PUBLIC DISCLOSURE

November 12, 2019

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Elberfeld State Bank
RSSD #16748

55 Main Street
Elberfeld, Indiana 47613

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 Elberfeld State Bank meets the criteria for a Satisfactory rating based on the evaluation of the bank's lending activity. 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 substantial 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 (LMI) levels, and businesses and farms of different revenue sizes.
- The geographic distribution of loans reflects poor dispersion throughout the assessment area.
- There were no CRA-related complaints filed against the bank since the previous CRA evaluation.

SCOPE OF EXAMINATION

The bank's CRA performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC's) Examination Procedures for Small Institutions. Residential real estate, small business, and small farm loans were used to evaluate the bank's lending performance, as 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 Home Mortgage Disclosure Act (HMDA) loan category carried the most significance toward overall performance conclusions. The following table details the performance criterion and the corresponding time periods used in each analysis.

Performance Criterion	Time Period
LTD Ratio	September 30, 2015 – September 30, 2019
Assessment Area Concentration	January 1, 2017 – December 31, 2018
Geographic Distribution of Loans	
Loan Distribution by Borrower's Profile	
Response to Written CRA Complaints	September 21, 2015 – November 11, 2019

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 American

Community Survey (ACS) data; certain business and farm demographics are based on 2017 and 2018 Dun & Bradstreet data. When analyzing bank performance by considering lending activity along with 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 in an assessment area. Aggregate lending datasets are updated annually and are, therefore, expected to predict more relevant performance. 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 $54.1 million to $116.6 million, as of September 30, 2019

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

DESCRIPTION OF INSTITUTION

The Elberfeld State Bank is a full-service retail bank offering both consumer and commercial loan and deposit products. The bank is wholly owned by ESB Bancorp, Inc., a one-bank holding company headquartered in Elberfeld, Indiana. The bank's branch network consists of three offices (including the main office), two of which have full-service automated teller machines onsite. In addition to being full-service facilities, all offices have drive-up accessibility. The bank did not open or close any branch offices during this review period. Given the bank's asset size and branch network relative to the size of its assessment area, its low market share, and high levels of competition, the bank could not reasonably be expected to meet the financial needs of its entire assessment area. In particular, the bank may struggle to reach Posey County, where it does not have a branch presence. Moreover, the bank may struggle to compete with other financial institutions maintaining a larger branch presence in Vanderburgh County, which contains the assessment area's LMI census tracts.

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 September 30, 2019, the bank reported total assets of $80.2 million. As of the same date, loans and leases outstanding were $46.2 million (57.6 percent of total assets), and deposits totaled $69.7 million. The bank's loan portfolio composition by credit category is displayed in the following table.

Distribution of Total Loans as of September 30, 2019		
Credit Category	**Amount ($000s)**	**Percentage of Total Loans**
Construction and Development	$559	1.2%
Commercial Real Estate	$9,459	20.5%
Multifamily Residential	$56	0.1%
1–4 Family Residential	$14,621	31.7%
Farmland	$16,819	36.4%
Farm Loans	$957	2.1%
Commercial and Industrial	$2,989	6.5%
Loans to Individuals	$612	1.3%
Total Other Loans	$84	0.2%
TOTAL	**$46,156**	**100%**

As indicated by the table above, a significant portion of the bank's lending resources is directed to loans secured by 1–4 family residential properties, commercial real estate loans, and farmland. 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. According to the bank's 2016–2018 HMDA data, since its previous CRA evaluation, 72.5 percent of its HMDA loans by dollar were sold into the secondary market.

The bank received a Satisfactory rating at its previous CRA evaluation conducted on September 21, 2015, by this Reserve Bank.

DESCRIPTION OF ASSESSMENT AREA

General Demographics

The bank's assessment area, which has a population of 301,535, is located in southwestern Indiana in the Evansville, Indiana-Kentucky Metropolitan Statistical Area (Evansville MSA). The Evansville MSA contains three counties in Indiana and one county in Kentucky; the bank's assessment area consists of the three counties comprising the Indiana portion of the MSA: Posey, Vanderburgh, and Warrick Counties, along with adjacent Gibson County that extends into nonMSA Indiana. This assessment area is urban in the south, particularly south central Vanderburgh County, which contains the city of Evansville, and more rural to the north, east, and west. Within this assessment area, Evansville, the county seat of Vanderburgh County, has the largest population, at 117,963 as of 2018, per U.S. Census Bureau estimates.

