5.4	15	8.2	
Middle-income	0	0.0	0	0.0	0	0.0	0	0.0	
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0	
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0	
Total Assessment Area	184	100.0	159	86.4	10	5.4	15	8.2	
Percentage of Total Businesses:				86.4		5.4		8.2	
	Total Farms by Tract	Farms by Tract & Revenue Size							
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported			
		#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	0	0.0	
Moderate-income	50	100.0	48	96.0	2	4.0	0	.0	
Middle-income	0	0.0	0	0.0	0	0.0	0	0.0	
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0	
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0	
Total Assessment Area	50	100.0	48	96.0	2	4.0	0	.0	
Percentage of Total Farms:				96.0		4.0		.0	

Based on 2010 D&B information according to 2000 Census Boundaries.

Income Characteristics: Based on 2000 Census information, Hall County contains two census tracts, both of which are moderate-income. There are 994 families in Hall County, of which 31.9% are low-, 21.6% are moderate-, 21.6% are middle-, and 24.8% are upper-income. Hall County has 21.6% of families living below the poverty level compared to 11.9% for the state of Texas. The median family income is \$27,325, which is substantially below the State's median family income at \$45,861. Further, there are 1,527 households in Hall County of which 35.2% are low-, 19.9% are moderate-, 19.1% are middle-, and 26.3% are upper-income.

Housing: Based on 2000 Census information, the median age of housing stock is 45 years. There are 1,988 housing units in Hall County with 57.8% owner-occupied, 20.0% rental, and 22.1% vacant. The estimated median housing value is \$24,300, compared to \$77,800 for the state.

Labor, Employment and Economic Characteristics: The area's economy is largely made up of farming, agriculture, and supporting businesses. In 2010 Dun & Bradstreet reported 184 businesses and 50 farms in Hall County. Of the 184 businesses, 159 had gross annual revenues less than or equal to \$1 million, 10 with gross annual revenues of over \$1 million, and 15 businesses with unknown revenues. Of the 50 farms, 48 had gross annual revenues less than or equal to \$1 million, and two with gross annual revenues of \$1 million.

Hall County had an unemployment rate of 9.2% for 2010, which is higher than the state unemployment rate of 8.2%. It is possible the economy will deteriorate further with the drought. One of the largest employers was Dale Miller Independent Consultant (DMIC); however, they recently laid off employees. The Memphis Independent School District is another large employer in Hall County.

Community Contacts and Credit Needs: Contact was made with a community organization in Hall County that provides affordable housing for low- and moderate-income individuals. The contact stated financial literacy is a significant need in the community. Per the contact, clients served by the organization need to understand basic banking and budgeting. Jobs are also needed in Hall County. The contact stated people are competing for minimum wage jobs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TO BORROWERS OF DIFFERENT INCOMES AND FARMS OF DIFFERENT SIZES

The distribution of lending based on income and revenue levels of the borrowers reflects reasonable penetration among individuals of different income levels and farms of different sizes. However, the low volume of lending detracts from the overall performance. The income level of the borrowers was compared to the state nonmetropolitan median family income for 2010. The following table depicts the referenced income level ranges:

INCOME LEVEL	2010 TEXAS NONMETROPOLITAN
Median Income	\$46,500
Low-income	\$0 < \$23,250
Moderate-income	\$23,250 < \$37,200
Middle-income	\$37,200 < \$55,800
Upper-income	\$55,800 and up

As shown in table below, in 2010 MSB made 37 consumer motor vehicle loans in this assessment area. The bank made 12 or 32.4% to low-income borrowers, 14 or 37.8% to moderate-income borrowers, 4 or 10.8% to middle-income borrowers, and 4 or 10.8% to upper-income borrowers. MSB’s lending to borrowers of different income levels is reasonable. When compared to the percentage of households in those categories in the assessment area, the bank’s performance exceeds the demographics.

DISTRIBUTION OF CONSUMER MOTOR VEHICLE LOANS BY MEDIAN FAMILY INCOME LEVEL													
Low			Moderate			Middle			Upper			Income N/A	
#	%	%*	#	%	%*	#	%	%*	#	%	%*	#	%
12	32.4	31.9	14	37.8	21.6	4	10.8	21.6	4	10.8	24.8	3	8.1

*Percentage of households

The following table reflects the distribution of agricultural loans extended in the assessment area by gross annual revenues of the borrower in 2010. The bank extended 27 or 71.1% of its loans to farms with gross annual revenues of \$1 million or less. The largest small farm had gross annual revenue of approximately \$785,000 in 2010. MSB did not collect gross annual revenues on 11 loans; however, according to 2010 Dun & Bradstreet information only 4% (two) of farms in the assessment area had gross annual revenues greater than \$1 million. Given this, MSB’s lending to small farms with gross annual revenues of \$1 million or less is reasonable when compared to 2010 Dun & Bradstreet information.

