

PUBLIC DISCLOSURE

October 21, 2019

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Franklin Savings Bank
Certificate Number: 17951

387 Central Street
Franklin, New Hampshire 03235

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

350 Fifth Avenue, Suite 1200
New York, New York 10118

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.

Franklin Savings Bank's (FSB's) satisfactory Community Reinvestment Act (CRA) performance under the Lending Test and Community Development Test supports the overall institution rating. Examiners did not identify any evidence of discriminatory or other illegal credit practices. The following points summarize the bank's Lending Test and Community Development Test performance.

The Lending Test is rated Satisfactory.

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- The bank made a majority of its home mortgage and small business loans in the assessment areas.
- The geographic distribution of home mortgage and small business loans reflects reasonable dispersion throughout the assessment areas.
- The distribution of borrowers reflects reasonable penetration of loans among individuals of different income levels and businesses of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the Lending Test rating.

The Community Development Test is rated Satisfactory.

- The institution's community development performance demonstrates adequate responsiveness to the community development needs of its assessment areas through community development loans, qualified investments, and community development services, as appropriate. Examiners considered the institution's capacity and the need and availability of such opportunities for community development in the combined assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated November 14, 2016, to the current evaluation dated October 21, 2019. Examiners used the Interagency Intermediate Small Institution Examination Procedures to evaluate FSB’s CRA performance. These procedures include two tests: the CRA Small Bank Lending Test and the Community Development Test.

The Lending Test considered the institution’s performance according to the following criteria.

- Loan-to-deposit ratio
- Assessment area concentration
- Geographic distribution
- Borrower profile
- Response to CRA-related complaints

The Community Development Test considered the following factors.

- Number and dollar amount of community development loans, qualified investments, and community development services
- The responsiveness of such activities to the community development needs of the assessment area

Banks must achieve at least a Satisfactory rating under each test to obtain an overall Satisfactory CRA rating. This evaluation does not include any lending activity performed by affiliates.

FSB designated two non-contiguous assessment areas in New Hampshire (NH). This evaluation refers to these areas collectively as the combined assessment area. One assessment area is in the Non-Metropolitan Statistical Area (Non-MSA) part of NH. The second is in the Manchester-Nashua, NH Metropolitan Statistical Area (MSA). As reflected in the following table, the Non-MSA portion of the combined assessment area accounts for the larger share of loans, deposits, and branches. Accordingly, examiners assigned greater weight to the bank’s performance in the Non-MSA assessment area when arriving at overall conclusions. Examiners used full-scope procedures to analyze the Non-MSA and the Manchester-Nashua MSA assessment areas. Examiners conducted a full-scope review of the Manchester-Nashua, NH MSA assessment area to assess the bank’s ability to serve this area, as the bank maintains two branch office locations in the MSA.

| Assessment Area Breakdown of Home Loans, Deposits, and Branches | | | | | | |
|--|-----------------|--------------|-----------------|--------------|-----------------|--------------|
| Assessment Area | Loans | | Deposits | | Branches | |
| | \$(000s) | % | \$(000s) | % | # | % |
| Non-MSA | 16,710 | 94.8 | 422,767 | 94.1 | 6 | 75.0 |
| Manchester-Nashua, NH MSA | 922 | 5.2 | 26,694 | 5.9 | 2 | 25.0 |
| Total | 17,632 | 100.0 | 449,461 | 100.0 | 8 | 100.0 |

Source: Bank Records; FDIC Summary of Deposits (6/30/18)

Loan Products Reviewed

Examiners determined that the bank's major product lines are home mortgage and small business loans. This conclusion considered the bank's business strategy and the number and dollar volume of loans originated during the evaluation period.

A review of the June 30, 2019 Reports of Condition and Income (Call Report) revealed that home mortgage loans represent 48.5 percent and commercial loans represent 41.9 percent of the total loan portfolio, respectively. Small farm loans and consumer loans do not represent major product lines; therefore, examiners did not analyze these loan types.

Bank records indicated that the lending focus and product mix remained consistent throughout the evaluation period. The bank first became subject to Home Mortgage Disclosure Act (HMDA) reporting requirements in 2018. Examiners considered all home mortgage loans reported on the bank's 2018 HMDA Loan Application Register (LAR). For 2018, FSB originated 154 loans totaling \$31.2 million. Examiners compared the bank's 2018 performance under the Geographic Distribution and Borrower Profile criteria to aggregate data and the 2015 American Community Survey (ACS) demographic data.

Examiners also considered the bank's 2017 and 2018 small business loan data. The bank is not required to collect and report small business loan data. However, the bank provided a listing of all small business loans originated from January 1, 2017, through December 31, 2018. For 2017, FSB originated 134 loans totaling \$23.4 million. For 2018, FSB originated 107 loans totaling \$21.2 million. Small business loan data include commercial real estate and commercial and industrial loans with original loan amounts of \$1 million or less as reported on the bank's Call Report. D&B data provided a standard of comparison for the bank's small business lending performance.

The bank's record of home mortgage loan originations contributed more weight to overall conclusions due to the larger loan volume when compared to small business loan originations during 2018. For the Lending Test, examiners reviewed the number and dollar volume of home mortgage and small business loans. Although the evaluation presents the number and dollar volume of each product line, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of individuals and businesses served.

