

PUBLIC DISCLOSURE

January 10, 2022

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Texas Brand Bank
Certificate Number: 57922

4161 McKinney Avenue, Suite 101
Dallas, Texas 75204

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Dallas Regional Office

600 North Pearl Street, Suite 700
Dallas, Texas 75201

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 RATING

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

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The bank did not request consideration of its investments and services, nor did examiners identify any discriminatory or other illegal credit practices; consequently, these issues did not affect the overall rating. The bank's performance under each of the factors is summarized below. A detailed discussion of each factor is provided elsewhere in this evaluation.

- The loan-to-deposit ratio is more than reasonable (considering seasonal variations and taking into account lending related activities) given the institution's size, financial condition, and assessment area credit needs.
- A majority of loans and other lending related activities are in the institution's assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
- The institution has taken appropriate action in response to substantiated complaints about its performance in meeting assessment area credit needs.

DESCRIPTION OF INSTITUTION

Texas Brand Bank is headquartered in Dallas, Texas; having moved to this location from Garland, Texas in May 2017. Texas Brand Bancshares, Inc., of Garland, Texas, a one-bank holding company, wholly owns Texas Brand Bank. The bank does not maintain any other affiliates or subsidiaries. The bank received a "Satisfactory" rating at its previous Federal Deposit Insurance Corporation (FDIC) Performance Evaluation, dated December 7, 2015, based on the Federal Financial Institutions Examination Council's (FFIEC) Small Institution Examination Procedures.

The main office is located in an upper-income census tract within Dallas County. Upon moving the main office from Garland to Dallas, the bank maintained the Garland location as a branch. This branch operates in a moderate-income census tract. Additionally, since the last evaluation, the bank opened two branches in Dallas which lie in middle-income census tracts. The bank did not close any branches or participate in any merger or acquisition activity since the last evaluation.

Texas Brand Bank offers a variety of lending products including commercial, home mortgage, agricultural, and consumer loans; however, the bank primarily focuses on commercial lending. The institution also provides various deposit services including checking, savings, money market deposit accounts, individual retirement accounts, and certificates of deposit. Alternative banking services include safe deposit boxes, online banking, debit cards, mobile banking, drive-thru banking, and bank-owned automated teller machines (ATMs) co-located with the branches. Lobby hours proved reasonable based on the needs of the community and are commensurate with the industry in the assessment area.

As of the September 30, 2021 Report of Condition and Income, total assets reflected \$335.4 million, consisting of \$1.6 million in securities and \$261.3 million in net loans. Additionally, the bank reported \$298.1 million in total deposits during the same time period. The bank experienced sizable growth since the last evaluation. According to the September 30, 2015 Report of Condition and Income, total assets stood at \$142.0 million and total deposits stood at \$121.3 million. The following table illustrates the distribution of the loan portfolio by loan type.

Loan Portfolio Distribution as of September 30, 2021		
Loan Category	\$(000s)	%
Construction and Land Development	44,121	16.7
Secured by Farmland	270	0.1
1-4 Family Residential	17,294	6.5
Multi-family (5 or more) Residential	4,802	1.8
Commercial Real Estate	137,941	52.0
Total Real Estate Loans	204,428	77.1
Commercial and Industrial	60,521	22.8
Agricultural	0	0.0
Consumer	220	0.1
Other	0	0.0
Less: Unearned Income	0	0.0
Total Gross Loans	265,169	100.0
<i>Source: Reports of Condition and Income (9/30/2021)</i>		

Examiners identified no financial, legal, or other impediments that affect the bank’s ability to meet the credit needs of the assessment area.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas (AAs) within which its CRA performance will be evaluated. Comparable to the previous examination, Texas Brand Bank designated all census tracts in Dallas and Collin Counties, part of the Dallas-Plano-Irving Metropolitan District (Dallas MD), as their assessment area, the Dallas MD AA. The defined area is reasonably drawn and does not arbitrarily exclude any low- or moderate-income areas. The following section discusses demographic and economic information for the assessment area.

Economic and Demographic Data

The Dallas MD AA contains 681 census tracts consisting of 109 low-, 201 moderate-, 138 middle-, and 227 upper-income census tracts, based on 2015 American Community Survey Census Data (ACS Data). Additionally, six census tracts do not maintain an income designation.

The following table presents additional demographic data for the Dallas MD AA based on 2015 ACS Data and 2020 D&B Data.

Demographic Information of the Assessment Area Dallas MD AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	681	16.0	29.5	20.3	33.3	0.9
Population by Geography	3,347,218	14.4	30.5	21.4	33.4	0.2
Housing Units by Geography	1,285,142	15.0	27.9	22.1	34.6	0.4
Owner-Occupied Units by Geography	654,794	7.0	24.9	22.9	45.1	0.2
Occupied Rental Units by Geography	532,312	22.9	31.3	21.7	23.5	0.6
Vacant Units by Geography	98,036	25.9	29.2	18.7	25.6	0.5
Businesses by Geography	405,271	8.0	19.5	24.2	47.2	1.1
Farms by Geography	5,892	6.8	20.3	24.2	47.7	1.0
Family Distribution by Income Level	803,266	26.2	17.1	17.1	39.6	0.0
Household Distribution by Income Level	1,187,106	25.6	17.2	17.4	39.8	0.0
Median Family Income MSA - 19124 Dallas-Plano-Irving, TX		\$71,149	Median Housing Value			\$189,670
			Median Gross Rent			\$990
			Families Below Poverty Level			13.0%

*Source: 2015 ACS and 2020 D&B Data; Due to rounding, totals may not equal 100.0%;
(*) The NA category consists of geographies that have not been assigned an income classification.*

A November 2021 report, compiled by Moody's Analytics (Moody's), noted that the Dallas MD was still in recovery from the COVID-19 Pandemic, with core professional and financial services fully recovered while the hospitality industry was still in the recovery mode. During the review period, the area experienced a positive net migration from cities both in and outside of the state of Texas.

The Moody's report also noted an improving unemployment rate. The rate within the Dallas MD increased from 3.3 percent in 2019 to 7.1 percent in 2020, and currently resides at 5.5 percent. These figures display consistent trends with statewide and national data. Within the state of Texas, the rate fluctuated from 3.5 percent in 2019 to 7.7 percent in 2020, while currently reflecting a 6.1 percent rate. Nationally, the rates varied from 3.7 percent in 2019 to 8.1 percent in 2020 and 5.4 percent in 2021.

According to 2021 D&B Data, 439,789 businesses and 6,449 farms operate in the assessment area. The largest industries in the area include services (40.0 percent); non-classifiable establishments

(20.8 percent); finance, insurance, and real estate (12.3 percent); and retail trade (10.4 percent). Moody's identified the top employers in the Dallas MD as Walmart, American Airlines, Baylor Scott and White Health, and Lockheed Martin, each with over 20,000 employees.

Competition

Texas Brand Bank faces heavy competition in their designated assessment area. The FDIC Summary of Deposits report from June 30, 2021, identified 127 institutions operating 840 branches in the assessment area, with deposits totaling over \$337.1 billion. The bank ranks 50th with a deposit market share of less than 0.1 percent. Additionally, although the bank does not report CRA data on small businesses, 2019 CRA aggregate data identified 226 lenders that made 103,300 loans totaling \$3.9 billion within the assessment area.

Community Contact(s)

A contact in the local small business community described the Dallas County economy as growing steadily and having regained a majority of the losses from the COVID-19 pandemic due to an influx of employers. The contact noted diversity in the various areas of the City of Dallas, with some areas experiencing a state of gentrification, while others struggled to get credit and economic parity. The contact also noted that affordable housing continues to be a challenge. The contact stated that the City of Dallas is home to 15 federally-designated opportunity zones which drive capital to support new businesses and investments in the targeted census tracts through the use of tax benefits. Lastly, they noted that the credit needs included small business loans and loans for commercial real estate, improvements, and working capital.

Credit Needs

Examiners considered information obtained from the community contact, bank management, and demographic data. Given this, examiners determined that the primary credit needs of the assessment area include small business and residential real estate lending.

SCOPE OF EVALUATION

General Information

The evaluation covers the period from the last evaluation, dated December 7, 2015, to the current evaluation dated January 10, 2021. Examiners applied the FFIEC Small Bank CRA Examination Procedures, which includes the Lending Test, to evaluate Texas Brand Bank's performance. The Appendices list the Lending Test criteria. Examiners conducted a full scope review of the Dallas MD AA.

Activities Reviewed

CRA Small Bank procedures require examiners to determine the bank's major product lines from which to sample, and as an initial matter, examiners may select from among the same loan

categories used for CRA Large Bank evaluations: home mortgage, small business, small farm, and consumer loans. The following table shows lending activity for the 2020 calendar year.

Loans Originated or Purchased				
Loan Category	\$(000s)	%	#	%
Construction and Land Development	19,793	15.5	141	17.2
Secured by Farmland	754	0.6	1	0.1
Secured by 1-4 Family Residential Properties	8,277	6.5	47	5.7
Multi-Family (5 or more) Residential Properties	0	0.0	0	0.0
Commercial Real Estate Loans	23,472	18.3	26	3.2
Commercial and Industrial Loans	75,572	59.0	603	73.6
Agricultural Loans	0	0.0	0	0.0
Consumer Loans	110	0.1	2	0.2
Other Loans	0	0.0	0	0.0
Total Loans	127,978	100.0	820	100.0
<i>Source: Bank Data 1/1/2020 – 12/31/2020</i>				

Considering the dollar volume and number of loans originated during 2020, as well as management’s stated business strategy, examiners determined that the major product line consists of commercial lending at 77.3 percent by dollar volume. Since home mortgage, small farm, and consumer lending at 6.5 percent, 0.6 percent, and 0.1 percent by dollar volume, respectively, do not represent major product lines and would not materially affect any conclusions or ratings, this evaluation does not discuss them.

