



PUBLIC DISCLOSURE

JULY 7, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**THE MORRIS STATE BANK
RSSD# 95659**

**800 WEST OZARK STREET
MORRIS, OKLAHOMA 74445**

**Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, Missouri 64198**

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 COMMUNITY REINVESTMENT ACT RATING:

*This institution is rated: **Satisfactory***

The Morris State Bank (the bank) has a satisfactory record of meeting the credit needs of its assessment area (AA), consistent with its resources and operating philosophy. The bank's average net loan-to-deposit (NLTD) ratio is reasonable considering the characteristics of the bank, performance of local competitors, and credit needs of the communities it serves. A majority of loans were originated inside the AA. In addition, the bank's lending reflects a reasonable dispersion throughout the AA based on the income level of geographies, as well as among borrowers of different income levels.

SCOPE OF EXAMINATION

The bank's Community Reinvestment Act (CRA) performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC) Interagency Examination Procedures for Small Institutions. Four of the five criteria used to evaluate small institution CRA performance were relevant to this review and are as follows:

- NLTD Ratio;
- Lending Inside the AA;
- Distribution of Loans by Income of Geography, and,
- Lending to Borrowers of Different Income Levels.

No written complaints have been received by the bank or the Federal Reserve Bank of Kansas City (Reserve Bank) with respect to CRA performance; therefore, complaints were not evaluated.

The CRA evaluation was performed in the context of information about the bank and its' AA, such as asset size, financial condition, economic and demographic characteristics, and competition. Lending activities for the bank's major products were reviewed, which included residential real estate and consumer loans. The residential real estate loan sample consisted of the bank's universe of 120 residential real estate loans originated between January 1, 2012 and December 31, 2013. The consumer loan sample included a statistically-derived sample of 99 consumer motor vehicle loans originated between July 1, 2014 and December 31, 2014.

To supplement the CRA evaluation, interviews were conducted with members of the local community to determine the specific credit needs, opportunities to lend, and local market conditions within the bank's AA, as well as to evaluate the bank's overall responsiveness in helping to meet those needs.

DESCRIPTION OF INSTITUTION

The bank, a \$74.2 million institution headquartered in Morris, Oklahoma, is located approximately 30 miles south of Tulsa and ten miles east of Okmulgee, Oklahoma. The bank is a wholly-owned subsidiary of Mabrey Bancorporation, Incorporated, a two-bank holding company in Okmulgee, Oklahoma. Its affiliate, Mabrey Bank, is a \$748.8 million institution and state member bank, located in Bixby, Oklahoma. Bixby is located approximately 25 miles north of the bank's sole location in Morris, Oklahoma. Additionally, the bank operates three cash-only automated teller machines (ATMs). The bank has not closed or opened any branches or ATMs since the previous evaluation.

Table 1 illustrates the distribution of loans within the bank's loan portfolio as of the March 31, 2015 Report of Condition and Income. The bank reported total loans of \$55.6 million with residential real estate and consumer loan composition totaling 64.1 percent of the portfolio. Commercial, agriculture, and other loans complete the remaining 35.9 percent. In addition, the bank reported total deposits of \$63.9 million. The bank retains a 14.2 percent deposit market share in Okmulgee County, Oklahoma based on the Federal Deposit Insurance Corporation Market Share report as of June 30, 2014. The bank ranks third out of six financial institutions operating within the Okmulgee County AA.

| TABLE 1 THE MORRIS STATE BANK LOAN PORTFOLIO | | |
|---|-----------------------|-------------------------|
| Loan Type | Amount \$(000) | Percent of Total |
| Residential Real Estate | 26,512 | 48.0 |
| Agriculture | 12,988 | 23.5 |
| Consumer | 8,419 | 15.2 |
| Commercial | 7,065 | 12.8 |
| Other | 312 | 0.5 |
| Gross Loans | 55,296 | 100.0 |

There are no known legal or financial factors that prevent the bank from meeting the credit needs of its AA. The bank received a satisfactory rating at its previous CRA evaluation conducted by this Reserve Bank on May 2, 2011.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank has designated its AA to include Okmulgee County in its entirety, which is located in the northeastern region of the state of Oklahoma and is included in the Tulsa MSA. The AA is largely rural, and composed of 4 moderate- and 6 middle-income census tracts. No census tracts have been designated as distressed or underserved. In addition, the bank has not changed its AA designation since the previous evaluation.