For the Community Development Test, bank management provided data on community development loans and qualified investments since the prior CRA evaluation dated November 14, 2016. Data collected for qualified community development services included 2016, 2017, and 2018. Given the manner in which the bank collects community development service activities, the 2019 service data was not available at this time.

DESCRIPTION OF INSTITUTION

Background

FSB, established in 1869 and headquartered in Franklin, NH, is an independent mutually-owned community bank wholly-owned by Franklin Bancorp, Mutual Holding Company. The bank operates in parts of Merrimack, Hillsborough, Belknap, and Grafton Counties. FSB also offers investment, insurance, and financial planning services through its wholly-owned subsidiary, Independence Financial Advisors, LLC (IFA), a Franklin Savings Bank company. The FDIC assigned FSB a Satisfactory rating at its previous CRA Performance Evaluation, dated November 14, 2016, based on Interagency Intermediate Small Institution Examination Procedures.

Operations

FSB operates eight full-service branch offices including the bank's main office. Branches are located in Bristol in Grafton County, Boscawen and Franklin (2) in Merrimack County, Tilton and Gilford in Belknap County, and Merrimack and Goffstown in Hillsborough County. FSB offers commercial lending, personal banking and investment services. The bank continues to focus primarily on growing business banking relationships. Each branch provides lobby, drive-up, and 24-hour ATM services. FSB provides customers 24-hour cash access, free-of-charge, at any FSB or Meredith Village Savings Bank ATM. In addition, the bank is a member of Allpoint Network, an interbank network of ATMs offering surcharge-free transactions in the United States, Canada, Mexico, United Kingdom, and Australia. The bank also maintains a commercial loan production office (LPO) in Bedford, NH.

Commercial loan products include commercial mortgages, lines of credit, construction and equipment loans, and letters of credit. Business banking services include checking and savings, cash management, and a variety of business services such as online cash management, and debit and credit cards. Personal loan products include residential mortgages, home equity lines of credit, and consumer loans. Personal banking includes checking and savings accounts, Certificates of Deposit and Individual Retirement Accounts and debit and credit cards, and online deposit capture. The bank also offers a variety of personal banking services, for example, on-line banking and bill pay, mobile banking, person-to-person payments, and FSB overdraft forgiveness.

During the review period, the bank closed one branch and opened two new branches. In September 2017, the bank closed the Laconia Branch. In September 2017, the bank opened the Merrimack Branch in Merrimack, NH in Hillsborough County. In March 2019, the bank opened the Goffstown Branch, which is also located in the Manchester-Nashua, NH MSA in Hillsborough County.

The bank did not engage in any merger or acquisition activities since the previous evaluation.

Ability and Capacity

FSB's assets totaled approximately \$519.4 million as of June 30, 2019, and included total loans of \$342.9 million and securities totaling \$103.2 million. The following table illustrates the bank's loan portfolio.

| Loan Portfolio Distribution as of 6/30/2019 | | |
|---|-----------------|--------------|
| Loan Category | \$(000s) | % |
| Construction and Land Development | 13,775 | 4.0 |
| Secured by Farmland | 0 | 0.0 |
| Secured by 1-4 Family Residential Properties | 141,743 | 41.3 |
| Secured by Multifamily (5 or more) Residential Properties | 24,557 | 7.2 |
| Secured by Nonfarm Nonresidential Properties | 119,683 | 34.9 |
| Total Real Estate Loans | 299,758 | 87.4 |
| Commercial and Industrial Loans | 23,881 | 7.0 |
| Agricultural Loans | 0 | 0.0 |
| Consumer Loans | 1,222 | 0.4 |
| Municipal and Other Loans | 18,014 | 5.2 |
| Total Loans | 342,875 | 100.0 |
| <i>Source: Reports of Condition and Income</i> | | |

Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet assessment area credit needs.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires the financial institution to define one or more assessment areas within which examiners will evaluate its CRA performance. Please refer to the Non-MSA assessment area and the Manchester-Nashua, NH MSA (#31700) assessment area sections below for more detailed information about the demographics of those areas. The following sections discuss demographic and economic information for the combined assessment area.

Economic and Demographic Data

FSB has designated two non-contiguous assessment areas in NH. The combined assessment area includes 44 census tracts located in portions of Merrimack, Hillsborough, Belknap, and Grafton Counties. The larger assessment area contains 33 census tracts in the Non-MSA area of NH, in portions of Merrimack, Belknap, and Grafton Counties. The smaller assessment area contains 11 census tracts in the Manchester-Nashua NH MSA (#31700) assessment area, in portions of Hillsborough County. Please refer to the Non-MSA, NH area, and the Manchester-Nashua NH MSA assessment area sections for additional detail on the demographics of each individual assessment area.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit and community development needs. This information helps to determine whether local financial institutions are responsive to these needs. It also shows what credit and community development opportunities are available.

Examiners reviewed a recent contact with a community-based non-profit organization offering home buyer education, housing counseling and foreclosure assistance in the Concord, NH area. This entity helps create safe, affordable, quality workforce housing for income-qualified individuals and families. The contact indicated that a lack of affordable workforce housing has

impacted new business development. The contact also noted that local community banks have been responsive to the needs of the community, and they support area community development organizations that attempt to meet the needs of individuals and families of the State's workforce.