Bank records indicate, during the evaluation period, a slight decrease in residential real estate and consumer lending, but an increase in commercial and commercial real estate lending demonstrating that the overall lending focus and primary products remain the same. Given the consistency in lending focus and primary products, examiners only reviewed 2020 activity, in accordance with outstanding guidance.

Of the 629 commercial loans totaling \$99.0 million, examiners identified 603 small business loans totaling \$70.1 million. Examiners used the entire small business loan universe to complete analysis under the assessment area concentration performance factor. Additionally, examiners used all small business loans originated in the Dallas MD AA to arrive at conclusions under the geographic distribution factor, and a sample of small business loans originated in the Dallas MD AA to analyze the borrower profile criterion. The sample size resulted from the number of loans in the universe, based on a 90 percent confidence level with a 10 percent precision level and contained a sufficient number of loans to reach conclusions. D&B data for 2020 provided a standard of comparison for the small business loans.

Loan Products Reviewed				
Loan Category	Universe		Reviewed*	
	#	\$(000s)	#	\$(000s)
Small Business	603	70,082	63	7,088
<i>Source: Bank Data; *Sample loans for Borrower Profile Test</i>				

Given the high concentration by dollar and number volume, small business lending received all weighting when arriving at conclusions. In addition, the performance evaluation presents information regarding the number and dollar volume of small business loans; however, for the geographic distribution and borrower profile performance factors, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of businesses served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Texas Brand Bank demonstrated a satisfactory record regarding the Lending Test. The reasonable geographic distribution and borrower profile performances primarily support this conclusion. The bank also originated a majority of their lending within the assessment area and displayed a more than reasonable loan-to-deposit ratio.

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio is more than reasonable given the institution’s size, financial condition, and assessment area credit needs. For the 24 quarters since the previous evaluation, the institution recorded a 92.1 percent average, net LTD ratio; higher than the 84.5 percent average, net LTD ratio recorded at the previous evaluation. During the review period, the ratio ranged from a low of 84.4 percent as of December 31, 2020, to a high of 100.6 as of June 30, 2020. The bank’s LTD demonstrated a relatively stable trend for a majority of the review period with quarter to quarter changes of less than five percent.

Examiners identified and listed in the following table three similarly-situated institutions operating in the bank’s general area and reflecting similar asset sizes and lending emphases. As shown Texas Brand Bank’s ratio sits second in the list of comparable institutions landing 24.4 percentage points higher than CapTex Bank and 9.4 percentage points higher than Liberty Capital Bank. Although the Texas Republic Bank’s average, net LTD over the review period is higher, it is artificially inflated due to borrowings to fund lending.

Loan-to-Deposit Ratio Comparison		
Bank Charter Name and City Location	Total Assets as of 09/30/21 \$(000s)	Average Net LTD Ratio (%)
Texas Brand Bank, Dallas, Texas	335,419	92.1
CapTex Bank, Fort Worth, Texas	259,575	67.7
Liberty Capital Bank, Addison, Texas	394,758	82.7
Texas Republic Bank, NA, Frisco, Texas	394,590	102.9

Source: Reports of Income and Condition 12/31/15 through 09/30/21

Assessment Area Concentration

Texas Brand Bank originated a majority of loans and other lending-related activities inside the Dallas MD AA. A majority of small business loans originated in the bank’s AA supports this conclusion. Examiners considered the bank’s asset size, branch network, and loan products reviewed relative to the size of the AA when arriving at this conclusion.

The table below illustrates that the bank made a majority of its 2020 small business loans within the designated assessment area by both number and dollar volume.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Business	466	77.3	137	22.7	603	56,518	80.6	13,564	19.4	70,082

Source: Bank Data; Due to rounding, totals may not equal 100.0%

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. Reasonable performance regarding small business lending supports this conclusion.

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion. A reasonable level of lending within low- and moderate-income census tracts supports this conclusion. Examiners focused primarily on lending performance in low- and moderate-income areas of the Dallas MD AA compared to D&B data when arriving at conclusions.

As shown in the table below, in low-income census tracts the bank’s performance exceeds the demographics by 1.4 percentage points, demonstrating reasonable performance. The bank’s performance in moderate-income census tracts falls below demographics by 1.9 percentage points; however, remains within a reasonable range. This also demonstrates reasonable performance.

Geographic Distribution of Small Business Loans Dallas MD AA					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	8.0	44	9.4	9,210	16.3
Moderate	19.5	82	17.6	12,552	22.2
Middle	24.2	112	24.0	12,251	21.7
Upper	47.2	226	48.5	21,893	38.7
Not Available	1.1	2	0.4	612	1.1
Totals	100.0	466	100.0	56,518	100.0

Source: 2020 D&B Data; Bank Data; Due to rounding, totals may not equal 100.0%

Borrower Profile

The distribution of borrowers reflects, given the demographics of the assessment areas, reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes in the assessment area. Reasonable distribution of small business loans supports this conclusion.

Small Business Loans

The bank demonstrated a reasonable record regarding its distribution of small business loans among the various revenue levels. A reasonable record of lending to businesses with gross annual revenues of \$1 million or less supports this conclusion. Examiners focused on the percentage by number of loans to businesses with gross annual revenues of \$1 million or less. The businesses' gross annual revenues define the borrowers' profiles for this analysis.

The following table shows the bank's level of lending to businesses with gross annual revenues of \$1 million or less, based on the number of loans, falls 50.0 percentage points below the demographic data, generally indicative of poor performance. However, the bank made a significant volume of Small Business Administration Payroll Protection Program (PPP) loans in response to the COVID-19 pandemic. PPP loans did not require the collection of revenue data. Consequently, of the 32 loans in the sample which contained revenue data, the bank originated 24, or 75.0 percent, to businesses with gross annual revenues of \$1 million or less. Therefore, examiners considered this additional performance context, which supports reasonable performance.

Distribution of Small Business Loans by Gross Annual Revenue Category Dallas MD AA					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	88.1	24	38.1	2,703	38.1
>\$1,000,000	4.3	8	12.7	1,937	27.3
Revenue Not Available	7.7	31	49.2	2,448	34.6
Total	100.0	63	100.0	7,088	100.0

Source: 2020 D&B Data, Bank Data; Due to rounding, totals may not equal 100.0%

Additionally, in 2020, examiners noted that Texas Brand Bank originated 521 PPP loans totaling \$46.6 million; thus, PPP loans comprised a majority of the small business loan universe that did not contain revenue information. Consequently, examiners evaluated the 31 loans with revenues not available from the sample, using loan size as a proxy. As seen in the following table, a substantial majority of loans with revenue not available, by number, had original loan amounts of \$100,000 or less, indicating that the bank is helping to serve the needs of the smallest businesses in the assessment area. Furthermore, 21 of the 27 loans in this category had loan amounts below \$25,000, with the others averaging \$53,000. Therefore, given the bank’s data and performance context considerations, overall performance is reasonable.

Distribution of Revenue Not Available Loans by Loan Size				
Loan Size	#	%	\$(000s)	%
< \$100,000	27	87.1	589	24.0
\$100,000 - \$249,999	1	3.2	102	4.2
\$250,000 - \$1,000,000	3	9.7	1,757	71.8
Total	31	100.0	2,448	100.0
<i>Source: Bank Data; Due to rounding, totals may not equal 100.0%</i>				

Response to Complaints

The institution has taken appropriate action in response to substantiated complaints about its performance in meeting assessment area credit needs. The bank received one complaint since the previous examination. The bank responded in a timely and appropriate manner.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank’s compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

APPENDICES

SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

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.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

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.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

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. Other family 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).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower profile, 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 that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (e.g., geographic distribution, borrower profile, 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 Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary

counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

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

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as non-MSA): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

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.

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.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

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.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.



Office of the
Comptroller of the Currency
Washington, DC 20219

SMALL BANK

PUBLIC DISCLOSURE

November 16, 2020

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Kemp
Charter Number: 5932

100 South State Highway 274
Kemp, TX 75143

Office of the Comptroller of the Currency
225 E. John Carpenter Freeway, Suite 900
Irving, TX 75062

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, and should not 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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Overall CRA Rating

Institution's CRA Rating: This institution is rated **Satisfactory**.

The lending test is rated: Satisfactory.

The major factors that support this rating include:

- The bank's rating under the Lending Test is based on performance in the Kaufman County and Henderson County assessment areas (AAs).
- The bank's loan-to-deposit (LTD) ratio is reasonable.
- A majority of the bank's loans are inside its AAs.
- The bank exhibits reasonable geographic distribution of loans across geographies of different income levels.
- The bank exhibits reasonable distribution of loans to borrowers of different income levels and businesses of different sizes.

Loan-to-Deposit Ratio

Considering the bank's size, financial condition, and credit needs of the AA(s), the bank's loan-to-deposit ratio is reasonable. The LTD ratio is calculated on a bank-wide basis. The bank's quarterly average LTD ratio during the evaluation period was 47.9 percent. During this same period, the bank's quarterly average LTD ratio ranged from a low of 40.4 percent to a high of 57.4 percent. We compared the bank's LTD ratio to similarly situated institutions operating in the area. The average LTD ratio for the peer banks was 59.0 percent. The bank's quarterly average LTD ratio compares less favorably to peer banks, but this is reasonable considering loan demand and increased competition within the bank's AAs.

Lending in Assessment Area

A majority of the bank's loans are inside its assessment area(s) (AAs).

The bank originated and purchased 62.3 percent of its total loans inside the bank's AAs during the evaluation period. This analysis is performed at the bank, rather than the AA, level. This percentage does not include extensions of credit by affiliates that may be considered under the other performance criteria. The bank's primary products are home mortgages and small loans to businesses. The findings from this analysis factored into the overall analysis of the geographic distribution of lending by income level of the geography.

Table D - Lending Inside and Outside of the Assessment Area

Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage	79	76.7	24	23.3	103	12,117	66.2	6,174	33.8	18,291
Business Loans	86	53.1	76	46.9	162	8,405	37.2	14,160	62.8	22,565
Total	165	62.3	100	37.7	265	20,522	50.2	20,334	49.8	40,856

Source: Bank Data

Due to rounding, totals may not equal 100.0%.