Population Trends and Characteristics

According to 2014 FFEIC data, the AA contains a population of 40,069, consisting primarily of white (64.4 percent) and American Indian (21.1 percent) populations. This is followed distantly by African American (9.3 percent); Hispanic (3.2 percent); and Asian (0.4 percent) populations. Other minority populations comprise the remaining 1.6 percent. A higher presence of American Indian populations can be attributed to the AA's close proximity to the Osage and Creek-Seminole Indian reservations. Population growth in the AA has remained relatively stable, increasing by only 1.0 percent since 2011. In comparison, population within the state of Oklahoma has grown 8.7 percent during the same period. Limited growth in the AA can be attributed to the area's rural composition and limited availability of job opportunities.

Income Characteristics

The AA is home to approximately 10,712 families, of which 48.9 percent are designated as low- and moderate-income (LMI). This is above the percentage of LMI families residing in the entire Tulsa MSA (39.0 percent) and the state of Oklahoma (39.2 percent). In addition, the AA contains a moderate percentage of families living below the poverty level (16.7 percent) when compared to the Tulsa MSA (10.8 percent) and the state of Oklahoma (11.9 percent). The AA also contains a higher level of unemployment. Specifically, the AA holds a 57.5 percent labor force (civilians and armed forces) with a 7.3 percent unemployment rate. Comparatively, the Tulsa MSA and state of Oklahoma hold a higher percent of labor force (66.0 percent and 63.0 percent, respectively) and a lower unemployment rate (6.2 percent and 6.1 percent, respectively).

Housing Characteristics

According to 2014 FFIEC census data, the AA holds 15,342 households, in which the median housing value is \$78,022. While this average is slightly lower when compared to median housing value for the Tulsa MSA (\$121,879) and the state of Oklahoma (\$104,300), the AA has a higher affordability ratio at 48.6 percent. Comparatively, the Tulsa MSA and state of Oklahoma have an affordability ratio of 38.2 percent and 41.2 percent, respectively. The higher ratio indicates that housing is generally more affordable within the AA when compared to the larger metropolitan area and the state as a whole.

In addition, housing in the AA is composed of 61.7 percent owner-occupied units; 24.1 percent rental units; and 14.2 percent vacant units. Housing characteristics are relatively similar when

compared to the Tulsa MSA and the state of Oklahoma; both holding a comparable percent of owner-occupied units but with a higher volume of rental units (29.2 percent and 27.5 percent, respectively) and a slightly lower volume of vacant units (10.3 percent and 13.5 percent, respectively). While AA housing is generally affordable, community contacts indicated the area is primarily rural and has limited affordable housing. The available affordable housing units, including rental properties, are typically at 100.0 percent capacity with a waiting list.

Economic and Employment Characteristics

The AA contains a diverse employment sector but is heavily influenced by industries including educational services, construction, health care, public administration, accommodation and food services, finance, and insurance. In addition, farm employment is an important sector within the AA due to Okmulgee County's rural nature. The area's top crops include forage-land used for hay and haylage, grass silage, and green chop. The top livestock inventory in the area includes cattle and calves¹. The major employers within the Tulsa MSA include Okmulgee Public Schools², Covington Aircraft Turbines³, Anchor Glass, HollyFrontier Corporation, Spirit Aero Systems, Kimberly-Clark, NORDAM Group, oil and gas independent contractors, Native American Indian Casinos, and financial institutions (Tulsa MSA)⁴. Community contacts indicated that the number of high-paying jobs within the AA is limited with more opportunities located in the metropolitan areas.