Examiners also contacted a small business development center that is a leading resource for business advising and education for small to medium sized businesses in NH. The contact is headquartered in the MSA assessment area, with multiple centers across NH. The contact stated that despite impressions of a potential economic downturn, there has been an increase in clients seeking advice and loans for small business start-ups and existing business development financing. Small business lending opportunities are evident. The contact noted that community banks are more flexible and willing to work with potential clients; however, there are alternative financing sources that may offer more flexible loan terms and conditions. Local financial institutions are actively seeking small business lending opportunities.

Credit and Community Development Needs and Opportunities

Considering community contact information, bank management, demographics, and economic data, examiners determined that affordable workforce housing and small business lending are the primary community development credit needs of the combined assessment area. There are also needs and opportunities to provide homebuyer education and small business lending advice and assistance.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

FSB demonstrated reasonable performance under the Lending Test. Geographic Distribution and Borrower Profile performance primarily support this conclusion. As noted above, examiners placed more weight on lending activities in the Non-MSA assessment area to reach conclusions.

Loan-to-Deposit Ratio

The LTD ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's LTD ratio, calculated from Call Report data, averaged 85.0 percent over the past 11 calendar quarters from December 31, 2016, through June 30, 2019. The ratio ranged from a high of 89.3 percent as of December 31, 2016, to a low of 75.7 percent as of June 30, 2019. The ratio generally decreased since March 2018 to the present low. FSB's average net LTD ratio was lower than comparable institutions, as shown in the following table. Examiners selected comparable institutions based on their asset size, geographic location, and lending focus.

| Loan-to-Deposit Ratio Comparison | | |
|---|---|---------------------------------|
| Bank | Total Assets as of 6/30/2019 (\$000s) | Average Net LTD Ratio (%) |
| Merrimack County Savings Bank | 917,228 | 110.6 |
| Woodsville Guaranty | 502,268 | 101.7 |
| Franklin Savings Bank | 519,367 | 85.0 |
| <i>Source: Reports of Condition and Income 12/31/16 through 9/30/18</i> | | |

Assessment Area Concentration

FSB originated a majority of home mortgage and small business loans, by number and dollar volume, in the institution's combined assessment area. See the following table.

| Lending Inside and Outside of the Combined Assessment Area | | | | | | | | | | |
|---|-----------------|-------------|------------|-------------|------------|---------------------------------|-------------|---------------|-------------|-------------------|
| Loan Category | Number of Loans | | | | Total | Dollar Amount of Loans \$(000s) | | | | Total \$(000s) |
| | Inside | | Outside | | | Inside | | Outside | | |
| | # | % | # | % | # | \$ | % | \$ | % | |
| Home Mortgage | | | | | | | | | | |
| 2018 | 101 | 65.6 | 53 | 34.4 | 154 | 17,632 | 56.5 | 13,554 | 43.5 | 31,186 |
| Subtotal | 101 | 65.6 | 53 | 34.4 | 154 | 17,632 | 56.5 | 13,554 | 43.5 | 31,186 |
| Small Business | | | | | | | | | | |
| 2017 | 79 | 59.0 | 55 | 41.0 | 134 | 10,478 | 44.8 | 12,909 | 55.2 | 23,387 |
| 2018 | 61 | 57.0 | 46 | 43.0 | 107 | 9,865 | 46.6 | 11,299 | 53.4 | 21,164 |
| Subtotal | 140 | 58.1 | 101 | 41.9 | 241 | 20,343 | 45.7 | 24,208 | 54.3 | 44,551 |
| Total | 241 | 61.0 | 154 | 39.0 | 395 | 37,975 | 50.1 | 37,762 | 49.9 | 75,737 |
| <i>Source: 2018 HMDA Data, 2017 and 2018 Bank Records on Small Business Loans Due to rounding, totals may not equal 100.0</i> | | | | | | | | | | |

Geographic Distribution

The bank demonstrated reasonable Geographic Distribution performance, based on the dispersion of home mortgage and small business loans, primarily within the Non-MSA assessment area. The individual assessment area sections detail the bank's performance, comparisons, and relevant context.

Borrower Profile

The bank demonstrated reasonable Borrower Profile performance, based on reasonable penetration among individuals of different income levels and businesses of different sizes primarily within the Non-MSA NH assessment area. The individual assessment area sections detail performance, comparisons, and relevant context.

Response to Complaints

The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

COMMUNITY DEVELOPMENT TEST

FSB's community development performance demonstrates adequate responsiveness to the community development needs of the combined assessment area through community development loans, qualified investments, and community development services. Examiners considered the institution's capacity and the need and availability of such community development opportunities in the combined assessment area.

Community Development Loans

FSB originated 31 community development loans totaling approximately \$29.5 million during the evaluation period. This level of activity represents 5.9 percent of average total assets, and 8.6 percent of average total loans as of June 30, 2019. FSB's performance is similar to the previous evaluation by number of loans and total dollar amount. The bank originated community development loans to organizations that provide community services and affordable housing to low- and moderate-income individuals and families, and revitalize and stabilize moderate-income geographies throughout the bank's assessment area. By year, the bank originated four community development loans for \$4.3 million in 2016, nine loans for \$8.2 million in 2017, nine loans for \$11.5 million in 2018, and nine loans for \$5.5 million through the October 21, 2019 evaluation date. These loans demonstrate the bank's responsiveness to community development needs.