According to the Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report data as of June 30, 2019, there are 19 FDIC-insured depository institutions in the assessment area that operate 98 offices. The Elberfeld State Bank (operating three offices in the assessment area) ranked 12th in terms of deposit market share, with 1.2 percent of the total assessment area deposit dollars. Within Vanderburgh County, specifically, The Elberfeld State Bank had an even smaller deposit market share (0.3 percent), ranking 12th out of 14 institutions.

As noted primarily from community contacts, credit-related needs within the assessment area include affordable housing and small business loans. Additionally, first-time homebuyer assistance programs are needed.

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	10	13	34	15	2	**74**
	13.5%	17.6%	45.9%	20.3%	2.7%	**100%**
Family Population	5,837	10,741	35,674	26,151	61	**78,464**
	7.4%	13.7%	45.5%	33.3%	0.1%	**100%**

As shown above, 31.1 percent of the census tracts in the assessment area are LMI geographies, but only 21.1 percent of the family population resides in these tracts. These LMI areas are all located in and around the city of Evansville, in Vanderburgh County.

Based on 2015 ACS data, the median family income for the assessment area was $62,608. At the same time, the median family income for the state of Indiana was $61,119. More recently, the FFIEC estimates the 2018 median family income for Indiana to be $61,000. The following table displays population percentages of assessment area families by income level compared to the state of Indiana as a whole.

Family Population by Income Level						
Dataset	**Low-**	**Moderate-**	**Middle-**	**Upper-**	**Unknown**	**TOTAL**
Assessment Area	15,685	13,753	16,111	32,915	0	**78,464**
	20.0%	17.5%	20.5%	42.0%	0.0%	**100%**
Indiana	343,175	293,634	351,089	667,145	0	**1,655,043**
	20.7%	17.7%	21.2%	40.3%	0.0%	**100%**

As shown in the table above, 37.5 percent of families in the assessment area are considered LMI, which is in line with LMI family percentages of 38.4 percent in the state of Indiana. The percentage of families living below the poverty threshold in the assessment area, 10.3 percent, is similar to the 11.1 percent level in the state of Indiana. Considering these factors, the assessment area appears similar in affluence to the state of Indiana as a whole.

Housing Demographics

Based on housing values, income levels, and rental costs, homeownership in the assessment area is similar to the state of Indiana as a whole. The median housing value for the assessment area is $123,666, which is similar to the state figure of $124,200. The assessment area housing affordability ratio of 39.2 percent is also similar to that of the state of Indiana, 39.7 percent. Finally, the median gross rent for the assessment area of $711 per month is lower than $745 per month for the state of Indiana.

Based on housing data and community contact interviews, while homeownership appears to be similar to the state of Indiana as a whole, it may not be within the reach of the assessment area’s LMI population. Community contacts noted a need for affordable housing development in the assessment area, as the quality and supply of affordable housing stock is low, with high utility costs. Per one community contact, appraisal gaps, elevated debt levels, and insufficient funds for down payments create barriers for LMI families seeking to obtain homeownership.

Industry and Employment Demographics

The assessment area supports a diverse business community, including a strong small business sector, as evidenced by Dun & Bradstreet data indicating 88.1 percent of businesses in the assessment area have gross annual revenues of less than $1 million. County business patterns indicate that there are 143,736 paid employees in the assessment area. By percentage of employees, the three largest job categories are health care and social assistance (17.8 percent), manufacturing (17.0 percent), and retail trade (11.6 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 Indiana as a whole.

Unemployment Levels for the Assessment Area		
Time Period (Annual Average)	**Assessment Area**	**Indiana**
2016	4.1%	4.4%
2017	3.2%	3.6%
2018	3.1%	3.4%
2019 (9-month)	3.1%	3.5%

As shown in the table above, unemployment levels for the assessment area, as well as the state of Indiana, have shown a decreasing trend. Additionally, unemployment levels in the assessment area are slightly lower than state levels.

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. Of these community contact interviews, one was with an individual specializing in affordable housing, and one was with a person specializing in economic development. The community contact interviewees categorized the economy as good, with moderate growth. Interviewees also emphasized the need for affordable housing. One contact specifically noted the need for quality housing in Gibson County. The contact also stated that low-income individuals and families in the Evansville area are paying a high percentage of their income on rent, and the quality of much of the housing is relatively poor, with high utility costs. In addition, the contact noted the supply of housing is limited, with few alternatives to the low-quality structures currently in place.