Description of Institution

The First National Bank of Kemp (FNBK or bank) is a single-state community bank chartered in 1901 in Kemp, Kaufman County, Texas. FNBK is a wholly owned subsidiary of FNBK Holdings, Inc., a one bank holding company. No branches have been opened or closed since the last CRA evaluation. The bank's corporate structure has not changed during the review period.

The bank serves the community from its main office located at 100 State Highway 274 South, Kemp, Texas (moderate-income census tract (CT)). The bank has a second branch office located at 316 South Points Drive, Seven Points, Texas (middle-income CT). In addition, the bank has two stand-alone ATM machines (cash-dispensing only):

- 1002 W Main Street, Gun Barrell City, Texas
- 200 North US Highway 175 Frontage Road, Seagoville, Texas

The bank operates out of two different AAs. The Kaufman County AA is made up of six contiguous census tracts (CTs) within Kaufman County. Kaufman County is located in the Dallas-Plano-Irving, Texas Metropolitan Division (MD), which is located within the Dallas-Fort Worth-Arlington, Texas Metropolitan Statistical Area (MSA). The main branch location is in the southern part of Kaufman County, so the bank elected to take the six southernmost CTs (partial county). Of the six CTs, three of them are moderate-income CTs (including the main branch location), and three are middle-income CTs. There are not any low-income CTs in all of Kaufman County. The bank has not arbitrarily excluded any low- or moderate-income CTs. There is a full-service ATM at the branch location.

Henderson County is located just south of Kaufman County and is not included in an MSA. The branch location is within a middle-income geography located in the northwest side of the county. The AA consists of 14 contiguous CTs expanding east within Henderson County. There are not any low-income CTs in all of Henderson County. There are three moderate-income CTs, which are all included within the defined AA. There are eight middle-income CTs, five of which have been designated as qualified opportunity zones, and three upper-income CTs. The bank has not arbitrarily excluded any low- or moderate-income CTs. There is a full-service ATM at the branch location.

The branch locations have reasonable operating hours and a drive in to meet the community needs. There was no difference in operating hours for either location. The bank has a website, which offers multiple bank services including mobile and online bill payment, transfers, and balance inquiries. The bank offers deposit products and banking services including safe deposit boxes, checking accounts, savings accounts, NOW accounts, money market deposit accounts, certificates of deposit, and wire transfers.

The majority of the bank's loans originated in the Kaufman County AA. The bank's main products are mortgage and business loans. The bank retains a small portfolio of mortgage loans that are not eligible to be sold into the secondary market.

FNBK developed and instituted a secondary market mortgage program in 2016 which provides customers permanent financing options in the form of 15, 20, and 30 year Conventional, FHA, and VA residential mortgage loans with a fixed or adjustable rate. This program is known as *Mortgage Street* and since the last evaluation, the bank has built two branded physical locations.

The first location is in Kemp, Texas directly next to the main branch. The second location is located in Tyler, Texas and was built in 2019. Analysis of the loans made under the Mortgage Street Program indicated that there were four loans made to low-income borrowers in the Henderson County AA totaling \$324 thousand and five loans made to moderate-income borrowers totaling \$584 thousand. There was also one loan made to a low-income borrower in the Kaufman County AA totaling \$88 thousand. While Mortgage Street is a part of FNBK's operations, the loans made and sold through this program are not kept in the bank's portfolio. However, this program allows the bank to serve the surrounding communities by providing additional financing opportunities. This line of business provides access to numerous residential loan products and structures, including various down payment levels, longer term repayment options, and higher debt-to-income thresholds. These financing options capture a wide audience of applicants and borrowers for many different loan sizes and borrower profiles.

As of December 31, 2019, the bank reported total assets of \$96.5 million, total deposits of \$84.9 million, and total equity capital of \$11.0 million. Net loans and leases totaled \$48.7 million, or 50.5 percent of total assets. Outstanding loans by category include one- to four-family residential mortgages at 39.7 percent, commercial real estate loans at 26.0 percent, commercial and industrial loans at 31.6 percent, and consumer loans at 2.7 percent. The bank has \$37.4 million in investments. Tier 1 capital totaled \$9.0 million.

FNBK has no affiliate or operating subsidiary activities considered when evaluating the CRA performance. No legal or financial factors impede the bank from meeting the credit needs of its community. The bank was rated "Satisfactory" at the prior Community Reinvestment Act (CRA) evaluation dated June 6, 2016.

Scope of the Evaluation

Evaluation Period/Products Evaluated

This Performance Evaluation (PE) assesses the bank's performance under the Lending Test. In evaluating the bank's lending performance, we reviewed residential mortgage loans and small loans to businesses. The bank reported some farm loans, but there was not enough activity to provide for meaningful analysis. Therefore, tables for this product are not included Appendix D.

The evaluation period for the Lending Test is January 1, 2017 through December 31, 2019. For geographic and borrower distribution analyses, loans originated in 2017 through 2019 are compared to the 2015 American Community Survey (ACS) Census Data for mortgages and the 2019 Dunn & Bradstreet (D&B) Data for loans to small businesses.

Selection of Areas for Full-Scope Review

In each state where the bank has an office, one or more of its AAs within that state was selected for a full-scope review. For purposes of this evaluation, bank delineated assessment areas located within the same metropolitan statistical area (MSA), multistate metropolitan statistical area (MMSA), or combined statistical area (CSA) are combined and evaluated as a single AA. Similarly, bank delineated non-MSA AAs within the same state are combined and evaluated as a single area. These combined AAs may be evaluated as full- or limited-scope. There were no changes made by the Office of Management and Budget (OMB) that has any effect on the bank's AAs. We performed a full-scope review of both Kaufman County and Henderson County AAs, with more weight being given to the Kaufman County AA.

Refer to the "Scope" section under each State Rating for details regarding how full-scope AAs were selected. Refer to Appendix A, Scope of Examination, for a list of full- and limited-scope AAs.

Ratings

The bank's overall rating is based on the performance in the State of Texas. The state rating is based on performance in all bank AAs. Refer to the "Scope" section under the State Rating section for details regarding how the areas were weighted in arriving at the respective ratings.

For the geographic and borrower distribution of loans under the Lending Test, consideration was given to the number of loans and dollar volume of loans originated in each category. One- to four-family mortgage lending and loans to small businesses were considered. Refer to the "Scope" section under the "State Rating" section for details regarding how the areas were weighted in arriving at the respective ratings.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) or 195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Bureau of Consumer Financial Protection, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

State Rating

State of Texas

CRA rating for the State of Texas¹: Satisfactory

The Lending Test is rated: Satisfactory

The major factors that support this rating include:

- The geographic distribution of loans across geographies of different income levels is reasonable.
- The borrower distribution of loans to borrowers of different income levels is reasonable.

Description of Institution's Operations in Texas

The bank operates in two AAs in the State of Texas as described in the "Description of the Institution" and the "Scope of Evaluation" sections of this PE. Competitors, in both markets, include other local community banks in its markets and some of the United States' largest banks that have a nationwide footprint as well as credit unions and nonbank financial entities that compete for residential, business, and consumer loans.

Community credit needs in the full-scope AAs were determined by reviewing recent housing and demographic information, CRA PEs from other banks operating in the bank's AAs, and information from two different community contacts with organizations that provide services within the full-scope AAs.

Kaufman County AA

The Kaufman County AA is the headquarters of FNBK and deposits total 75.7 percent, with 52.7 percent of all loans originated coming from this AA. The AA is made up of six contiguous CTs. Three of the CTs are considered moderate-income geographies and the other three are middle-income geographies. There are no low-income CTs in all of Kaufman County. Based on 2019 Peer Mortgage Data for the Kaufman County AA, FNBK has a market share of 0.76 percent for total loans and 0.95 percent of the total dollar amount of loans, which ranks 33rd out of 243 institutions that originated or purchased loans within the AA. FNBK has one branch in the Kaufman County AA which equates to 16.7 percent of the total market, with average deposits per branch representing 12.7 percent, which ranks 4th out of five lenders. The top employers are Wal-Mart Stores, Inc., Forney Independent School District, AT&T, Inc., Terrell State Hospital, and Texas Health Resources.

The community contact for the Kaufman County AA is an economic development organization for a city located in Kaufman County, Texas. The organization is committed to legislative advocacy and community development, economic development, internal operations, and tourism. The most critical need identified by this contact was affordable housing.

¹ This rating reflects performance within the state. The statewide evaluations do not reflect performance in the parts of those states contained within a MMSA.

The following table depicts the demographic information for the Kaufman County AA:

Table A – Demographic Information of the Assessment Area						
Assessment Area: Kaufman County AA 2017-2019						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	6	0.0	50.0	50.0	0.0	0.0
Population by Geography	33,068	0.0	46.0	54.0	0.0	0.0
Housing Units by Geography	12,475	0.0	48.4	51.6	0.0	0.0
Owner-Occupied Units by Geography	8,411	0.0	39.9	60.1	0.0	0.0
Occupied Rental Units by Geography	2,737	0.0	69.8	30.2	0.0	0.0
Vacant Units by Geography	1,327	0.0	58.0	42.0	0.0	0.0
Businesses by Geography	2,116	0.0	50.8	49.2	0.0	0.0
Farms by Geography	87	0.0	40.2	59.8	0.0	0.0
Family Distribution by Income Level	8,464	26.1	18.1	21.9	33.8	0.0
Household Distribution by Income Level	11,148	28.9	16.5	18.4	36.3	0.0
Median Family Income – 19124 Dallas-Plano-Irving, TX MD		\$71,149	Median Housing Value			\$103,685
			Median Gross Rent			\$814
			Families Below Poverty Level			12.8%

*Source: 2015 ACS and 2019 D&B Data.
Due to rounding, totals may not equal 100.0%.
(* The NA category consists of geographies that have not been assigned an income classification.*

Henderson County AA

The Henderson County AA is the second branch location of FNBK and deposits total 24.4 percent, with 47.3 percent of all loans originated coming from this AA. The AA is made up of 14 contiguous CTs. Three of the CTs are considered moderate-income geographies, eight are middle-income geographies, and three are upper-income geographies. There are no low-income CTs in all of Henderson County. Based on 2019 Peer Mortgage Data for the Henderson County AA, FNBK has a market share of 1.3 percent for total loans and 1.0 percent of the total dollar amount of loans, which ranks 20th out of 280 institutions that originated or purchased loans within the AA. FNBK has one branch in the Henderson County AA which equates to 5.3 percent of the total market, with average deposits per branch representing 2.3 percent, which ranks 8th out of eight lenders. The top employers are UT Health East Texas, Biometrics FMI, Athens ISD, Henderson County Government, Maximus, and Wal-Mart, Inc.