The bank made all of its community development loans in the Non-MSA assessment area.

Please refer to the Non-MSA assessment area section below for detailed examples of community development loans.

Qualified Investments

FSB made 88 qualified investments totaling approximately \$2.8 million during the evaluation period. This includes 20 qualified equity investments totaling approximately \$2.43 million, and donations totaling approximately \$409,000. Equity investments equate to 0.5 percent of average total assets and 2.2 percent of average total securities as of June 30, 2019. The dollar amount of qualified equity investments, tax credits, and donations are slightly higher than the previous evaluation. The majority of qualified investments, by number and dollar amount, supported the primary community development credit needs of community services for low- and moderate-income individuals in the assessment areas.

The majority of qualified investments were extended in the Non-MSA assessment area. However, there were 12 donations totaling \$10,000 made statewide and 6 donations totaling \$9,000 made in the MSA assessment area.

The bank also made three investments totaling \$750,000 in an organization that benefits the broader statewide or regional area, including the assessment areas. The following is a summary of statewide equity investments.

- The bank granted annual renewals of a \$250,000 investment to a community loan fund. The funds are for an Equity Equivalent (EQ2) investment in a community development financial institution (CDFI). The investment allows the CDFI to increase lending and invest in economically disadvantaged communities. These investments benefited the broader statewide or regional area that includes the assessment area.

Please refer to the respective assessment area sections below for detailed examples of community development investment activity in each assessment area.

Community Development Services

During the evaluation period, bank employees provided 987 hours of financial expertise or technical assistance to 24 community development-related organizations in the combined assessment area. The majority of service hours benefited organizations that provide community services to low- and moderate-income individuals and families in the assessment areas. FSB staff also performed services that benefitted organizations that provide economic development to moderate-income census tracts in the assessment areas.

In addition, FSB's main office and another branch are located in a moderate-income census tract. One branch office is located in a middle-income census tract bordering another moderate-income census tract in the assessment area. These branches demonstrate the availability of banking services to low- and moderate-income individuals and families.

The majority of qualified services were in the Non-MSA NH assessment area. However, there was one qualified service activity in the MSA NH assessment area.

Please refer to the respective assessment area sections for detailed examples community development service activity in each assessment area.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution's overall CRA rating.

NON-METROPOLITAN AREAS – NEW HAMPSHIRE *(Full-Scope Review)*

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE NON-MSA

The bank maintains six full-service branches, including the bank’s main office in the Non-MSA assessment area. The branches are located in Boscawen, Bristol, Franklin (2), Gilford, and Tilton. Branch offices are located in Merrimack, Belknap, and Grafton Counties. The Franklin branch office is located in a moderate-income census tract. The bank offers the same products and services as discussed in the combined assessment area section. The Non-MSA assessment area includes 33 of the 44 census tracts (75.0 percent) that make up the combined assessment area. The bank has \$422.8 million or 94.1 percent of total deposits within this assessment area. Examiners placed the greatest weight on this assessment area since it contains the majority of branches, deposits, and lending activity.

Economic and Demographic Data

The Non-MSA assessment area’s 33 census tracts reflect the following income designations according to the 2015 ACS Census:

- 6 moderate-income census tracts,
- 22 middle-income census tracts, and
- 5 upper-income census tracts.

The following table illustrates select demographic characteristics of the Non-MSA assessment area.

| Demographic Information of the Assessment Area Non-MSA Assessment Area | | | | | | |
|---|---------|---------------|------------------------------|------------------|-----------------|---------------|
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # | NA* % of # |
| Geographies (Census Tracts) | 33 | 0.0 | 18.2 | 66.7 | 15.2 | 0.0 |
| Population by Geography | 126,080 | 0.0 | 19.5 | 67.7 | 12.7 | 0.0 |
| Housing Units by Geography | 64,205 | 0.0 | 17.7 | 69.5 | 12.8 | 0.0 |
| Owner-Occupied Units by Geography | 34,498 | 0.0 | 15.9 | 70.3 | 13.9 | 0.0 |
| Occupied Rental Units by Geography | 15,973 | 0.0 | 29.5 | 62.7 | 7.8 | 0.0 |
| Vacant Units by Geography | 13,734 | 0.0 | 8.5 | 75.6 | 15.9 | 0.0 |
| Businesses by Geography | 9,872 | 0.0 | 22.9 | 63.7 | 13.4 | 0.0 |
| Farms by Geography | 351 | 0.0 | 12.0 | 76.6 | 11.4 | 0.0 |
| Family Distribution by Income Level | 32,365 | 21.0 | 17.5 | 22.2 | 39.3 | 0.0 |
| Household Distribution by Income Level | 50,471 | 23.3 | 16.8 | 18.4 | 41.6 | 0.0 |
| Median Family Income Non-MSAs - NH | | \$71,699 | Median Housing Value | | | \$209,195 |
| | | | Median Gross Rent | | | \$920 |
| | | | Families Below Poverty Level | | | 7.6% |

*Source: 2010 U.S. Census & 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.*

In 2018, the annual unemployment rate for Merrimack County and Belknap County was 2.2 percent and 2.5 percent, respectively. The unemployment rate in Grafton County was 2.1 percent. The unemployment rates are in line with the State level of 2.5 percent. Major employers in Merrimack County are the State of New Hampshire, Capital Region Healthcare, Webster Valve & Foundry Aviation, and SAU 18. Major employers in Belknap County are Aavid Engineering Corp. and NH Ball Bearings, Inc. Major employers in Grafton County are Dartmouth Hitchcock Medical Center and Dartmouth College.