One community contact noted a need for workforce development in the assessment area. The contact explained that, due to the presence of several large manufacturing companies in the area, most of the jobs available require specific technological and management skills. These requirements limit the access of many LMI residents that do not have the economic capacity and opportunity to attain the necessary skills. The contact stated that lack of reliable transportation and specialized job skills are barriers that keep many LMI residents within the city of Evansville in low-wage jobs. Further, the contact noted that many youth in the area move away to larger and more prosperous cities for economic and educational opportunities.

One community contact stated that agriculture is still a large part of the economy, particularly in Gibson County, where it is a substantial source of property tax income. There is also a large agricultural lobby in the county that prioritizes prosperous farming and land ownership. The contact noted that one result of this substantial agricultural presence is a lower level of housing development.

Other needs noted by community contacts include down payment assistance for LMI borrowers, particularly first-time homebuyers. The community contacts also noted a need for financial literacy. Poor credit histories and high debt levels often disqualify applicants for homeownership, and the development of financial literacy courses would be a step forward to combating this issue.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit (LTD) Ratio

One indication of the bank's overall level of lending activity is its LTD ratio. The chart below displays the bank's average LTD ratio in comparison to those of regional peers. The average LTD ratio represents a 17-quarter average, dating back to the bank's last CRA evaluation.

LTD Ratio Analysis			
Name	**Headquarters**	**Asset Size ($000s) as of September 30, 2019**	**Average LTD Ratio**
The Elberfeld State Bank	Elberfeld, Indiana	$80,240	62.6%
Regional Banks	Lynnville, Indiana	$116,609	78.8%
	Poseyville, Indiana	$84,245	81.3%
	Boonville, Indiana	$54,076	90.6%

Based on data from the previous table, the bank's level of lending is below that of other banks in the region. During the review period, the LTD ratio experienced a generally stable trend, with a 17-quarter average of 62.6 percent. In comparison, the average LTD ratios for the regional peers were higher and had similarly stable trends. While the bank's LTD ratio is lower than those of its peers, compared to those same peers, a larger percentage of the bank's originated HMDA loans are sold on the secondary market and are not reflected in the ratio. Therefore, compared to data from regional banks, the bank's average LTD ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.

Assessment Area Concentration

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.

Lending Inside and Outside of Assessment Area January 1, 2017 through December 31, 2018						
Loan Type	**Inside Assessment Area**		**Outside Assessment Area**		**TOTAL**	
HMDA	70	94.6%	4	5.4%	**74**	**100%**
	$8,847	96.1%	356	3.9%	**$9,203**	**100%**
Small Business	53	98.1%	1	1.9%	**54**	**100%**
	$7,486	93.7%	$500	6.3%	**$7,986**	**100%**
Small Farm	26	68.4%	12	31.6%	**38**	**100%**
	$5,162	78.2%	$1,440	21.8%	**$6,602**	**100%**
TOTAL LOANS	**149**	**89.8%**	**17**	**10.2%**	**166**	**100%**
	$21,495	**90.3%**	**$2,296**	**9.7%**	**$23,791**	**100%**

A substantial majority of loans and other lending-related activities were made in the bank's assessment area. As shown above, 89.8 percent of the total loans were made inside the assessment area, accounting for 90.3 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 the three loan categories reviewed. 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 ($57,300 and $61,000 for the state of Indiana in 2017 and 2018, respectively). 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, 2017 and 2018 aggregate data for the assessment area is displayed.

Distribution of Loans Inside Assessment Area by Borrower Income January 1, 2017 through December 31, 2018												
	Borrower Income Level										**TOTAL**	
	Low-		**Moderate-**		**Middle-**		**Upper-**		**Unknown**			
Home Purchase	1	3.3%	4	13.3%	4	13.3%	21	70.0%	0	0.0%	**30**	**100%**
Refinance	1	3.2%	7	22.6%	9	29.0%	14	45.2%	0	0.0%	**31**	**100%**
Home Improvement	0	0.0%	0	0.0%	0	0.0%	5	100%	0	0.0%	**5**	**100%**
Multifamily	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	**0**	**100%**
Other Purpose Closed	0	0.0%	2	50.0%	1	25.0%	1	25.0%	0	0.0%	**4**	**100%**
TOTAL HMDA	**2**	**2.9%**	**13**	**18.6%**	**14**	**20.0%**	**41**	**58.6%**	**0**	**0.0%**	**70**	**100%**
Family Population	20.0%		17.5%		20.5%		41.9%		0.0%		**100%**	
2017 HMDA Aggregate	8.8%		21.4%		20.4%		28.5%		20.9%		**100%**	
2018 HMDA Aggregate	8.3%		21.4%		20.0%		30.3%		19.9%		**100%**	