The following table depicts the demographic information for the Henderson County AA:

Table A – Demographic Information of the Assessment Area						
Assessment Area: Henderson County AA 2017-2019						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	14	0.0	21.4	57.1	21.4	0.0
Population by Geography	60,213	0.0	20.9	61.9	17.2	0.0
Housing Units by Geography	31,130	0.0	16.4	59.9	23.7	0.0
Owner-Occupied Units by Geography	16,411	0.0	16.1	61.9	22.0	0.0
Occupied Rental Units by Geography	6,266	0.0	25.2	61.5	13.3	0.0
Vacant Units by Geography	8,453	0.0	10.6	54.7	34.7	0.0
Businesses by Geography	4,005	0.0	16.5	68.7	14.8	0.0
Farms by Geography	148	0.0	16.2	68.2	15.5	0.0
Family Distribution by Income Level	15,586	21.9	19.9	21.2	36.9	0.0
Household Distribution by Income Level	22,677	23.9	18.3	18.9	39.0	0.0
Median Family Income – Non-MSAs TX		\$52,198	Median Housing Value			\$94,919
			Median Gross Rent			\$730
			Families Below Poverty Level			14.3%
<i>Source: 2015 ACS and 2019 D&B Data. Due to rounding, totals may not equal 100.0%. (*) The NA category consists of geographies that have not been assigned an income classification.</i>						

Scope of Evaluation in Texas

The evaluation period for our review of mortgage and consumer loan data is January 1, 2017 through December 31, 2019.

The bank has two full-scope AAs. They have designated their AAs to be a portion of Kaufman County which is located in the Dallas-Plano-Irving, Texas MD, and a portion of Henderson County which is not located in an MSA. There are no limited-scope areas to review. Refer to the table in Appendix A for a list of all AAs under review.

Kaufman County AA represents 75.7 percent of total deposits, whereas Henderson County AA represents 24.4 percent of total deposits. Similarly, there are more total loans in Kaufman County (52.7 percent) than in Henderson County (47.3 percent). As such, we have given more weight to the Kaufman County AA at this evaluation.

Lending Test

The bank's performance under the Lending Test in Texas is rated Satisfactory.

Conclusions for Areas Receiving Full-Scope Reviews

Based on full-scope reviews, the bank's performance in the State of Texas is good.

Distribution of Loans by Income Level of the Geography

The bank exhibits reasonable geographic distribution of loans in the State of Texas.

Kaufman County AA

Home Mortgage Loans

The geographic distribution of mortgage loans in the AA is excellent. Refer to Table O in the State of Texas section of Appendix D for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

In 2017-2019, the bank's mortgage lending in moderate-income geographies exceeded both the owner-occupied housing units and the aggregate lending in moderate-income geographies. There are no low-income CTs in all of Kaufman County.

Small Loans to Businesses

The geographic distribution of small loans to businesses is excellent. Refer to Table Q in the State of Texas section of Appendix D for the facts and data used to evaluate the geographic distribution of the bank's originations and purchases of small loans to businesses.

In 2017-2019, the bank's small loans to businesses in moderate-income geographies exceeded the percentage of businesses located in moderate-income geographies and the percentage of aggregate lending to small businesses in moderate-income geographies. There are no low-income CTs in all of Kaufman County.

Henderson County AA

Home Mortgage Loans

The geographic distribution of mortgage loans in the AA is excellent. Refer to Table O in the State of Texas section of Appendix D for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

In 2017-2019, the bank's mortgage lending in moderate-income geographies exceeded both the owner-occupied housing units and the aggregate lending in moderate-income geographies. There are no low-income CTs in all of Henderson County.

Small Loans to Businesses

The geographic distribution of small loans to businesses is poor. Refer to Table Q in the State of Texas section of Appendix D for the facts and data used to evaluate the geographic distribution of the bank's originations and purchases of small loans to businesses.

In 2017-2019, the bank's small loans to businesses in moderate-income geographies was lower than the percentage of businesses located in moderate-income geographies and the percentage of aggregate lending to small businesses in moderate-income geographies. Most of the business lending in the Henderson County AA is completed in the cities of Mabank and Gun Barrell City, Texas. The CTs that experienced less business lending are closer to the cities of Athens and Malakoff, Texas, which are further from the bank's physical locations and have increased competition from state banks and credit unions. There are no low-income CTs in all of Henderson County.

Lending Gap Analysis

We evaluated the lending distribution in the bank's AAs to determine if any unexplained conspicuous gaps existed. There were no unexplained conspicuous gaps identified after reviewing performance context.

Distribution of Loans by Income Level of the Borrower

The bank exhibits a reasonable distribution of loans to individuals of different income levels and businesses and farms of different sizes, given the product lines offered by the bank.

Kaufman County AA

Home Mortgage Loans

The distribution of loans to low- and moderate-income individuals in the AA is adequate. Refer to Table P in the State of Texas section of Appendix D for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

In 2017-2019, the bank's mortgage lending to low-income borrowers was lower than the percentage of families identified as low-income and lower than the aggregate lending. For moderate-income borrowers, the bank's mortgage lending exceeded the percentage of families identified as moderate-income and was near to the percentage of the aggregate lending.

Small Loans to Businesses

The distribution of loans to small businesses in the AA is good. Refer to Table R in the State of Texas section of Appendix D for the facts and data used to evaluate the borrower distribution of the bank's originations and purchases of small loans to businesses.

In 2017-2019, the bank's loans to businesses with revenues less than or equal to \$1 million was somewhat lower than the percentage of businesses identified as having revenues less than or equal to \$1 million and exceeded the aggregate lending.

Henderson County AA

Home Mortgage Loans

The distribution of loans to low- and moderate-income individuals in the AA is adequate. Refer to Table P in the State of Texas section of Appendix D for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

In 2017-2019, the bank's mortgage lending to low-income borrowers was significantly lower than the percentage of families identified as low-income and the aggregate lending. For moderate-income borrowers, the bank's mortgage lending was lower than the percentage of families identified as moderate-income and exceeded the percentage of the aggregate lending.

As previously noted, analysis of the loans made under the Mortgage Street Program indicated that there were four loans made to low-income borrowers in the Henderson County AA totaling \$324 thousand and five loans made to moderate-income borrowers totaling \$584 thousand. This program allows the bank to serve the surrounding communities by providing additional financing opportunities, even if the loans are not retained in the bank's portfolio.

Small Loans to Businesses

The distribution of loans to small businesses in the AA is good. Refer to Table R in the State of Texas section of Appendix D for the facts and data used to evaluate the borrower distribution of the bank's originations and purchases of small loans to businesses.

In 2017-2019, the bank's loans to businesses with revenues less than or equal to \$1 million was near to the percentage of businesses identified as having revenues less than or equal to \$1 million and exceeded the aggregate lending to these businesses.

Responses to Complaints

There were no complaints related to the institution's CRA performance within the State of Texas during the review period.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the MSAs and non-MSAs that received comprehensive examination review, designated by the term "full-scope," and those that received a less comprehensive review, designated by the term "limited-scope".

Time Period Reviewed:	January 1, 2017 through December 31, 2019	
Bank Products Reviewed:	Home Mortgage (home purchase, home improvement, and refinance) and Loans to Small Businesses	
Affiliate(s)	Affiliate Relationship	Products Reviewed
None		
List of Assessment Areas and Type of Examination		
Rating and Assessment Areas	Type of Exam	Other Information
Texas		
Kaufman County AA	Full-scope	Six contiguous census tracts located in Kaufman County
Henderson County AA	Full-scope	Non-MSA; made up of 14 contiguous census tracts located in Henderson County

Appendix B: Summary of State Ratings

RATINGS	The First National Bank of Kemp
Overall Bank:	Lending Test Rating
The First National Bank of Kemp	Satisfactory
State:	
Texas	Satisfactory

Appendix C: Definitions and Common Abbreviations

The following terms and abbreviations are used in this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. For example, a bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending (Aggt.): The number of loans originated and purchased by all reporting lenders (HMDA or CRA) in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

Census Tract (CT): A small, relatively permanent statistical subdivision of a county delineated by a local committee of census data users for the purpose of presenting data. Census tracts nest within counties, and their boundaries normally follow visible features, but may follow legal geography boundaries and other non-visible features in some instances, census tracts ideally contain about 4,000 people and 1,600 housing units.

Combined Statistical Area (CSA): A geographic entity consisting of two or more adjacent Core Based Statistical Areas with employment interchange measures of at least 15. An employment interchange measure is a measure of ties between two adjacent entities. The employment interchange measure is the sum of the percentage of workers living in the smaller entity who work in the larger entity and the percentage of employment in the smaller entity that is accounted for by workers who reside in the larger entity.

Community Development (CD): 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 Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas.

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its entire community, including LMI areas, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

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, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full-Scope Review: Performance under the Lending, 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 that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: A closed-end mortgage loan or an open-end line of credit as these terms are defined under 12 CFR 1003.2, and that is not an excluded transaction under 12 CFR 1003.3(c)(1) through (c)(10) and (c)(13).