The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR level. According to 2018 D&B data, there were 9,872 non-farm businesses in the Non-MSA assessment area. GARs for the businesses are as follows.

- 78.3 percent have \$1 million or less.
- 6.4 percent have more than \$1 million.
- 15.3 percent have unknown revenues.

Service industries represent the largest portion of all businesses at 42.3 percent, followed by retail trade (13.7 percent), and construction (9.2 percent). Nearly 84.0 percent of all businesses operate from a single location, and 65.8 percent of area businesses have less than five employees. In addition, most businesses in the non-MSA assessment area are small businesses, with nearly 74.0 percent generating GARs of less than \$0.5 million.

Examiners used the 2018 FFIEC-updated median family income levels to analyze home mortgage loans under the Borrower Profile criterion. The following table presents the low-, moderate-, middle-, and upper-income categories.

| Median Family Income Ranges | | | | |
|--|------------------------|------------------------------------|-----------------------------------|------------------------|
| Median Family Incomes | Low <50% | Moderate 50% to <80% | Middle 80% to <120% | Upper ≥120% |
| NH NA Median Family Income (99999) | | | | |
| 2018 (\$80,600) | <\$40,300 | \$40,300 to <\$64,480 | \$64,480 to <\$96,720 | ≥\$96,720 |
| <i>Source: FFIEC Due to rounding, totals may not equal 100.0</i> | | | | |

Competition

The bank operates primarily in Merrimack and Belknap Counties in the Non-MSA NH assessment area. According to the June 30, 2019 Deposit Market Share Report for Merrimack and Belknap Counties, there are 17 FDIC-insured financial institutions including FSB. FSB is ranked 7th with 5.9 percent total deposit market share. Local community banks ranked ahead of FSB included Bank of New Hampshire (12.6 percent), Merrimack County Savings Bank (10.8 percent), and Meredith Village Savings Bank (6.1 percent). TD Bank, National Association (N.A.) had the largest market share with 25.0 percent.

There is a high level of competition in this market for the bank’s primary business products, residential home mortgage and small business loans. Major competitors in the non-MSA NH assessment area include other banks, credit unions, non-depository mortgage companies, and online lenders.

The 2017 aggregate market data for residential home mortgage and small business lending also indicates a high level of competition in the lending market. For example, in 2017, there were 226 residential mortgage lenders that reported at least one residential mortgage loan in the bank’s Non-MSA assessment area. These entities originated or purchased a total of 3,747 residential mortgage loans. Aggregate small business loan data for 2017 indicated there were 86 small business lenders that reported at least one small business loan in the bank’s Non-MSA NH assessment area. These lenders originated or purchased 6,378 small business loans that year.

CONCLUSIONS ON PERFORMANCE CRITERIA IN NON-MSA NH ASSESSMENT AREA

LENDING TEST

FSB demonstrated reasonable performance under the Lending Test in the Non-MSA assessment area. Geographic Distribution and Borrower Profile performance primarily support this conclusion.

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. The bank's reasonable dispersion of home mortgage and small business lending supports this conclusion. Examiners focused on the percentage of loans, by number, in the moderate-income census tracts.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the Non-MSA assessment area. Examiners focused on the comparison to demographic data. As the following table reflects, the percentage of lending in moderate-income census tracts exceeded the percentage of owner-occupied housing units by 2.5 percent. Due to only one year of reported HMDA data, the analysis of trends and performance was limited.

| Geographic Distribution of Home Mortgage Loans Non-MSA Assessment Area | | | | | |
|---|--|-----------|--------------|-----------------|--------------|
| Tract Income Level | % of Owner-Occupied Housing Units | # | % | \$(000s) | % |
| Low | | | | | |
| 2018 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Moderate | | | | | |
| 2018 | 15.9 | 18 | 18.4 | 2,234 | 13.4 |
| Middle | | | | | |
| 2018 | 70.3 | 76 | 77.6 | 13,412 | 80.3 |
| Upper | | | | | |
| 2018 | 13.9 | 4 | 4.1 | 1,064 | 6.4 |
| Not Available | | | | | |
| 2018 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Totals | | | | | |
| 2018 | 100.0 | 98 | 100.0 | 16,710 | 100.0 |
| <i>Source: 2015 ACS Census; 1/1/2018 - 12/31/2018 Bank Data, "--" data not available. Due to rounding, totals may not equal 100.0</i> | | | | | |

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion. Examiners compared the bank's lending activity to business demographic data. In 2017, the bank's percentage of loans significantly exceeded the percent of businesses in the moderate-income census tracts. However; due to staff reorganization in 2018, the bank's lending performance in the moderate-income census tracts declined sharply and was below the percentage of businesses. Despite the lower lending levels in moderate-income census tracts in 2018, lending in the moderate-income census tracts was reasonable in the assessment area.