As displayed in the preceding table, the bank's percentage of lending to low-income borrowers (2.9 percent) does not compare favorably to the low-income family population figure (20.0 percent). The 2017 and 2018 aggregate lending levels to low-income borrowers measured 8.8 percent and 8.3 percent, respectively. Therefore, the bank's performance to low-income borrowers is poor. Conversely, the bank's level of lending to moderate-income borrowers (18.6 percent) compares favorably to the moderate-income family population percentage (17.5 percent). The 2017 and 2018 aggregate lending levels to moderate-income borrowers both measured 21.4 percent. Therefore, the bank's performance to moderate-income borrowers is reasonable.

As previously stated, the bank holds only 1.2 percent of the total assessment area deposit dollars, competing with 18 other FDIC-insured depository institutions with a branch presence in the area. Additionally, the bank only operates three branches in the assessment area with other larger banks operating significantly more. Given these factors, the bank may struggle to compete in the market. Therefore, considering this context and performance in both income categories, the bank's overall distribution of loans by borrower's profile is reasonable.

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 2017 and 2018 small business loans by loan amount and business revenue size compared to Dun & Bradstreet and aggregate data.

Distribution of Loans Inside Assessment Area by Business Revenue January 1, 2017 through December 31, 2018								
Gross Revenue	**Loan Amounts in $000s**						**TOTAL**	
	≤$100		**>$100 and ≤$250**		**>$250 and ≤$1,000**			
$1 Million or Less	21	39.6%	4	7.5%	2	3.8%	**27**	**50.9%**
Greater Than $1 Million/Unknown	12	22.6%	8	15.1%	6	11.3%	**26**	**49.1%**
TOTAL	**33**	**62.3%**	**12**	**22.6%**	**8**	**15.1%**	**53**	**100.0%**
Dun & Bradstreet Businesses ≤ $1MM							**88.1%**	
2017 Small Business Aggregate < $1MM							**45.1%**	
2018 Small Business Aggregate < $1MM							**41.9%**	

The bank's level of lending to small businesses is reasonable. The bank originated the majority of its small business loans (50.9 percent) to businesses with revenues of $1 million or less. The bank's performance does not compare favorably to assessment area demographics, which estimate that 88.1 percent of businesses in the assessment area had annual revenues of $1 million or less. However, 2017 and 2018 aggregate lending levels to small businesses measured 45.1 percent and 41.9 percent, respectively.

Finally, small farm loans were reviewed to determine the bank's lending levels to farms of different sizes. The following table shows the distribution of 2017 and 2018 small farm loans by loan amount and revenue size compared to Dun & Bradstreet and aggregate data.

Distribution of Loans Inside Assessment Area by Farm Revenue January 1, 2017 through December 31, 2018								
Gross Revenue	**Loan Amounts in $000s**						**TOTAL**	
	≤$100		**>$100 and ≤$250**		**>$250 and ≤$1,000**			
$1 Million or Less	5	19.2%	12	46.2%	5	19.2%	**22**	**84.6%**
Greater Than $1 Million/Unknown	1	3.8%	2	7.7%	1	3.8%	**4**	**15.4%**
TOTAL	**6**	**23.1%**	**14**	**53.8%**	**6**	**23.1%**	**26**	**100.0%**
Dun & Bradstreet Farms ≤ $1MM							**98.3%**	
2017 Small Farm Aggregate < $1MM							**48.3%**	
2018 Small Farm Aggregate < $1MM							**47.5%**	

The bank's level of lending to small farms is reasonable. The bank originated the majority of its small farm loans (84.6 percent) to farms with revenues of $1 million or less. The bank's performance does not compare favorably to assessment area demographics, which estimate that 98.3 percent of businesses in the assessment area had annual revenues of $1 million or less. However, 2017 and 2018 aggregate lending levels to small farms measured 48.3 percent and 47.5 percent, respectively.