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

Limited-Scope Review: Performance under the Lending, 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: Individual income that is less than 50 percent of the area median income.

Low Income Geography: A census tract with a median family income that is less than 50 percent.

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 state/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. The median is the point at which half of the families have income above, and half below, a range of incomes. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above, and half below, a range of incomes.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

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.

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.

Rating Area: A rated area is a state or multi-state metropolitan statistical 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 multi-state metropolitan statistical area, the institution will receive a rating for the multi-state metropolitan statistical 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) 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.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland or are classified as loans to finance agricultural production and other loans to farmers.

Tier 1 Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

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

Appendix D: Tables of Performance Data

Content of Standardized Tables

A separate set of tables is provided for each state. All multistate metropolitan statistical areas, if applicable, are presented in one set of tables. References to the "bank" include activities of any affiliates that the bank provided for consideration (refer to Appendix A: Scope of the Examination). For purposes of reviewing the Lending Test tables, the following are applicable: (1) purchased are treated as originations; and (2) "aggregate" is the percentage of the aggregate number of reportable loans originated and purchased by all HMDA or CRA-reporting lenders in the MMSA/assessment area. Deposit data are compiled by the FDIC and are available as of June 30th of each year. Tables without data are not included in this PE.

The following is a listing and brief description of the tables included in each set:

- Table O. Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents aggregate peer data for the years the data is available.
- Table P. Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MMSA/assessment area. The table also presents aggregate peer data for the years the data is available.
- Table Q. Assessment Area Distribution of Loans to Small Businesses by Income Category of the Geography** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses that were originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) in those geographies. Because aggregate small business data are not available for geographic areas smaller than counties, it may be necessary to compare bank loan data to aggregate data from geographic areas larger than the bank's assessment area.
- Table R. Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenue** - Compares the percentage distribution of the number of small loans (loans less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to: 1) the percentage distribution of businesses with revenues of greater than \$1 million; and, 2) the percentage distribution of businesses for which revenues are not available. The table also presents aggregate peer small business data for the years the data is available.

Table O: Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography **2017-19**

Assessment Area:	Total Home Mortgage Loans			Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available-Income Tracts		
	#	\$	% of Total	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate
Kaufman County AA	36	5,976	49.3	0.0	0.0	0.0	39.9	66.7	35.1	60.1	33.3	64.9	0.0	0.0	0.0	0.0	0.0	0.0
Henderson County AA	43	6,140	50.7	0.0	0.0	0.0	16.1	16.3	11.4	61.9	46.5	60.5	22.0	37.2	28.1	0.0	0.0	0.0
Total	79	12,117	100.0	0.0	0.0	0.0	24.2	39.2	21.3	61.3	40.5	62.4	14.5	20.3	16.3	0.0	0.0	0.0

Source: 2015 ACS Census: 01/01/2017 - 12/31/2019 Bank Data, 2019 HMDA Aggregate Data, "-" data not available.
Due to rounding, totals may not equal 100.0%.

Table P: Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower **2017-19**

Assessment Area:	Total Home Mortgage Loans			Low-Income Borrowers			Moderate-Income Borrowers			Middle-Income Borrowers			Upper-Income Borrowers			Not Available-Income Borrowers		
	#	\$	% of Total	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate
Kaufman County AA	36	5,976	49.3	26.1	2.8	8.2	18.1	19.4	21.7	21.9	19.4	25.4	33.8	58.4	28.3	0.0	0.0	16.3
Henderson County AA	43	6,140	50.7	21.9	0.0	3.0	19.9	9.3	9.2	21.2	4.7	18.4	36.9	86.0	55.0	0.0	0.0	14.4
Total	79	12,117	100.0	23.4	1.3	5.2	19.3	13.9	14.4	21.5	11.4	21.3	35.8	73.4	43.8	0.0	0.0	15.2

Source: 2015 ACS Census: 01/01/2017 - 12/31/2019 Bank Data, 2019 HMDA Aggregate Data, "-" data not available.
Due to rounding, totals may not equal 100.0%.

Table Q: Assessment Area Distribution of Loans to Small Businesses by Income Category of the Geography **2017-19**

Assessment Area: #	Total Loans to Small Businesses		Low-Income Tracts		Moderate-Income Tracts		Middle-Income Tracts		Upper-Income Tracts		Not Available-Income Tracts	
	#	% of Total Market	\$	% Bank Loans	% Bank Loans	% Bank Loans	% Bank Loans	% Bank Loans	% Bank Loans	% Bank Loans	% Bank Loans	% Bank Loans
Kaufman County AA	20	52.6	3,151	0.0	0.0	41.9	58.1	0.0	0.0	0.0	0.0	0.0
Henderson County AA	20	47.4	2,845	0.0	0.0	16.7	69.0	14.8	15.0	14.3	0.0	0.0
Total	40	100.0	5,996	0.0	0.0	28.3	62.0	9.7	7.5	9.0	0.0	0.0

Source: 2019 D&B Data: 01/01/2017 - 12/31/2019 Bank Data; 2018 CRA Aggregate Data. "-" data not available.
Due to rounding, totals may not equal 100.0%.

Table R: Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenues **2017-19**

Assessment Area:	Total Loans to Small Businesses			Businesses with Revenues <= 1MM		Businesses with Revenues > 1MM		Businesses with Revenues Not Available	
	#	\$	% of Total	% Bank Loans	% Bank Loans	% Bank Loans	% Bank Loans	% Bank Loans	% Bank Loans
Kaufman County AA	20	3,151	52.6	594	88.2	40.7	3.1	30.0	8.6
Henderson County AA	20	2,845	47.4	1,020	86.0	43.2	3.4	25.0	10.5
Total	40	5,996	100.0	1,614	86.8	42.3	3.3	27.5	9.9

Source: 2019 D&B Data: 01/01/2017 - 12/31/2019 Bank Data; 2018 CRA Aggregate Data. "-" data not available.
Due to rounding, totals may not equal 100.0%.

CRA PERFORMANCE EVALUATION – PUBLIC DISCLOSURE

PUBLIC DISCLOSURE

January 27, 2020

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First State Bank
Certificate Number: 9973

100 North McKinney Street
Rice, Texas 75155

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Dallas Regional Office

1601 Bryan Street, Suite 1410
Dallas, Texas 75201

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 RATING

INSTITUTION'S COMMUNITY REINVESTMENT ACT (CRA) RATING: This institution is rated Satisfactory.

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The First State Bank demonstrated a satisfactory overall record regarding the Lending Test. The reasonable borrower profile distribution outweighed the excellent geographic distribution to primarily support this conclusion. The following points summarize the applicable performance factors, discussed in detail elsewhere.

- The loan-to-deposit ratio is reasonable (considering seasonal variations and taking into account lending related activities) given the institution's size, financial condition, and assessment area credit needs. Reasonable performance regarding the ratio's overall and comparative levels supports this conclusion.
- The institution granted a majority of its lending inside its assessment areas. Majorities of small business and home mortgage loans granted inside the assessment areas support this conclusion.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment areas. An excellent distribution of small business loans outweighed the reasonable distribution of home mortgage loans to support this conclusion.
- The distribution of borrowers reflects, given the demographics of the assessment areas, reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes. Reasonable records regarding both small business lending and home mortgage lending support this conclusion.
- The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the Lending Test rating.

DESCRIPTION OF INSTITUTION

Background

The First State Bank, established in 1928, is headquartered in the city of Rice, Texas located in Navarro County. Rice Bancshares, Inc., a one-bank holding company, wholly owns the bank. The First State Bank does not have any subsidiaries or affiliates. The prior CRA Performance Evaluation was completed by the FDIC using Small Bank performance factors on May 5, 2014. The First State Bank demonstrated a satisfactory record with respect to meeting the credit needs of its designated assessment areas at the prior evaluation.

In addition to the main location, the bank operates three additional branches within Ellis County. These branches operate within the cities of Ennis, Italy, and Waxahachie. The main office maintains banking hours typical for the area, with the lobby open Monday through Thursday, 9:00 am to 3:00 pm and drive-thru hours Monday through Thursday, 9:00 am to 4:00 pm. Both the lobby and drive-thru operate on Friday from 9:00 am to 6:00 pm. The Waxahachie and Ennis Branches share the same lobby and drive-thru hours with the lobby open Monday through Friday, 9:00 am to 3:00 pm and the drive-thru open Monday through Friday, 8:30 am to 6:00 pm. The Italy Branch's lobby operates Monday through Thursday, 9:00 am to 4:00 pm. Drive-thru hours are Monday through Thursday, 8:00 am to 4:00 pm. Both the lobby and drive-thru offer extended hours on Friday until 6:00 pm. All locations share the same Saturday drive-thru hours from 9:00 am to noon. The bank did not open or close any branches since the prior evaluation nor did they participate in any merger or acquisition activities.

The First State Bank's primary business focus remains commercial lending and has not changed since the last evaluation. Products and services offered by the bank also did not change since the prior evaluation. The First State Bank offers an array of deposit and loan products for consumers and businesses. Offered services include a free checking account with an opening deposit of \$100, free on-line banking, free telephone banking, free mobile banking, and an Automated Teller Machine (ATM) at each location. Customers maintain 24-hour access to their accounts via the bank's website at www.fsbrice-tx.com.

Ability and Capacity

As of the September 30, 2019, Report of Income and Condition, the institution reported total assets of \$149.5 million, total loans of \$86.2 million, and total deposits of \$128.7 million. Since the previous evaluation, assets grew by approximately 10.0 percent, loans by 26.1 percent, and deposits by 6.1 percent.

The following table illustrates the composition of the bank's loan distribution.