¹ 2012 Census of Agriculture, www.agcensus.usda.gov

² Okmulgee Public Schools, <http://okmulgeeps.com/>

³ Covington Aircraft Okmulgee, Oklahoma, <http://www.covingtonaircraft.com/contact>

⁴ 2014 Tulsa MSA Largest Employer List, <http://ww3.tulsachamber.com/upload/file/Economic%20Development/Tulsa%20OK%20Largest%20Employers%202014.pdf>

Tulsa Regional Chamber Economic Development, <http://www.growmetrotulsa.com>

**TABLE 2
2014 THE MORRIS STATE BANK AA DEMOGRAPHICS**

| 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 | 3,171 | 29.6 |
| Moderate-income | 4 | 40.0 | 3,431 | 32.0 | 788 | 23.0 | 2,067 | 19.3 |
| Middle-income | 6 | 60.0 | 7,281 | 68.0 | 998 | 13.7 | 2,422 | 22.6 |
| Upper-income | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 3,052 | 28.5 |
| Unknown-Income | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Total AA | 10 | 100.0 | 10,712 | 100.0 | 1,786 | 16.7 | 10,712 | 100.0 |

| | Housing Units by Tract | Housing Type by Tract | | | | | | |
|-----------------|------------------------|-----------------------|--------------|-------------|--------------|-------------|--------------|-------------|
| | | Owner-occupied | | Rental | | Vacant | | |
| | | # | % by tract | % by unit | # | % by unit | # | % by unit |
| Low-income | 0 | 0 | 0.0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Moderate-income | 5,971 | 2,983 | 27.1 | 50.0 | 1,989 | 33.3 | 999 | 16.7 |
| Middle-income | 11,907 | 8,043 | 72.9 | 67.5 | 2,327 | 19.5 | 1,537 | 12.9 |
| 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 AA | 17,878 | 11,026 | 100.0 | 61.7 | 4,316 | 24.1 | 2,536 | 14.2 |

Based on 2010 American Community Survey (ACS) 5-year estimate data, 2010 FFIEC census tract designations, and 2014 Dun & Bradstreet (D&B) data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's record of meeting the credit needs of its AA is considered reasonable based on an assessment of its 16-quarter NLTD ratio; the level of lending within the AA; the geographic distribution of lending based on the income level of census tracts, and the distribution of lending to LMI borrowers of different income sizes. Information utilized for the analysis included the bank's performance data, area demographic information, and input obtained from members of the local community.

Net Loan-to-Deposit Ratio:

The bank's 16-quarter NLTD ratio was calculated and compared to a sample of local competitors to determine the reasonableness of lending. Performance was evaluated relative to the bank's size and financial condition, economic and demographic characteristics, and credit needs within the AA.

As of March 31, 2015, the bank's 16-quarter NLTD ratio was 84.0 percent, which is considered reasonable. Lending performance was above competitors with similar asset sizes and loan portfolio compositions, whose average NLTD ratio ranged between 46.5 percent and 76.2 percent. Discussions with bank management indicated the institution has a strong deposit

base due to long-term customer relationships and maintains a conservative lending strategy. In addition, the bank faces significant competition from other financial institutions, including credit unions and local automobile dealerships in and around the AA.

Assessment Area Concentration:

This performance criterion evaluates the institution's overall lending by comparing the concentration of credit extended inside and outside the AA.

As illustrated in Table 3 below, a majority of the bank's loans were originated within the designated AA, and the bank's record of lending is considered reasonable. Of the 219 loans reviewed, the bank originated 170 loans (77.6 percent by number and 66.4 percent by dollar volume) inside the AA, indicating the bank is actively serving the credit needs of the communities it serves. The remaining analyses considers only those loans originated inside the AA.

| Bank Loans | Inside | | | | Outside | | | |
|---------------------|------------|--------------|-------------|-------------|-----------|--------------|-------------|-------------|
| | # | \$(000) | #% | \$% | # | \$(000) | #% | \$% |
| Motor Vehicle Loans | 77 | 887 | 77.8 | 78.8 | 22 | 239 | 22.2 | 21.2 |
| Home Purchase | 46 | 3,924 | 71.9 | 56.8 | 18 | 2,989 | 28.1 | 43.2 |
| Home Improvement | 21 | 1,086 | 87.5 | 72.2 | 3 | 418 | 12.5 | 27.8 |
| Refinance | 26 | 2,735 | 81.3 | 79.3 | 6 | 715 | 18.8 | 20.7 |
| Total Loans | 170 | 8,632 | 77.6 | 66.4 | 49 | 4,361 | 22.4 | 33.6 |