DISTRIBUTION OF AGRICULTURAL LOANS BY GROSS ANNUAL REVENUES		
Gross Annual Revenues	Number of Loans	Percent of Loans
\$25,000 and less	9	23.7
\$25,001 - \$55,000	7	18.4
\$55,001 - \$100,000	3	7.9
\$100,001 - \$200,000	3	7.9
\$200,001 - \$250,000	2	5.3
\$250,001 - \$500,000	2	5.3
\$500,000 - \$1 million	1	2.6
Total <= \$1 million	27	71.1
Revenues Not Available	11	28.9
TOTAL	38	100%

*Percentage may not equal 100 due to rounding.

Another way to gauge the bank’s small farm lending performance is to review the data by loan amount. Small farms typically require smaller dollar credits. Loans ranged from \$1,000 to approximately \$300,000. As noted below, 76.3% of MSB’s agricultural loans were \$25,000 or less. The following table reflects the distribution of agricultural loans in the assessment area by loan amount.

DISTRIBUTION OF AGRICULTURAL LOANS BY LOAN AMOUNT		
Loan Amount	Number of Loans	Percent of Loans
\$10,000 or less	13	34.2
\$10,000 - \$25,000	16	42.1
\$25,001 - \$50,000	5	13.2
\$50,001 - \$100,000	3	7.9
\$100,000 - \$300,000	1	2.6
TOTAL	38	100%

*Percentage may not equal 100 due to rounding.

GEOGRAPHIC DISTRIBUTION OF LOANS

Although 75 loans were originated in the assessment area, Hall County is comprised solely of moderate-income census tracts; therefore, a meaningful analysis could not be conducted for this category.

DESCRIPTION OF CARSON COUNTY

Carson County is part of the Amarillo, Texas Metropolitan Statistical Area (MSA). The 2010 estimated population for Carson County is 6,182, which represented a 5.1% decline between 2000 and 2010. The county comprises 923 square miles. The population density is seven people per square mile. The city of Panhandle is the county seat with an estimated population of 2,245 as of 2009. Carson County also includes the cities of Groom, White Deer, and Skellytown. Carson County is located in a MSA, but it is very rural and adjacent to several non-metropolitan counties.

As of the evaluation date, MSB operated one retail branch in Carson County which contained \$8.6 million in deposits at June 30, 2010. MSB ranks third in deposit market share out of four FDIC-insured financial institutions operating in the county. The deposits in the bank’s Carson County branch represented 10% of the total deposits in FDIC-insured financial institutions. Happy State Bank dominates the market, with 56% of total deposits, followed by State National Bank of Groom, with 27% of total deposits.

Demographic and economic information impacting the bank’s performance context are discussed below. Information was obtained from publicly available sources including the U.S. Department of Commerce’s Bureau of the Census, 2000; the U.S. Department of Labor; the U.S. Department of Housing and Urban Development (HUD); Dun & Bradstreet; and the Texas Workforce Commission.

The following table details selected characteristics of Carson County:

Assessment Area Demographics
 Carson County

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income		
	#	%	#	%	#	%	#	%	
Low-income	0	0.0	0	0.0	0	0.0	273	14.4	
Moderate-income	0	0.0	0	0.0	0	0.0	338	17.8	
Middle-income	2	100.0	1,899	100.0	102	5.4	452	23.8	
Upper-income	0	0.0	0	0.0	0	0.0	836	44.0	
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0	
Total Assessment Area	2	100.0	1,899	100.0	102	5.4	1,899	100.0	
	Housing Units by Tract	Housing Types by Tract							
		Owner-Occupied				Rental		Vacant	
		#	%	%	#	%	#	%	
Low-income	0	0	0.0	0.0	0	0.0	0	0.0	
Moderate-income	0	0	0.0	0.0	0	0.0	0	0.0	
Middle-income	2,815	2,064	100.0	73.3	406	14.4	345	12.3	
Upper-income	0	0	0.0	0.0	0	0.0	0	0.0	
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0	
Total Assessment Area	2,815	2,064	100.0	73.3	406	14.4	345	12.3	
	Total Businesses by Tract	Businesses by Tract & Revenue Size							
		Less Than or = \$1 Million				Over \$1 Million		Revenue Not Reported	
		#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	0	0.0	
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0	
Middle-income	218	100.0	194	100.0	7	100.0	17	100.0	
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0	
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0	
Total Assessment Area	218	100.0	194	100.0	7	100.0	17	100.0	
Percentage of Total Businesses:				89.0		3.2		7.8	
	Total Farms by Tract	Farms by Tract & Revenue Size							
		Less Than or = \$1 Million				Over \$1 Million		Revenue Not Reported	
		#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	0	0.0	
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0	
Middle-income	98	100.0	94	100.0	3	100.0	1	100.0	
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0	
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0	
Total Assessment Area	98	100.0	94	100.0	3	100.0	1	100.0	
Percentage of Total Farms:				95.9		3.1		1.0	

Based on 2010 D&B information according to 2000 Census Boundaries.

Income Characteristics: Based on 2000 Census information, Carson County contains two census tracts; both are middle-income tracts. There are 1,899 families in Carson County, of which 14.4% are low-, 17.8% are moderate-, 23.8% are middle-, and 44.0% are upper-income. Carson County has 5.4% of families living below the poverty level compared to 11.9% for the state of Texas. The median family income is \$47,147 which is greater than the state's median family income at \$45,861. Further, there are 2,482 households in Carson County of which 17.7% are low-, 14.9% are moderate-, 21.7% are middle-, and 45.7% are upper-income.