Loan Portfolio Distribution as of 09/30/2019		
Loan Category	\$(000s)	%
Construction and Land Development	8,019	9.3
Secured by Farmland	7,584	8.8
Secured by 1-4 Family Residential Properties	15,147	17.6
Secured by Multifamily (5 or more) Residential Properties	1,820	2.1
Secured by Nonfarm Nonresidential Properties	21,985	25.5
Total Real Estate Loans	54,555	63.3
Commercial and Industrial Loans	20,489	23.8
Agricultural Loans	6,311	7.3
Consumer Loans	4,579	5.3
Other Loans	280	0.3
Less: Unearned Income	0	0.0
Total Loans	86,214	100.0
<i>Source: Reports of Condition and Income</i>		

The institution's financial condition, size, product offerings, prior performance, and lack of legal impediments did not affect the bank's ability to meet the assessment areas' credit needs.

DESCRIPTION OF ASSESSMENT AREAS

The First State Bank defined two contiguous assessment areas (AA) for the purpose of this CRA evaluation: 1) Ellis County, located in the Dallas-Plano-Irving Metropolitan Division (Dallas MD AA) and 2) Navarro County, located in the Texas Non-Metropolitan Statistical Area (Non-MSA AA). The combined AAs encompass 41 census tracts reflecting the following income designations as of the 2015 American Community Survey (ACS) Census: 3 low-, 5 moderate-, 25 middle-, and 8 upper-income tracts. The assessment area delineation conforms to CRA requirements and does not arbitrarily exclude any low- or moderate-income areas. Refer to the individual discussions of the AAs for more detail.

SCOPE OF EVALUATION

General Information

This evaluation covers the time period from May 5, 2014, the date of the previous CRA evaluation through January 27, 2020, the date of this evaluation. To evaluate performance, examiners applied the CRA Small Bank performance criteria: loan-to-deposit ratio, assessment area concentration, borrower profile, geographic distribution, and response to CRA-related complaints.

As seen in the table below, the Dallas MD AA comprises the majority of lending, deposits, and branches. Consequently, examiners performed full-scope procedures and weighed performance more heavily for the Dallas MD AA when arriving at conclusions and ratings. Examiners also performed full-scope procedures on the Non-MSA AA since it was not reviewed with full-scope procedures at either of the previous two evaluations.

Assessment Area Weighting				
Assessment Area	% of Loans (% of \$)	% of Deposits (% of \$)	# of Branches	% of Branches
Dallas MD	76.4	70.1	3	75.0
Non-MSA	23.6	29.9	1	25.0
Total	100.0	100.0	4	100.0

Source: Bank Records; June 30, 2019 Summary of Deposits Report

Activities Reviewed

CRA Small Bank procedures require examiners to determine the bank's major product lines from which to sample, and as an initial matter, examiners may select from the same loan categories used for CRA Large Bank evaluations: home mortgage, small business, small farm, and consumer loans.

The following table illustrates all loan originations, by number and dollar volume, for the 12-month period from January 1, 2018, through December 31, 2018.

Loan Originations				
Loan Type	#	%	\$(000s)	%
Construction and Land Development	33	3.9	8,128	15.5
Secured by Farmland	5	0.6	5,215	10.0
1-4 Family Residential	43	5.1	5,376	10.3
Multi-Family (5 or more) Residential	1	0.1	594	1.1
Commercial Real Estate	14	1.7	4,547	8.7
Total Real Estate Loans	96	11.4	23,860	45.6
Commercial and Industrial	205	24.4	15,959	30.5
Agricultural	49	5.8	6,740	12.9
Consumer	484	57.6	4,420	8.4
Other Loans	6	0.8	1,387	2.6
Gross Loans	840	100.0	52,366	100.0

Source: Bank Records (01/01/2018-12/31/2018)

The table above indicates commercial lending (Commercial Real Estate and Commercial and Industrial loans) represented the largest percentage of the bank's portfolio, with 39.2 percent of the dollar volume. Although agricultural loans comprised 22.9 percent of the portfolio by dollar volume, approximately 95.0 percent of the category's dollar volume is attributed to four borrowers. Discussions with management confirmed that the bank's increased agriculture lending activity in 2018 did not represent a strategic shift in the bank's lending strategy. Residential lending does not represent a significant business line for the bank, with only 11.4 percent by dollar volume. Examiners noted the significant amount of consumer loans made by number; however, the percentage by dollar volume at 8.4 percent does not represent a significant volume of lending.

Due to the concentration in the bank's portfolio, this evaluation will focus on small business lending. Despite having less significance in the loan portfolio, home mortgage lending will also be evaluated as the bank reports home mortgage loans pursuant to the Home Mortgage Disclosure Act (HMDA) and this information is readily available for analysis. Since small farm and consumer lending would not substantially affect the results or conclusions presented herein, examiners did not present the analysis of these products in this evaluation.

Therefore, from the universe of 219 commercial loans totaling \$20.5 million originated by the bank in 2018, examiners determined 216 loans totaling \$16.8 million met the definition of small business. Examiners used all 216 small business loans to determine the bank's Assessment Area Concentration. From the 177 small business loans totaling \$12.3 million originated inside of the assessment areas, examiners selected a sample of loans for analysis within each assessment area. Examiners based the sample sizes for each assessment area on a 90 percent confidence interval with a 10 percent level of precision. As a result, 47 loans totaling \$3.2 million were used to determine geographic and borrower profile distribution performance within the Dallas MD AA. Additionally, 30 loans totaling \$808 thousand were used to determine geographic and borrower profile distribution performance within the Non-MSA AA. D&B data for 2018 provided a standard of comparison for the sampled small business loans.

The home mortgage lending evaluation considered all 38 home mortgage loans reported on the bank's 2017 HMDA Loan Application Register (LAR) totaling \$5.2 million. In addition, examiners considered all 37 home mortgage loans totaling \$4.8 million reported on the 2018 HMDA LAR. While examiners analyzed HMDA data for both 2017 and 2018, this evaluation presents data for 2018, as it is the most recent year for which aggregate data is available. 2018 aggregate data provided the standard of comparison for home mortgage lending.

Loan Category Weighting

Examiners considered the universes by dollar volume and number of loans reviewed in 2018 as well as management's stated business strategy to determine the weighting applied to the loan categories reviewed when arriving at applicable conclusions. Consequently, examiners placed more weight on small business lending when arriving at conclusions.

The performance evaluation presents information regarding the number and dollar volume of small business and home mortgage loans; however, for the geographic distribution and borrower profile performance factors, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of businesses and individuals served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

The First State Bank demonstrated a satisfactory overall record regarding the Lending Test. The reasonable borrower profile performance hindered the excellent geographic distribution to primarily support this conclusion. A reasonable record regarding the bank's loan-to-deposit ratio and a majority

of loans granted inside the assessment areas further supports the Lending Test conclusion. The appendices describe the small bank performance criteria.

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio is reasonable (considering seasonal variations and taking into account lending related activities) given the institution’s size, financial condition, and assessment area credit needs. Reasonable performance regarding the ratio’s overall and comparative levels support this conclusion.

Overall Level

The LTD ratio demonstrated reasonable performance given the institution’s size, financial condition, and assessment area credit needs. The bank’s LTD ratio, calculated from Report of Condition and Income data, averaged 66.8 percent over the past 22 calendar quarters, higher than the average, net LTD ratio of 55.9 percent reported at last evaluation. The bank’s quarterly net LTD ratios ranged from a low of 46.9 percent in December 31, 2014, to a high of 80.2 percent in June September 30, 2016. Given the increase in average loan volume since the last evaluation, the overall level of the bank’s LTD ratio reflects reasonable performance.

Comparable Level

The comparative level of the bank’s average, net LTD ratio reflects reasonable performance. Examiners identified and listed in the following table three similarly-situated institutions operating in or near the bank’s assessment area and reflecting similar asset sizes and/or lending emphases.

As illustrated in the table below, The First State Bank’s LTD ratio ranks second among all similarly-situated institutions. Specifically, the bank’s ratio lands 22.8 percentage points lower than the top similar-situated institution, but remains 9.6 percentage points higher than the third ranked similarly-situated institution. Considering the comparative level, the bank’s average, net LTD ratio reflects reasonable performance.

LTD Ratio Comparative Level		
Bank Name and Location	Total Assets as of 9/30/2019 \$(000s)	Average, Net LTD Ratio (%)
The First State Bank, Rice, TX	149,587	66.8
Similarly-Situated Banks		
Commercial State Bank, Palmer, TX	82,428	57.2
Ernis State Bank, Ennis, TX	250,062	89.6
Powell State Bank, Powell, TX	30,510	52.0

Source: Reports of Income and Condition (6/30/2014 to 9/30/19).

Assessment Area Concentration

The First State Bank originated a majority of its lending volume inside the institution’s assessment areas. A majority of small business and home mortgage lending inside the AAs supports this conclusion. Examiners considered the bank’s asset size, branch network, and loan products reviewed relative to the size of the assessment areas when arriving at this conclusion.

As illustrated in the table below, the bank granted a majority of small business and home mortgage loans, both by number and dollar volume, inside the assessment areas.

Lending Inside and Outside of the Assessment Areas										
Loan Category	Number of Loans				Total	Dollar Amount of Loans \$(000s)				
	Inside		Outside			Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Small Business										
2018	177	81.9	39	18.1	216	12,266	73.0	4,543	27.0	16,809
Home Mortgage										
2017	32	84.2	6	15.8	38	3,946	75.9	1,255	24.1	5,201
2018	27	73.0	10	27.0	37	3,581	75.1	1,190	24.9	4,771
Subtotal	59	78.7	16	21.3	75	7,527	75.5	2,445	24.5	9,972

*Source: Evaluation Period: 1/1/2017 - 12/31/2018 Bank Data
Due to rounding, totals may not equal 100.0*

Geographic Distribution

The geographic distribution of loans reflects excellent dispersion throughout the assessment areas for the institution as a whole. Excellent performances in the Dallas MD AA and the Non-MSA AA support this conclusion. Please see the AA review sections that follow for more detail about each individual AA.