Distribution by Income Level of Geographies:

Residential Real Estate Loans

The bank's geographic distribution of Home Mortgage Disclosure Act (HMDA)-reportable loans is summarized in Table 4 on page 9 and is considered reasonable. For the purposes of this analysis, the geographic distribution by individual product was also evaluated and includes a review of the bank's home purchase, refinancing, and home improvement lending. The AA consists solely of moderate- and middle-income census tracts. The following conclusions with respect to the bank's lending performance are outlined below.

Total Home Mortgage Disclosure Act Lending

In 2013, the bank originated a total of 37 HMDA-reportable loans, in which lending in moderate-income tracts (24.3 percent by number and 24.7 percent by dollar volume) exceeded aggregate lenders both by number and dollar amount. While adequate, the bank's lending was below AA demographics or the percentage of owner-occupied units (27.1 percent) located in these areas. In addition, the bank's lending in middle-income tracts (75.7 percent by number and

75.3 percent by dollar volume) was below aggregate lenders by both number and dollar amount, but above the percentage of owner-occupied units (72.9 percent) in these areas. In 2012, the bank originated a lower volume of HMDA-reportable loans, where performance in moderate-income tracts was below aggregate lenders by both number and dollar amount, but above for lending in middle-income tracts. Management conveyed the bank is committed to the AA community by providing financial education and monetary investments in addition to lending. The bank's limited long-term mortgage product offerings, government grants and programs with attractive financing, along with a stagnant economy during 2012 and 2013 can attribute to the bank's lower levels of lending in moderate-income tracts. Please see Appendix A for more information.

Home Purchase Loans

For home purchase loans, the bank originated 26.1 percent by number and 24.6 percent by dollar volume in moderate-income census tracts. The bank outperformed aggregate lenders, and the level of lending was consistent with the percentage of owner-occupied housing in these areas. Comparatively, the bank originated 73.9 percent by number and 75.4 percent by dollar volume in middle-income census tracts, which was below aggregate lenders but consistent with the percentage of owner-occupied units in these areas. In 2012, lending performance was below both aggregate lenders and AA demographics for moderate-income tracts, but above aggregate lenders and AA demographics for middle-income tracts.

Refinanced Loans

For refinanced loans, the bank originated 25.0 percent by number and 35.5 percent by dollar volume to moderate-income tracts in 2013, which was above aggregate lenders and consistent with the percentage of owner-occupied units in these areas. Comparatively, performance in middle-income tracts (75.0 percent by number and 64.5 percent by dollar volume) was below aggregate lenders, and slightly above the percentage of owner-occupied units in these areas. Similar to home purchase loans, in 2012, lending performance was below both aggregate lenders and AA demographics for moderate-income tracts but above aggregate lenders and AA demographics for middle-income tracts.

Home Improvement Loans

For home improvement loans, the bank originated 16.7 percent by number and 4.1 percent by dollar volume of loans in moderate-income tracts, which was above aggregate lenders and consistent with the percentage of owner-occupied units in these areas. Lending in middle-income tracts was also above aggregate lenders and AA demographics. In 2012, the bank's home improvement lending was consistent with lending in 2013.