Geographic Distribution of Loans

As noted previously, the assessment area includes 10 low-income and 13 moderate-income census tracts, representing 31.1 percent of all assessment area census tracts. Overall, the bank's geographic distribution of loans reflects poor penetration throughout these LMI census tracts, based on the HMDA and small business loan categories. Performance in the small farm loan category was not assessed, as there was not enough opportunity for small farm lending in LMI census tracts to conduct a meaningful analysis.

As previously stated, performance in the HMDA loan category carried the most significance toward the overall conclusion of poor for geographic distribution.

The following table displays the geographic distribution of 2017 and 2018 HMDA loans compared to owner-occupied housing demographics and aggregate performance for the assessment area.

Distribution of Loans Inside Assessment Area by Geography Income Level

January 1, 2017 through December 31, 2018

	Geography Income Level										TOTAL	
	Low-		Moderate-		Middle-		Upper-		Unknown			
Home Purchase	1	3.3%	0	0.0%	12	40%	17	56.7%	0	0.0%	**30**	**100%**
Refinance	0	0.0%	1	3.2%	14	45.2%	16	51.6%	0	0.0%	**31**	**100%**
Home Improvement	0	0.0%	1	12.5%	6	75.0%	5	100%	0	0.0%	**5**	**100%**
Multifamily	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	**0**	**100%**
Other Purpose Closed	0	0.0%	0	0.0%	2	50%	2	50%	0	0.0%	**4**	**100%**
TOTAL HMDA	**1**	**1.4%**	**1**	**1.4%**	**28**	**40%**	**40**	**57.1%**	**0**	**0.0%**	**70**	**100%**
Owner-Occupied Housing	5.3%		10.9%		47.6%		36.2%		0.1%		**100%**	
2017 HMDA Aggregate	3.4%		11.6%		45.1%		39.8%		0.2%		**100%**	
2018 HMDA Aggregate	3.6%		11.3%		44.2%		40.8%		0.1%		**100%**	

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 (1.4 percent) does not compare favorably to the percentage of owner-occupied housing units in low-income census tracts (5.3 percent). In addition, 2017 and 2018 HMDA aggregate data indicate that 3.4 percent and 3.6 percent, respectively, 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 deemed very poor. The bank's total penetration of moderate-income census tracts by number of loans (1.4 percent) does not compare favorably to the percentage of owner-occupied housing units in moderate-income census tracts (10.9 percent). In addition, 2017 and 2018 aggregate lending data indicate that 11.6 percent and 11.3 percent, respectively, of aggregate HMDA loans inside this assessment area were made to borrowers residing in moderate-income census tracts.

As previously stated, all LMI census tracts are located in Vanderburgh County. The bank's limited branch presence there, along with high competition from other lenders, makes it difficult for the bank to reach these areas. In fact, the market in Vanderburgh County is largely dominated by two financial institutions that hold a combined 72.8 percent of the county's deposit dollars (compared to The Elberfeld State Bank's 0.3 percent). Despite these factors, the bank's geographic distribution of HMDA loans in LMI geographies, 2.8 percent, is poor.

Next, the geographic distribution of small business loans was reviewed. The following table displays 2017 and 2018 small business loan activity by geography income level compared to the location of businesses throughout the bank's assessment area and 2017 and 2018 small business aggregate data.

Distribution of Loans Inside Assessment Area by Geography Income Level

January 1, 2017 through December 31, 2018

	Geography Income Level										**TOTAL**	
	Low-		**Moderate-**		**Middle-**		**Upper-**		**Unknown**			
Small Business Loans	1	1.9%	2	3.8%	18	30.4%	31	58.5%	1	1.9%	**53**	**100%**
Business Institutions	7.6%		17.5%		40.3%		30.4%		4.2%		**100%**	
2017 Small Business Aggregate	7.6%		18.9%		35.8%		32.5%		5.2%		**100%**	
2018 Small Business Aggregate	7.9%		17.3%		36.7%		32.5%		5.6%		**100%**	

The bank's level of lending in low-income census tracts (1.9 percent) does not compare favorably to the estimated percentage of businesses operating inside these census tracts (7.6 percent). In addition, 2017 and 2018 aggregate lending levels in low-income census tracts measured 7.6 percent and 7.9 percent, respectively. Consequently, the bank's performance in low-income areas is poor. Similarly, the bank's percentage of loans in moderate-income census tracts (3.8 percent) does not compare favorably to the percentage of small businesses in moderate-income census tracts (17.5 percent). In addition, 2017 and 2018 aggregate lending levels in moderate-income census tracts measured 18.9 percent and 17.3 percent, respectively. Therefore, the bank's performance in moderate-income areas is very poor. Based on the bank's combined performance in low- and moderate-income geographies, the bank's geographic distribution of small business loans is very poor.