Borrower Profile

The distribution of borrowers reflects, given the demographics of the assessment areas, reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes for the institution as a whole. Reasonable performances in the Dallas MD AA and the Non-MSA AA support this conclusion. Please see the AA review sections that follow for more detail about each individual AA.

Response to Complaints

The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this performance factor did not affect the overall Lending Test conclusion.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs were identified during this examination.

DALLAS MD AA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE DALLAS MD AA

According to the 2015 ACS Census data, the Dallas MD AA consists of the 31 census tracts that make up Ellis County: 3 low-income, 3 moderate-income, 17 middle-income, and 8 upper-income tracts. The bank houses its three branches in this assessment area. The bank operates the Ennis Branch in a low-income census tract, the Italy Branch in a moderate-income census tract, and the Waxahachie Branch in an upper-income census tract. The Dallas MD is a part of the greater Dallas-Fort Worth-Arlington, TX MSA.

Demographic and Economic Data

The following table provides additional demographic and economic information for the Dallas MD AA. Unless otherwise noted, this evaluation based all demographic data on the 2015 ACS Census.

Demographic Information of the Assessment Area Dallas MD AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	31	9.7	9.7	54.8	25.8	0.0
Population by Geography	157,058	9.1	6.5	56.7	27.6	0.0
Housing Units by Geography	56,353	9.1	7.3	57.1	26.5	0.0
Owner-Occupied Units by Geography	37,889	5.4	6.1	55.0	33.5	0.0
Occupied Rental Units by Geography	14,764	18.6	9.0	61.4	11.1	0.0
Vacant Units by Geography	3,700	8.8	13.7	61.3	16.2	0.0
Businesses by Geography	9,918	10.0	6.7	53.6	29.7	0.0
Farms by Geography	368	5.2	11.7	59.8	23.4	0.0
Family Distribution by Income Level	41,290	21.0	17.2	21.2	40.7	0.0
Household Distribution by Income Level	52,653	21.9	16.1	19.3	42.7	0.0
Median Family Income MSA - Dallas-MD		\$71,149	Median Housing Value			\$140,679
			Median Gross Rent			\$936
			Families Below Poverty Level			9.4%

*Source: 2015 ACS Census and 2018 D&B Data
Due to rounding, totals may not equal 100.0
(* The NA category consists of geographies that have not been assigned an income classification.*

The following table presents a breakdown of income levels using the Dallas MD-estimated median family incomes, as established annually by the Federal Financial Institutions Examination Council (FFIEC). Examiners used these income levels to stratify the home mortgage loan sample and to analyze the borrower distribution factor of the CRA performance evaluation.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Dallas-Plano-Irving, TX MD Median Family Income (19124)				
2018 (\$77,200)	<\$38,600	\$38,600 to <\$61,760	\$61,760 to <\$92,640	≥\$92,640
<i>Source FFIEC</i>				

According to the 2018 Business Geodemographic Data, 9,918 non-farm businesses operate in the area, of which 86.6 percent maintain gross annual revenues of \$1 million or less. The diversified economic base of the area focuses on services, retail trade, construction, finance, insurance, wholesale trade, transportation, agriculture, and manufacturing. The three largest employers in the area include Wal-Mart Stores Inc., Waxahachie Independent School District, and AT&T Inc.

According to the Bureau of Labor Statistics, the November 2019 unemployment rate for Ellis County stood at 2.8 percent, lower than both the State of Texas' average unemployment rate of 3.4 percent and the national unemployment rate of 3.5 percent for the same time period.

Competition

According to the June 30, 2019, FDIC Deposit Market Share Report, the assessment area contains 14 financial institutions represented by 36 offices, which reflects significant competition. The First State Bank ranked 7th in deposit market share at 4.1 percent.

Community Contact

Examiners used a community contact to help assess the current economic conditions, community credit needs, and potential opportunities for bank involvement in the assessment area. The contact noted that the economic conditions of Waxahachie and Ellis County remain strong and that numerous housing and small business projects are available for local financial institutions.

Credit Needs

Considering the demographics of the assessment area, historical lending patterns, information obtained from management, and the opinions expressed by the community contact, examiners concluded that commercial and residential real estate remain important credit needs in the assessment area.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE DALLAS MD AA

LENDING TEST

The First State Bank demonstrated excellent geographic distribution and reasonable borrower profile distribution in this area.

Geographic Distribution

The geographic distribution of loans reflects excellent dispersion throughout the Dallas MD AA. An excellent distribution of small business lending primarily supports this conclusion despite a reasonable distribution of home mortgage lending. This performance factor only considers loans granted inside the Dallas MD AA and emphasizes the institution's distribution of loans in low- and moderate-income geographies.

Small Business Loans

The geographic distribution of small business loans reflects excellent dispersion throughout the assessment area. The excellent dispersion of small business loans within moderate-income census tracts lifted the reasonable dispersion within low-income census tracts to support this conclusion. The analysis focused on the bank's loan number percentage in low- and moderate-income census tracts relative to the D&B data when arriving at this conclusion.

As the table shows, the bank's percentage of lending by number volume in low-income census tract exceeds D&B data by 6.8 percentage points. As a result, the bank's lending activity within low-income census tracts represents reasonable performance. For moderate-income census tracts, the bank exceeded D&B data by 26.9 percentage points. The bank's level of lending in moderate-income tracts demonstrates excellent performance.

Based primarily on the loan number percentage compared to D&B data, the institution established an overall excellent record regarding its geographic distribution of small business lending in the Dallas MD AA.

Geographic Distribution of Small Business Loans Dallas MD AA					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	10.0	24	16.8	1,175	10.4
Moderate	6.7	48	33.6	3,961	35.1
Middle	53.6	60	42.0	5,776	51.1
Upper	29.7	11	7.7	382	3.4
Not Available	0.0	0	0.0	0	0.0
Totals	100.0	143	100.0	11,294	100.0

*Source: 2018 D&B Data; 1/1/2017 - 12/31/2018 Bank Data
Due to rounding, totals may not equal 100.0*

Home Mortgage Loans

The First State Bank demonstrated a reasonable distribution of home mortgage loans among the various tract income categories. Excellent distribution of home mortgage lending in low-income census tracts hampered by the poor performance in moderate-income census tracts supports this conclusion. Examiners focused primarily on the bank's loan number percentage in low-income and moderate-income census tracts comparable to the aggregate data when arriving at this conclusion.

As seen in the table, the bank's level of lending exceeded aggregate data by 9.8 percentage points in low-income census tracts, reflective of excellent performance. Conversely, the bank did not make any home mortgage loans in moderate-income census tracts, generally indicative of poor performance.

Consequently, given the ratios overall levels and weighting, the bank displayed reasonable home mortgage performance.

Geographic Distribution of Home Mortgage Loans Dallas MD AA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2018	5.4	3.2	3	13.0	929	33.6
Moderate						
2018	6.1	3.9	0	0.0	0	0.0
Middle						
2018	55.0	46.6	18	78.3	1,692	61.1
Upper						
2018	33.5	46.3	2	8.7	147	5.3
Not Available						
2018	0.0	0.0	0	0.0	0	0.0
Totals						
2018	100.0	100.0	23	100.0	2,768	100.0
<i>Source: 2015 ACS Census; 1/1/2018 - 12/28/2018 Bank Data, 2018 HMDA Aggregate Data, "-" data not available. Due to rounding, totals may not equal 100.0</i>						

Borrower Profile

The distribution of borrowers reflects, given the demographics of the Dallas MD AA, reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes. Reasonable records regarding both small business lending and home mortgage lending support this conclusion. Examiners used the distribution of small business loans by gross annual revenues and home mortgage loans by borrower income levels. This factor only considered loans granted inside the Dallas MD AA.

Small Business Loans

The First State Bank's record of lending to small businesses reflects reasonable performance. Examiners compared the bank's lending to the percentage of non-farm businesses in each revenue category, focusing on the loan number percentage to entities reporting gross annual revenues of \$1 million or less relative to the D&B data.

As illustrated in the table, the bank originated 53.2 percent by number volume of the bank's small

business loans to businesses with gross annual revenues of \$1 million or less. This distribution trails the percentages of business with revenues of \$1 million or less by 33.4 percentage points, generally indicative of poor performance. However, examiners noted that the bank originated all 17 loans to businesses with revenues over \$1 million to only two borrowers. Conversely, the 25 loans originated to businesses with revenues of \$1 million or less included 22 different businesses. Considering the composition of borrowers, the bank's level of lending represents reasonable performance.

Detailed Distribution of Small Business Loans by Gross Annual Revenues Dallas MD AA					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
< \$100,000	47.6	6	12.8	324	10.0
\$100,000 - \$249,999	28.3	8	17.0	212	6.5
\$250,000 - \$499,999	7.3	8	17.0	1,157	35.7
\$500,000 - \$1,000,000	3.4	3	6.4	133	4.1
Subtotal <= \$1,000,000	86.6	25	53.2	1,826	56.3
>\$1,000,000	3.5	17	36.2	1,278	39.4
Revenue Not Available	9.8	5	10.6	141	4.3
Total	100.0	47	100.0	3,245	100.0

*Source: 2018 D&B Data, Bank Data
Due to rounding, totals may not equal 100.0*

Home Mortgage Loans

The First State Bank demonstrated a reasonable level of lending to borrowers of different incomes. Reasonable records of lending to low- and moderate-income borrowers support at this conclusion. Examiners evaluated the bank's distribution of home mortgage loans by borrower income levels to determine how well the bank serves the credit needs of the assessment area, particularly those of low- and moderate-income borrowers.

As seen in the following table, the bank's percentage of home mortgage loans extended to low-income families displayed similar results to aggregate performance, exceeding aggregate performance by 0.8 percentage points, reflective of reasonable performance. For moderate-income borrowers, the bank's performance exceeded aggregate by 5.3 percentage points also reflective of reasonable performance. Overall, the bank's home mortgage distribution to low- and moderate-income borrowers is reflective of reasonable performance.