| TABLE 4 DISTRIBUTION OF 2013 HMDA LOANS BY INCOME LEVEL OF GEOGRAPHY THE MORRIS STATE BANK AA | | | | | | | |
|---|------------|---------|------|------|-------------------------------------|------|---|
| Census Tract Income Level | Bank Loans | | | | Aggregate HMDA Data ¹ | | % of Owner Occupied Units ² |
| | # | \$(000) | #% | \$ % | #% | \$ % | |
| Total Home Mortgage Loans | | | | | | | |
| Low | 0 | 0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Moderate | 9 | 837 | 24.3 | 24.7 | 19.6 | 5.9 | 27.1 |
| Middle | 28 | 2,550 | 75.7 | 75.3 | 80.4 | 94.1 | 72.9 |
| Upper | 0 | 0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Home Purchase Loans | | | | | | | |
| Low | 0 | 0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Moderate | 6 | 552 | 26.1 | 24.6 | 17.9 | 11.6 | 27.1 |
| Middle | 17 | 1,690 | 73.9 | 75.4 | 82.1 | 88.4 | 72.9 |
| Upper | 0 | 0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Refinanced Loans | | | | | | | |
| Low | 0 | 0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Moderate | 2 | 269 | 25.0 | 35.5 | 18.1 | 3.7 | 27.1 |
| Middle | 6 | 489 | 75.0 | 64.5 | 81.9 | 96.3 | 72.9 |
| Upper | 0 | 0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Home Improvement Loans | | | | | | | |
| Low | 0 | 0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Moderate | 1 | 16 | 16.7 | 4.1 | 25.8 | 21.5 | 27.1 |
| Middle | 5 | 371 | 83.3 | 95.9 | 74.2 | 78.5 | 72.9 |
| Upper | 0 | 0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

¹ Aggregate loan data reflects all loan originations in the bank's AA reported by all HMDA filers.
² Based on 2010 ACS 5-year estimate data and 2010 FFIEC census tract designations.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Motor Vehicle Loans

The bank's geographic distribution of motor vehicle loans is reflected in Table 5 on page 10 and is considered reasonable. In 2014, the bank originated 23.4 percent by number and 18.9 percent by dollar volume of loans in moderate-income tracts, and 76.6 percent by number and 81.1 percent by dollar volume of loans in middle-income tracts. While lending in moderate-income tracts was below the percentage of households in these areas (32.4 percent), lending in middle-income tracts was slightly above. Overall performance is reasonable as the bank faces significant competition from other automobile dealerships and financial institutions in the area. The automobile dealerships and Credit Unions surrounding the bank may offer better pricing attracting borrowers interested in purchasing automobiles.

| TABLE 5 DISTRIBUTION BY INCOME LEVEL OF GEOGRAPHIES THE MORRIS STATE BANK AA | | | | | |
|---|----------------------------|----------------|-----------|------------|--|
| Census Tract Income Level | Motor Vehicle Loans | | | | % of Households¹ |
| | # | \$(000) | #% | \$% | |
| Moderate | 18 | 168 | 23.4 | 18.9 | 32.4 |
| Middle | 59 | 720 | 76.6 | 81.1 | 67.6 |

¹ Based on 2014 FFIEC data. There are no low or upper income tracts or households in the AA.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Distribution by Borrower Income:

Residential Real Estate Loans

The borrower distribution of HMDA-reportable loans is reflected in Table 6 on page 12 and is considered reasonable. Similar to the geographic distribution analysis above, the borrower distribution by individual product was also evaluated, including a review of the bank’s home purchase, refinance, and home improvement lending. A majority of the bank’s HMDA-reportable loans were to purchase or refinance primary residences.

Total Home Mortgage Disclosure Act Lending

In 2013, the bank originated a total of 8.1 percent by number and 4.6 percent by dollar volume of loans to low-income borrowers, and 16.2 percent by number and 8.8 percent by dollar volume of loans to moderate-income borrowers. While performance to both LMI borrowers was below aggregate lenders by number, performance was above aggregate lenders by dollar volume. In addition, lending was below the percentage of LMI families residing in the AA (29.6 percent low-income and 19.3 percent moderate-income families). Lending to middle-income borrowers was found to be more comparable to aggregate lenders, while the bank’s lending to upper-income borrowers was found to be above. A challenge facing both the bank and the aggregate lenders in meeting the financing needs of low income borrowers in the area is that the AA has 16.7 percent of families with incomes below the poverty level. This percentage of borrowers may not be able to qualify for financing to obtain a home loan. Therefore, both the bank and its peer lenders would likely have difficulty reaching a lending penetration similar to the percentage of low-income borrowers in the area.

In 2012, total lending performance was similar; however, the bank originated a higher percentage of loans to low-income borrowers by both number (14.3 percent) and dollar amount (6.8 percent), which were more comparable to aggregate lenders. In comparison, lending to moderate-income borrowers was below the performance of aggregate lenders. Please see Appendix A for more information.