| Geographic Distribution of Small Business Loans Non-MSA Assessment Area | | | | | |
|--|----------------------------|-----------|--------------|-----------------|--------------|
| Tract Income Level | % of Businesses | # | % | \$(000s) | % |
| Low | | | | | |
| 2017 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| 2018 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Moderate | | | | | |
| 2017 | 22.5 | 35 | 44.3 | 4,043 | 38.6 |
| 2018 | 22.9 | 10 | 17.9 | 2,175 | 25.7 |
| Middle | | | | | |
| 2017 | 64.3 | 37 | 46.8 | 5,226 | 49.9 |
| 2018 | 63.8 | 45 | 80.4 | 6,283 | 74.2 |
| Upper | | | | | |
| 2017 | 13.2 | 7 | 8.9 | 1,209 | 11.5 |
| 2018 | 13.4 | 1 | 1.8 | 8 | 0.1 |
| Not Available | | | | | |
| 2017 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| 2018 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Totals | | | | | |
| 2017 | 100.0 | 79 | 100.0 | 10,478 | 100.0 |
| 2018 | 100.0 | 56 | 100.0 | 8,466 | 100.0 |
| <i>Source: 2017 & 2018 D&B Data; 1/1/2017 - 12/31/2018 Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0</i> | | | | | |

Borrower Profile

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes. The bank's reasonable performance of home mortgage and small business lending supports this conclusion. For home mortgage lending, examiners focused on the percentage of home mortgage loans, by number, to low- and moderate-income borrowers. For small business lending, examiners focused on the bank's percentage of small business loans to businesses with GARs of \$1.0 million or less.

Home Mortgage Loans

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, is reasonable. Examiners focused on the comparison of loans, by income level, to the demographic percentage of families in the assessment area.

As shown in the following table, in 2018, home mortgage lending to low-income borrowers was below the percentage of families in this income category. Lending to low-income borrowers is further limited due to 7.6 percent of families in the low-income category below are poverty level in 2018. A low-income family earning less than \$40,300 in 2018 would not likely qualify for a

mortgage under conventional underwriting standards. Furthermore, in 2018, the median housing value in the assessment area was \$209,195. Consequently, lending demand and opportunity for lending to low-income borrowers is limited.

In 2018, the bank’s lending performance to moderate-income borrowers was 6.3 percent below demographics. Despite lower lending levels in the moderate-income census tracts, lending was reasonable.

| Distribution of Home Mortgage Loans by Borrower Income Level Non-MSA Assessment Area | | | | | |
|--|----------------------|-----------|--------------|-----------------|--------------|
| Borrower Income Level | % of Families | # | % | \$(000s) | % |
| Low | | | | | |
| 2018 | 21.0 | 13 | 13.3 | 1,084 | 6.5 |
| Moderate | | | | | |
| 2018 | 17.5 | 11 | 11.2 | 1,241 | 7.4 |
| Middle | | | | | |
| 2018 | 22.2 | 20 | 20.4 | 2,621 | 15.7 |
| Upper | | | | | |
| 2018 | 39.3 | 42 | 42.9 | 9,396 | 56.2 |
| Not Available | | | | | |
| 2018 | 0.0 | 12 | 12.2 | 2,369 | 14.2 |
| Totals | | | | | |
| 2018 | 100.0 | 98 | 100.0 | 16,710 | 100.0 |
| <i>Source: 2015 ACS Census ; 1/1/2018 - 12/31/2018 Bank Data, "--" data not available. Due to rounding, totals may not equal 100.0</i> | | | | | |

Small Business Loans

The distribution of small business loans reflects reasonable penetration to businesses of different sizes with GARs of \$1 million or less. As shown in the following table, in 2017, the bank’s lending activity was slightly above the percentage of businesses operating in the assessment area. In 2018, small business lending was slightly above the percentage of businesses for that year. Small Business lending was consistent with demographics, supporting the bank’s reasonable performance.

| Distribution of Small Business Loans by Gross Annual Revenue Category Non-MSA Assessment Area | | | | | |
|--|----------------------------|-----------|--------------|-----------------|--------------|
| Gross Revenue Level | % of Businesses | # | % | \$(000s) | % |
| <=\$1,000,000 | | | | | |
| 2017 | 78.3 | 63 | 79.7 | 6,879 | 65.7 |
| 2018 | 78.3 | 44 | 78.6 | 4,975 | 58.8 |
| >\$1,000,000 | | | | | |
| 2017 | 6.4 | 15 | 19.0 | 3,463 | 33.1 |
| 2018 | 6.4 | 12 | 21.4 | 3,491 | 41.2 |
| Revenue Not Available | | | | | |
| 2017 | 15.3 | 1 | 1.3 | 136 | 1.3 |
| 2018 | 15.4 | 0 | 0.0 | 0 | 0.0 |
| Totals | | | | | |
| 2017 | 100.0 | 79 | 100.0 | 10,478 | 100.0 |
| 2018 | 100.0 | 56 | 100.0 | 8,466 | 100.0 |
| <i>Source: 2017 & 2018 D&B Data; 1/1/2017 - 12/31/2018 Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0</i> | | | | | |

COMMUNITY DEVELOPMENT TEST

FSB demonstrated adequate responsiveness to the community development needs of its Non-MSA NH assessment area through community development loans, qualified investments, and community development services. Examiners considered the institution's capacity and the need and availability of such opportunities.