Distribution of Home Mortgage Loans by Borrower Income Level Dallas MD AA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2018	21.0	3.5	1	4.3	68	2.4
Moderate						
2018	17.2	12.1	4	17.4	186	6.7
Middle						
2018	21.2	25.3	3	13.0	275	9.9
Upper						
2018	40.7	40.2	9	39.1	815	29.4
Not Available						
2018	0.0	18.9	6	26.1	1,425	51.5
Totals						
2018	100.0	100.0	23	100.0	2,768	100.0
<i>Source: 2015 ACS Census; 1/1/2018 - 12/28/2018 Bank Data, 2018 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>						

NON-MSA AA – Full-Scope Review

DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE NON-MSA AA

The bank designated the ten census tracts that comprise Navarro County as its Non-MSA AA. This assessment area houses the bank's main office located in Rice, Texas, in a middle-income census tract. According to the 2015 ACS Census data, Navarro County's ten census tracts consist of two moderate-income, and eight middle-income tracts. The area does not contain any low-income or upper-income census tracts.

Demographic and Economic Data

The following table provides additional demographic and economic information for the Non-MSA AA. Unless otherwise noted, this evaluation based all demographic data on the 2015 ACS Census.

Demographic Information of the Assessment Area Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	10	0.0	20.0	80.0	0.0	0.0
Population by Geography	48,118	0.0	11.3	88.7	0.0	0.0
Housing Units by Geography	20,431	0.0	10.2	89.8	0.0	0.0
Owner-Occupied Units by Geography	11,624	0.0	11.2	88.8	0.0	0.0
Occupied Rental Units by Geography	5,853	0.0	8.4	91.6	0.0	0.0
Vacant Units by Geography	2,954	0.0	10.1	89.9	0.0	0.0
Businesses by Geography	2,595	0.0	24.5	75.5	0.0	0.0
Farms by Geography	138	0.0	12.3	87.7	0.0	0.0
Family Distribution by Income Level	12,503	23.0	18.8	18.8	39.4	0.0
Household Distribution by Income Level	17,477	24.8	15.9	17.9	41.4	0.0
Median Family Income Non-MSAs – TX		\$52,076	Median Housing Value			\$81,150
			Median Gross Rent			\$718
			Families Below Poverty Level			15.9%

Source: 2015 ACS Census and 2018 D&B Data
Due to rounding, totals may not equal 100.0
(* The NA category consists of geographies that have not been assigned an income classification.

The following table presents a breakdown of income levels using the Non-MSA AA estimated median family incomes, as established annually by the FFIEC. Examiners used these income levels to stratify the home mortgage loan sample and to analyze the borrower profile factor of the CRA performance evaluation.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
TX NA Median Family Income (99999)				
2018 (\$56,500)	<\$28,250	\$28,250 to <\$45,200	\$45,200 to <\$67,800	≥\$67,800

Source FFIEC

According to the 2018 Business Geodemographic Data, 2,595 non-farm businesses operate in the area, of which 80.5 percent maintain gross annual revenues of \$1 million or less. According to the Bureau of Labor Statistics, the average unemployment rate for Navarro County stood at 2.9 percent as of November 2019, lower than both the State of Texas' average unemployment rate of 3.4 percent and the national unemployment rate of 3.5 percent for the same time period.

The diversified economic base of the area focuses on services, retail trade, finance and accounting, construction, transportation, and agriculture. Navarro County remains very rural. The three largest employers in Navarro County consist of Corsicana Independent School District, Russell Stover Candies, and Navarro College.

Community Contact

Examiners used a community contact to help assess the current economic conditions, community credit needs, and potential opportunities for bank involvement in the assessment area. The contact noted that the economic conditions of Navarro County remain strong and that numerous housing and commercial real estate projects are expected for the area in the near future and financing opportunities are available for local financial institutions. The contact also indicated that while existing businesses in the area continue to thrive, there is a need for additional support for new small businesses. According to the contact, small business, home mortgage lending, and affordable housing represent the areas' primary credit needs.

Competition

According to the June 30, 2019, FDIC Deposit Market Share Report, the assessment area contains 10 financial institutions represented by 15 offices, which reflects moderate competition. The First State Bank ranked 7th in deposit market share at 5.0 percent.

Credit Needs

Considering information obtained from bank management, and demographic data, examiners determined the primary credit needs for the assessment area include small business and residential lending.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE NON-MSA AA

LENDING TEST

Within the Non-MSA AA, the bank displayed excellent geographic distribution performance and reasonable borrower profile distribution.

Geographic Distribution

The geographic distribution of loans reflects excellent dispersion throughout the Non-MSA AA. Excellent distributions of small business and home mortgage lending support this conclusion. This performance factor only considers loans granted inside the Non-MSA AA and emphasizes the institution's distribution of loans in moderate-income geographies.

Small Business Loans

The geographic distribution of small business loans reflects excellent dispersion throughout the assessment area. Excellent dispersion of small business loans within moderate-income census tracts supports this conclusion. The analysis focused on the bank's loan distribution within moderate-income census tracts relative to the D&B data when arriving at this conclusion.

As seen in the following table, the bank's level of lending within moderate-income census tracts significantly exceeded D&B data both by number and dollar volume. The bank's level of lending rises 49.0 percentage points above D&B data and demonstrates excellent performance.

Geographic Distribution of Small Business Loans Non-MSA AA					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	0.0	0	0.0	0	0.0
Moderate	24.5	25	73.5	511	52.6
Middle	75.5	9	26.5	461	47.4
Upper	0.0	0	0.0	0	0.0
Not Available	0.0	0	0.0	0	0.0
Totals	100.0	34	100.0	972	100.0

*Source: 2018 D&B Data; Bank Data
Due to rounding, totals may not equal 100.0*

Home Mortgage Loans

The First State Bank demonstrated excellent distribution of home mortgage loans among the various tract categories. Excellent distribution of home mortgage lending in moderate-income census tracts supports this conclusion. Examiners focused on the bank's loan number percentage in moderate-income census tracts comparable to the aggregate data when arriving at this conclusion.

As seen in the table, the bank's level of lending significantly exceeded aggregate lending by number volume in moderate-income census tracts. The bank's level of lending rose 42.1 percentage points above the aggregate figure and reflects excellent performance. Given the limited home mortgage loan activity during 2018, less weight was placed on this performance.

Geographic Distribution of Home Mortgage Loans Non-MSA AA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2018	0.0	0.0	0	0.0	0	0.0
Moderate						
2018	11.2	7.9	2	50.0	92	11.3
Middle						
2018	88.8	92.1	2	50.0	721	88.7
Upper						
2018	0.0	0.0	0	0.0	0	0.0
Not Available						
2018	0.0	0.0	0	0.0	0	0.0
Totals						
2018	100.0	100.0	4	100.0	813	100.0

*Source: 2015 ACS Census; 2018 Bank Data, 2018 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0*

Borrower Profile

The distribution of borrowers reflects, given the demographics of the Non-MSA AA, reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes. The very poor home mortgage record slightly hampered the excellent small business record to support this conclusion. This factor only considered loans granted inside the Non-MSA AA.

Small Business Loans

The First State Bank record of lending to small businesses reflects excellent performance. Examiners compared the bank's lending to the percentage of non-farm businesses in each revenue category, focusing on the loan number percentage to entities reporting gross annual revenues of \$1 million or less relative to the D&B data.

As illustrated in the table, the bank originated 90.0 percent by number volume, of the bank's small business loans to businesses with gross annual revenues of \$1 million or less. This distribution exceeds the percentages of business with revenues of \$1 million or less by 9.5 percentage points. In addition, it shows the bank originated nine of every ten loans to businesses reporting such revenues. Consequently, the bank's level of lending represents excellent performance.

Detailed Distribution of Small Business Loans by Gross Annual Revenues Non-MSA AA					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
< \$100,000	42.2	13	43.3	165	20.4
\$100,000 - \$249,999	26.6	5	16.7	93	11.5
\$250,000 - \$499,999	7.6	5	16.7	120	14.9
\$500,000 - \$1,000,000	4.1	4	13.3	353	43.7
Subtotal <= \$1,000,000	80.5	27	90.0	731	91.0
>\$1,000,000	4.8	1	3.3	18	2.2
Revenue Not Available	14.7	2	6.7	59	7.3
Total	100.0	30	100.0	808	100.0

*Source: 2018 D&B Data, Bank Data
Due to rounding, totals may not equal 100.0*

Home Mortgage Loans

The First State Bank demonstrated a very poor level of lending to borrowers of different incomes. The very poor lending within low- and moderate-income census tracts supports this conclusion. Examiners evaluated the bank's distribution of home mortgage loans by borrower income levels to determine how well the bank serves the credit needs of the assessment area, particularly those of low- and moderate-income borrowers.

As shown in the following table, the bank did not originate any loans to low- or moderate-income borrowers resulting in very poor performance. Given the limited home mortgage loan activity during 2018, examiners placed less weight on home mortgage lending when arriving at overall conclusions for the Non-MSA AA.

Distribution of Home Mortgage Loans by Borrower Income Level Non-MSA AA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2018	23.0	2.8	0	0.0	0	0.0
Moderate						
2018	18.8	13.3	0	0.0	0	0.0
Middle						
2018	18.8	18.4	0	0.0	0	0.0
Upper						
2018	39.4	47.1	3	75.0	761	93.6
Not Available						
2018	0.0	18.5	1	25.0	52	6.4
Totals						
2018	100.0	100.0	4	100.0	813	100.0
<i>Source: 2015 ACS Census; 1/1/2018 - 12/28/2018 Bank Data, 2018 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>						

APPENDICES

SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The institution's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes;
- 4) The geographic distribution of the bank's loans; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

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.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the institution under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

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.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

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. Other family 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).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in

information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g, geographic distribution, borrower profile, 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 that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited-scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (e.g, geographic distribution, borrower profile, 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 Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

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

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as non-MSA): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

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.

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.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

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.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

"Urban" excludes the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.