Home Purchase

For home purchase loans, the bank originated 8.7 percent by number and 3.8 percent by dollar volume of loans to low-income borrowers; and 13.0 percent by number and 8.0 percent by dollar volume of loans to moderate-income borrowers. Performance was below aggregate lenders by number and dollar volume, as well as the percentage of LMI families residing in the AA (29.6 percent low-income and 19.3 percent moderate-income). Comparatively, the bank originated the majority of loans to middle- and upper-income families. The bank's primary strategy focuses on commercial and agriculture businesses within the community. Lower levels of lending to LMI borrowers can be attributed to overall competitive credit pricing from peers, government supported affordable housing grants and subsidies. In addition, the bank does not offer conventional, fixed rate loans on the secondary market; nor does the bank offer any type of guaranteed financing, such as first time home buyers programs. In 2012, lending performance was similar, as the bank originated the majority of home purchase loans to middle- and upper-income borrowers.

Refinanced

For refinanced loans, the bank originated zero loans to low-income borrowers, and 25.0 percent by number and 7.5 percent by amount to moderate-income borrowers. While lending to low-income borrowers was below the performance of aggregate lenders (11.4 percent by number and 1.2 percent by dollar volume), lending to moderate-income borrowers was above (17.8 percent by number and 3.5 percent by dollar volume). Similar to home purchase loans, the bank refinanced the majority of loans to middle- and upper-income borrowers. In 2012, the bank originated a higher percentage of loans to low-income borrowers by both number and dollar volume at 16.7 percent by number and 6.0 percent by dollar volume, respectively, which was more comparable to aggregate lenders.

Home Improvement

For home improvement loans, the bank originated a total of six loans with two loans to LMI borrowers. This consisted of 16.7 percent by number and 18.3 percent by dollar volume made to low-income borrowers; and 16.7 percent by number and 15.5 percent by dollar volume to moderate-income borrowers. While lending to low-income borrowers was more comparable to aggregate lenders (16.7 percent by number and 10.8 percent by dollar volume of loans), lending to moderate-income borrowers was below the performance of aggregate lenders (29.8 percent by number and 20.7 percent by dollar volume). The remaining four loans were made to middle- and upper-income borrowers. In 2012, lending performance was similar; however, the bank originated a higher volume of home improvement loans (15 loans).

**TABLE 6
DISTRIBUTION OF 2013 HMDA LOANS BY BORROWER INCOME LEVELS
THE MORRIS STATE BANK AA**

| Borrower Income Level | Bank Loans | | | | Aggregate HMDA Data ¹ | | % of Families ² |
|--|------------|----------|------|------|----------------------------------|------|----------------------------|
| | # | \$(000s) | # % | \$ % | # % | \$ % | |
| Total Home Mortgage Loans³ | | | | | | | |
| Low | 3 | 156 | 8.1 | 4.6 | 12.1 | 2.7 | 29.6 |
| Moderate | 6 | 297 | 16.2 | 8.8 | 23.5 | 7.4 | 19.3 |
| Middle | 7 | 572 | 18.9 | 16.9 | 22.4 | 9.7 | 22.6 |
| Upper | 17 | 2,038 | 45.9 | 60.2 | 31.8 | 19.3 | 28.5 |
| Unknown | 4 | 324 | 10.8 | 9.6 | 10.3 | 60.9 | 0.0 |
| Home Purchase Loans | | | | | | | |
| Low | 2 | 85 | 8.7 | 3.8 | 10.5 | 5.9 | 29.6 |
| Moderate | 3 | 180 | 13.0 | 8.0 | 25.5 | 18.6 | 19.3 |
| Middle | 4 | 375 | 17.4 | 16.7 | 21.3 | 22.0 | 22.6 |
| Upper | 11 | 1,353 | 47.8 | 60.3 | 29.2 | 40.6 | 28.5 |
| Unknown | 3 | 249 | 13.0 | 11.1 | 13.5 | 13.0 | 0.0 |
| Refinanced Loans | | | | | | | |
| Low | 0 | 0 | 0.0 | 0.0 | 11.4 | 1.5 | 29.6 |
| Moderate | 2 | 57 | 25.0 | 7.5 | 17.8 | 3.5 | 19.3 |
| Middle | 1 | 75 | 12.5 | 9.9 | 23.2 | 5.5 | 22.6 |
| Upper | 5 | 626 | 62.5 | 82.6 | 36.8 | 12.2 | 28.5 |
| Unknown | 0 | 0 | 0.0 | 0.0 | 10.8 | 77.3 | 0.0 |
| Home Improvement Loans | | | | | | | |
| Low | 1 | 71 | 16.7 | 18.3 | 16.7 | 10.8 | 29.6 |
| Moderate | 1 | 60 | 16.7 | 15.5 | 29.8 | 20.7 | 19.3 |
| Middle | 2 | 122 | 33.3 | 31.5 | 23.2 | 25.5 | 22.6 |
| Upper | 1 | 59 | 16.7 | 15.2 | 27.8 | 41.1 | 28.5 |
| Unknown | 1 | 75 | 16.7 | 19.4 | 2.5 | 1.9 | 0.0 |