Community Development Loans

FSB originated 31 community development loans in the Non-MSA NH assessment area totaling \$29.5 million during the evaluation period. The following table illustrates the community development lending by year and loan purpose.

| Community Development Lending Non-MSA Assessment Area | | | | | | | | | | |
|--|---------------------------|-----------------|---------------------------|-----------------|-----------------------------|-----------------|--------------------------------|-----------------|---------------|-----------------|
| Activity Year | Affordable Housing | | Community Services | | Economic Development | | Revitalize or Stabilize | | Totals | |
| | # | \$(000s) | # | \$(000s) | # | \$(000s) | # | \$(000s) | # | \$(000s) |
| 2016 | 0 | 0 | 4 | 4,300 | 0 | 0 | 0 | 0 | 4 | 4,300 |
| 2017 | 0 | 0 | 5 | 5,300 | 0 | 0 | 4 | 2,872 | 9 | 8,172 |
| 2018 | 0 | 0 | 5 | 5,300 | 0 | 0 | 4 | 6,200 | 9 | 11,500 |
| YTD 2019 | 1 | 2,500 | 3 | 1,500 | 5 | 1,534 | 0 | 0 | 9 | 5,534 |
| Total | 1 | 2,500 | 17 | 16,400 | 5 | 1,534 | 8 | 9,072 | 31 | 29,506 |
| <i>Source: Bank Records</i> | | | | | | | | | | |

The following illustrates examples of community development loans made in the Non-MSA assessment area.

- In each year of the evaluation period the bank renewed a \$3.0 million line of credit to a nonprofit organization that provides community services to children, adults, families, and elders throughout the Lakes Region of New Hampshire. This organization provides community services targeted to low- and moderate-income disabled individuals, family resource center, and elder services. The organization relies upon Medicaid reimbursements as its main funding source.
- In 2019, the bank originated a \$2.5 million loan to finance a portion of renovation costs associated with redevelopment of 40 affordable low-income housing apartments. The development project is associated with a local area land community trust formed to assist low- and moderate-income families achieve economic self-sufficiency through the development of permanently affordable housing opportunities and associated support programs.
- In each year of the evaluation period the bank renewed a \$300,000 working capital line of credit to a Federally Qualified Health Center (FQHC). FQHCs are community-based health care providers that receive funds from the Health Resources & Services Administration (HRSA) Health Center Program to provide primary care services in underserved areas. They must meet a stringent set of requirements, including providing care on a sliding fee scale based on ability to pay and operating under a governing board that includes patients.
- In 2017, the bank granted a \$1.6 million to purchase and redevelop a mill building located in a moderate-income census tract in Franklin. The financing will be combined with New Markets Tax Credits and Historic Tax Credits. The redevelopment will renovate the existing building into 57 commercial units. The project will revitalize and stabilize this moderate-income area.

Qualified Investments

During the evaluation period, FSB made 17 qualified equity investments totaling \$1.7 million and 50 qualified donations totaling \$392,000 in the Non-MSA assessment area. The following table illustrates the community development investments in the Non-MSA assessment area by investment purpose.

| Qualified Investments Non-MSA Assessment Area | | | | | | | | | | |
|--|---------------------------|-----------------|---------------------------|-----------------|-----------------------------|-----------------|--------------------------------|-----------------|---------------|-----------------|
| Activity Year | Affordable Housing | | Community Services | | Economic Development | | Revitalize or Stabilize | | Totals | |
| | # | \$(000s) | # | \$(000s) | # | \$(000s) | # | \$(000s) | # | \$(000s) |
| Prior Period | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2016 | 0 | 0 | 1 | 250 | 0 | 0 | 0 | 0 | 1 | 250 |
| 2017 | 1 | 3 | 3 | 515 | 1 | 3 | 2 | 100 | 7 | 621 |
| 2018 | 1 | 20 | 2 | 500 | 2 | 15 | 0 | 0 | 5 | 535 |
| YTD 2019 | 0 | 0 | 3 | 260 | 1 | 15 | 0 | 0 | 4 | 275 |
| Subtotal | 2 | 23 | 9 | 1,525 | 4 | 33 | 2 | 100 | 17 | 1,681 |
| Qualified Grants & Donations | 6 | 16 | 37 | 55 | 2 | 2 | 5 | 319 | 50 | 392 |
| Total | 8 | 39 | 46 | 1,580 | 6 | 35 | 7 | 419 | 67 | 2,073 |
| <i>Source: Bank Records</i> | | | | | | | | | | |

The following illustrates examples of FSB’s qualified investments and donations.

- During the evaluation period, the bank purchased a total of 11 Community Development Finance Authority (CDFA) tax credits under the New Hampshire Tax Credit Program totaling \$180,000. The funds assist the CDFA in providing funding community development projects with an emphasis on affordable housing, job creation and retention, community services and economic development.
- In each year of the evaluation period, the bank renewed a \$250,000 investment in a foundation that supports a veterans’ home, of which 84.0 percent of the residents are low- or moderate-income.
- The bank donated approximately \$13,000 over the evaluation period to an affordable housing organization. Proceeds raised help this organization provide affordable homes for low- or moderate-income families in the greater Concord area.
- The bank awarded two grants for a total of \$250,000 to the Mill City Park project. This project will help to revitalize the mill buildings in downtown Franklin, a moderate-income area.