Lastly, as previously stated, the bank cannot be reasonably expected to serve its entire assessment area due to factors such as asset size and branch network relative to the size of its assessment area, its low market share, and high levels of competition. The bank made loans in 32.4 percent of its assessment area census tracts and in 21.7 percent of LMI census tracts. While the bank did not reach all portions of its assessment area, loan distribution was consistent with the bank's branching structure and size. Therefore, no conspicuous lending gaps were noted in LMI areas. However, the bank's overall geographic distribution of loans remains poor.

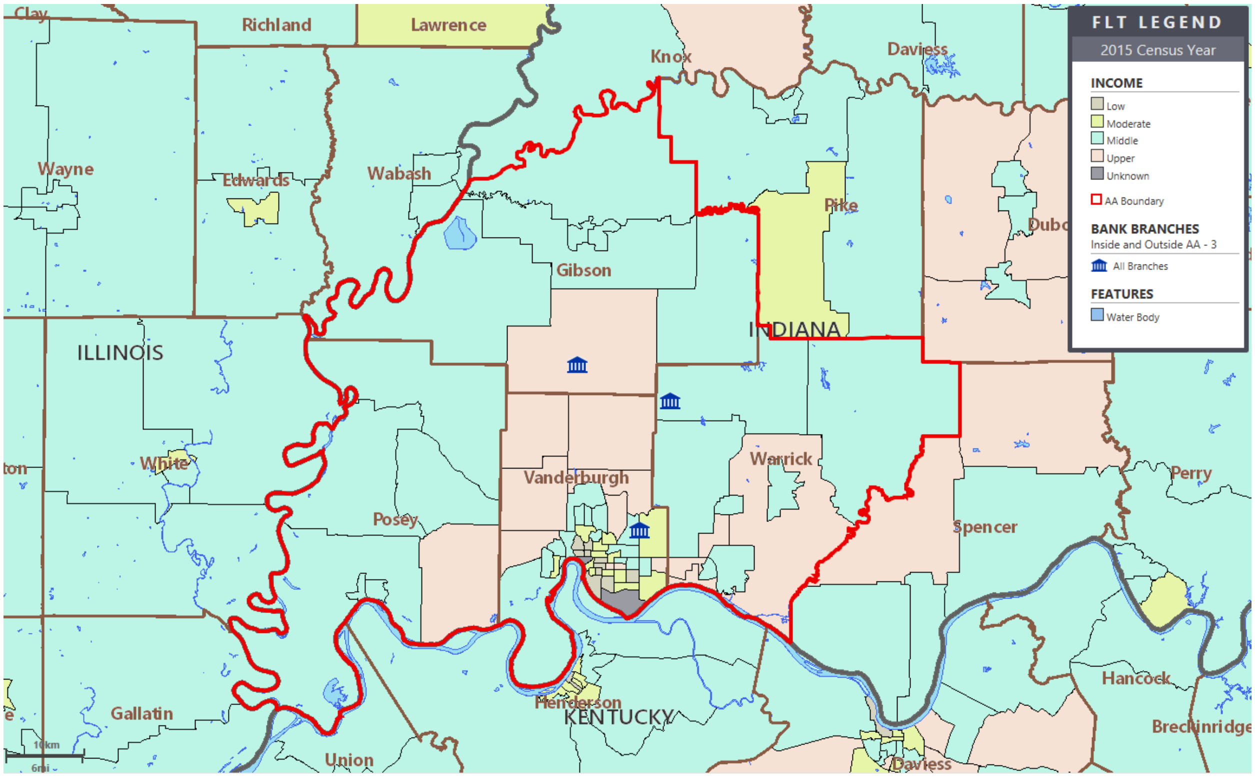
Responses to Complaints

No CRA-related complaints were filed against the bank during this review period (September 21, 2015 through November 11, 2019).

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



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- and moderate-income (LMI) individuals; (2) community services targeted to LMI 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 LMI 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.

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).

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.

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.