¹ Aggregate loan data reflects all loan originations in the bank's AA reported by all HMDA filers.

² Based on 2010 ACS 5-year estimate data.

³ Multifamily loans are not considered in the Borrower Analysis.

(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Motor Vehicle Loans

The borrower distribution of motor vehicle loans is reasonable. As illustrated in Table 7 on page 13, the bank originated 40.3 percent by number and 18.1 percent by dollar volume to low-income borrowers, which exceeded the percentage of low-income households in the AA. In addition, the bank originated 18.2 percent by number and 18.9 percent by dollar volume of loans to moderate-income borrowers, which was consistent with the percent of moderate-income households in the AA. Bank management indicated the volume of used motor vehicle loans originated by the bank has steadily increased since the previous evaluation due to the competitive interest rate environment. Automobile dealerships, Credit Unions, and larger or

regional banks may offer more competitive pricing attracting borrowers away from smaller commercial banks.

| TABLE 7 DISTRIBUTION BY INCOME LEVEL OF BORROWER MOTOR VEHICLE LOANS THE MORRIS STATE BANK AA | | | | | |
|--|----------------------------|----------------|-----------|------------|--|
| Borrower Income Level | Motor Vehicle Loans | | | | % of Households¹ |
| | # | \$(000) | #% | \$% | |
| Low | 31 | 161 | 40.3 | 18.1 | 31.0 |
| Moderate | 14 | 168 | 18.2 | 18.9 | 18.0 |
| Middle | 15 | 166 | 19.5 | 18.8 | 18.3 |
| Upper | 17 | 392 | 22.1 | 44.2 | 32.6 |
| Income Not Known | 0 | 0 | 0.0 | 0.0 | 0.0 |

¹ Based on 2010 ACS 5-year estimate data.
² Based on 2013 D&B data.
 (Note: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

An evaluation of the bank’s fair lending activities was conducted during the examination to determine compliance with the substantive provisions of the antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. A review of the bank’s policies and procedures, credit applications, loan denials, and staff interviews concluded no prohibited practices designed to discourage loan applicants. Furthermore, the bank has not engaged in any illegal credit practices inconsistent with helping to meet the community’s credit needs.

APPENDIX A

| TABLE A-1 DISTRIBUTION OF 2012 HMDA LOANS BY INCOME LEVEL OF GEOGRAPHY THE MORRIS STATE BANK AA | | | | | | | |
|---|------------|---------|------|------|-------------------------------------|------|---|
| Census Tract Income Level | Bank Loans | | | | Aggregate HMDA Data ¹ | | % of Owner Occupied Units ² |
| | # | \$(000) | # % | \$ % | # % | \$ % | |
| Total Home Mortgage Loans | | | | | | | |
| Low | 0 | 0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Moderate | 8 | 301 | 14.3 | 6.9 | 23.2 | 14.7 | 27.1 |
| Middle | 48 | 4,057 | 85.7 | 93.1 | 76.8 | 85.4 | 72.9 |
| Upper | 0 | 0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Home Purchase Loans | | | | | | | |
| Low | 0 | 0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Moderate | 4 | 215 | 17.4 | 12.8 | 21.2 | 13.8 | 27.1 |
| Middle | 19 | 1,467 | 82.6 | 87.2 | 78.9 | 86.2 | 72.9 |
| Upper | 0 | 0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Refinanced Loans | | | | | | | |
| Low | 0 | 0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Moderate | 1 | 29 | 5.6 | 1.5 | 19.5 | 12.4 | 27.1 |
| Middle | 17 | 1,948 | 94.4 | 98.5 | 80.5 | 87.6 | 72.9 |
| Upper | 0 | 0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Home Improvement Loans | | | | | | | |
| Low | 0 | 0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Moderate | 3 | 57 | 20.0 | 8.2 | 32.6 | 31.5 | 27.1 |
| Middle | 12 | 642 | 80.0 | 91.8 | 67.4 | 68.5 | 72.9 |
| Upper | 0 | 0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