Housing: Based on 2000 Census information the median age of housing stock is 36 years. There are 2,815 housing units in Carson County with 73.3% owner-occupied, 14.4% rental, and 12.3% vacant. The estimated median housing value is \$52,900, compared to \$77,800 for the state.

Labor, Employment and Economic Characteristics: The area economy is largely made up of farming, agriculture, and related businesses. In 2010 Dun & Bradstreet reported 218 businesses and 98 farms in Carson County. Of the 218 businesses, 194 had gross annual revenues less than or equal to \$1 million, 7 with gross annual revenues of over \$1 million, and 17 businesses with unknown revenues. Of the 98 farms, 94 had gross annual revenues less than or equal to \$1 million, 3 had gross annual revenues of \$1 million, and 1 farm had unknown revenue. Carson County had an unemployment rate of 5.2% for 2010, which is substantially lower than the state unemployment rate of 8.2%.

Community Contacts and Credit Needs: No community contact was made in Carson County.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TO BORROWERS OF DIFFERENT INCOMES AND FARMS OF DIFFERENT SIZES

The distribution of lending based on income and revenue levels of the borrowers reflects reasonable penetration among individuals of different income levels and farms of different sizes. Detracting from the bank's performance is the limited lending volume. The income level of the borrowers was compared to the Amarillo, Texas MSA median family income for 2010. The following table depicts the referenced income level ranges:

INCOME LEVEL	2010 AMARILLO, TX MSA
Median Income	\$56,000
Low-income	\$0 < \$28,000
Moderate-income	\$28,000 < \$44,800
Middle-income	\$44,800 < \$67,200
Upper-income	\$67,200 and up

As shown in the table below, in 2010 MSB made 16 consumer motor vehicle loans in its assessment area. The bank made 7 or 43.7% to low-income borrowers, 5 or 31.3% to moderate-income borrowers, and 3 or 18.7% to middle-income borrowers. No loans were made to upper-

income borrowers. MSB’s lending to borrowers of different income levels is reasonable. When compared to the percentage of households in those categories in the assessment area, the bank’s performance exceeds the demographics.

DISTRIBUTION OF CONSUMER MOTOR VEHICLE LOANS BY MEDIAN FAMILY INCOME LEVEL													
Low			Moderate			Middle			Upper			Income N/A	
#	%	%*	#	%	%*	#	%	%*	#	%	%*	#	%
7	43.7	14.4	5	31.3	17.8	3	18.7	23.8	0	0.0	44.0	1	6.3

*Percentage of households

The following table reflects the distribution of agricultural loans extended in the assessment area by gross annual revenues of the borrower in 2010. The bank extended 11 or 100% of its loans to farms with gross annual revenues of \$1 million or less. The largest small farm reported gross annual revenue of \$645,625. According to 2010 Dun & Bradstreet information only 3% of farms in the assessment area had gross annual revenues greater than \$1 million. Given this, MSB’s lending to small farms with gross annual revenues of \$1 million or less is reasonable when compared to Dun & Bradstreet 2010 information.

DISTRIBUTION OF AGRICULTURAL LOANS BY GROSS ANNUAL REVENUES		
Gross Annual Revenues	Number of Loans	Percent of Loans
\$25,000 and less	1	9.1
\$25,001 - \$55,000	1	9.1
\$55,001 - \$100,000	6	54.5
\$100,001 - \$200,000	0	0.0
\$200,001 - \$250,000	0	0.0
\$250,001 - \$500,000	2	18.2
\$500,000 - \$1 million	1	9.1
TOTAL	11	100%

*Percentage may not equal 100 due to rounding.

Another way to gauge the bank’s small farm lending performance is to review the data by loan amount. Small farms typically require smaller dollar credits. Loan amounts range from \$3,500 to approximately \$350,000. As noted in the table below, 45.5% of MSB’s agricultural loans were \$25,000 or less. The following table reflects the distribution of agricultural loans in the assessment area by loan amount.

DISTRIBUTION OF AGRICULTURAL LOANS BY LOAN AMOUNT		
Loan Amount	Number of Loans	Percent of Loans
\$10,000 or less	2	18.2
\$10,000 - \$25,000	3	27.3
\$25,001 - \$50,000	0	0.0
\$50,001 - \$100,000	4	36.4
\$100,000 - \$500,000	2	18.2
TOTAL	11	100%

*Percentage may not equal 100 due to rounding.

GEOGRAPHIC DISTRIBUTION OF LOANS

Although 27 loans were originated in the assessment area, Carson County is comprised solely of middle-income census tracts; therefore, a meaningful analysis could not be conducted for this category.

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, relatively permanent statistical subdivision of a county. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts average about 4,000 inhabitants, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to the 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 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 income of the applicants; the amount of loan requested; and the disposition of the application (for example, approved, denied, or 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: 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 is analyzed using only quantitative factors (for example, geographic distribution and borrower 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 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.