¹ Aggregate loan data reflects all loan originations in the bank's AA reported by all HMDA filers.
² Based on 2010 ACS 5-year estimate data and 2010 FFIEC census tract designations.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

**TABLE A-2
DISTRIBUTION OF 2012 HMDA LOANS BY BORROWER INCOME LEVELS
THE MORRIS STATE BANK AA**

| Borrower Income Level | Bank Loans | | | | Aggregate HMDA Data ¹ | | % of Families ² |
|--|------------|----------|------|------|----------------------------------|------|----------------------------|
| | # | \$(000s) | #% | \$% | #% | \$% | |
| Total Home Mortgage Loans³ | | | | | | | |
| Low | 8 | 298 | 14.3 | 6.8 | 15.7 | 8.3 | 29.6 |
| Moderate | 6 | 299 | 10.7 | 6.9 | 22.1 | 17.5 | 19.3 |
| Middle | 9 | 604 | 16.1 | 13.9 | 20.0 | 19.4 | 22.6 |
| Upper | 33 | 3,157 | 58.9 | 72.4 | 32.1 | 45.4 | 28.5 |
| Unknown | 0 | 0 | 0.0 | 0.0 | 10.0 | 9.5 | 0.0 |
| Home Purchase Loans | | | | | | | |
| Low | 2 | 67 | 8.7 | 4.0 | 16.8 | 10.1 | 29.6 |
| Moderate | 3 | 116 | 13.0 | 6.9 | 24.7 | 21.0 | 19.3 |
| Middle | 4 | 284 | 17.4 | 16.9 | 20.6 | 21.7 | 22.6 |
| Upper | 14 | 1,215 | 60.9 | 72.2 | 26.1 | 37.8 | 28.5 |
| Unknown | 0 | 0 | 0.0 | 0.0 | 11.8 | 9.5 | 0.0 |
| Refinanced Loans | | | | | | | |
| Low | 3 | 119 | 16.7 | 6.0 | 12.1 | 6.2 | 29.6 |
| Moderate | 1 | 123 | 5.6 | 6.2 | 18.2 | 14.0 | 19.3 |
| Middle | 4 | 278 | 22.2 | 14.1 | 21.2 | 18.2 | 22.6 |
| Upper | 10 | 1,457 | 55.6 | 73.7 | 38.1 | 52.2 | 28.5 |
| Unknown | 0 | 0 | 0.0 | 0.0 | 10.4 | 9.5 | 0.0 |
| Home Improvement Loans | | | | | | | |
| Low | 3 | 112 | 20.0 | 16.0 | 19.8 | 10.6 | 29.6 |
| Moderate | 2 | 60 | 13.3 | 8.6 | 23.5 | 19.0 | 19.3 |
| Middle | 1 | 42 | 6.7 | 6.0 | 17.1 | 13.7 | 22.6 |
| Upper | 9 | 485 | 60.0 | 69.4 | 34.2 | 48.8 | 28.5 |
| Unknown | 0 | 0 | 0.0 | 0.0 | 5.4 | 7.9 | 0.0 |

¹ Aggregate loan data reflects all loan originations in the bank's AA reported by all HMDA filers.

² Based on 2010 ACS 5-year estimate data.

³ Multifamily loans are not considered in the Borrower Analysis.

(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)