Community Development Services

During the evaluation period, bank employees provided 939 hours of financial expertise or technical assistance to 23 different community development-related organizations in the Non-MSA NH assessment area. This level of activity represents the majority of the qualified service hours during the evaluation period. The following table illustrates these qualified community development service hours by year and community development purpose.

| Community Development Services Non-MSA Assessment Area | | | | | |
|---|-------------------------------|-------------------------------|---------------------------------|------------------------------------|---------------|
| Activity Year | Affordable Housing | Community Services | Economic Development | Revitalize or Stabilize | Totals |
| | # | # | # | # | # |
| 2016 | 0 | 0 | 0 | 0 | 0 |
| 2017 | 0 | 0 | 47 | 0 | 47 |
| 2018 | 2 | 542 | 177 | 0 | 721 |
| YTD 2019 | 0 | 116 | 55 | 0 | 171 |
| Total | 2 | 658 | 279 | 0 | 939 |
| <i>Source: Bank Records</i> | | | | | |

The following illustrates examples of the bank’s community development services.

- Bank employees provided financial literacy education to the City of Franklin’s elementary, middle, and high school students. Each school has a student population that consists of a majority of low- and moderate-income students eligible for free and reduced lunch based on the National Center for Education statistics.
- A member of senior management serves on the Board of Directors of a county economic development council, which is one of ten nonprofit regional development corporations in New Hampshire. The council’s primary mission is to promote economic vitality by leveraging new resources, building strong partnerships, and attracting new investments to create better economic opportunities for the State’s Lakes Region’s residents and businesses.
- A member of senior management serves on the seven member advisory board appointed by the Franklin City Council for the Franklin Falls Mixed Use Tax Increment Finance (TIF) District. The purpose of the TIF is to advance mixed-use development and private investment in the downtown and adjacent mill district of Franklin. The goal is to implement a comprehensive plan to revitalize the City’s moderate-income geography.

**MANCHESTER-NASHUA, NEW HAMPSHIRE METROPOLITAN
STATISTICAL AREA (MSA) ASSESSMENT AREA**
(Full-Scope Review)

**DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE
MANCHESTER-NASHUA MSA**

FSB maintains two full-service branch offices in the MSA portion of the combined assessment area. The MSA assessment area includes 11, or 25.0 percent, of the 44 census tracts in the combined assessment area. One branch is located in Merrimack and the other office is in Goffstown. Both offices are in Hillsborough County. As stated earlier, the bank opened the Merrimack branch in September 2017 and the Goffstown branch in March 2019. The bank offers the same products and services as discussed in the combined assessment area section. The bank has approximately \$27.0 million or 22.2 percent of total deposits within this assessment area. Given the limited time the offices have been open for business and progress establishing deposit and loan activity in these new markets to date, examiners placed less weight on the bank’s performance in the MSA assessment area.

Economic and Demographic Data

The Manchester-Nashua MSA assessment area’s 11 census tracts reflect the following income designations according to the 2015 ACS Census:

- 5 middle-income census tracts, and
- 6 upper-income census tracts.

The following table illustrates select demographic characteristics of the MSA assessment area.

| Demographic Information of the Assessment Area | | | | | | |
|--|--------|---------------|------------------------------|------------------|-----------------|---------------|
| MSA Assessment Area | | | | | | |
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # | NA* % of # |
| Geographies (Census Tracts) | 11 | 0.0 | 0.0 | 45.5 | 54.5 | 0.0 |
| Population by Geography | 73,451 | 0.0 | 0.0 | 39.5 | 60.5 | 0.0 |
| Housing Units by Geography | 27,106 | 0.0 | 0.0 | 42.8 | 57.2 | 0.0 |
| Owner-Occupied Units by Geography | 21,956 | 0.0 | 0.0 | 38.0 | 62.0 | 0.0 |
| Occupied Rental Units by Geography | 4,072 | 0.0 | 0.0 | 63.5 | 36.5 | 0.0 |
| Vacant Units by Geography | 1,078 | 0.0 | 0.0 | 62.6 | 37.4 | 0.0 |
| Businesses by Geography | 5,438 | 0.0 | 0.0 | 36.9 | 63.1 | 0.0 |
| Farms by Geography | 157 | 0.0 | 0.0 | 47.8 | 52.2 | 0.0 |
| Family Distribution by Income Level | 19,679 | 11.1 | 14.8 | 21.1 | 53.0 | 0.0 |
| Household Distribution by Income Level | 26,028 | 13.9 | 13.9 | 16.8 | 55.4 | 0.0 |
| Median Family Income MSA - 31700 Manchester-Nashua, NH MSA | | \$85,966 | Median Housing Value | | | \$279,989 |
| | | | Median Gross Rent | | | \$1,307 |
| | | | Families Below Poverty Level | | | 2.6% |
| <i>Source: 2015 ACS Census and 2018 D&B Data</i> | | | | | | |
| <i>Due to rounding, totals may not equal 100.0</i> | | | | | | |
| <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i> | | | | | | |

The annual 2018 unemployment rate for Hillsborough County was 2.2 percent, which is slightly below the state level of 2.5 percent. The major employers in Hillsborough County include Fidelity Investments, Elliott Hospital, BAE Systems North America, and Southern New Hampshire University.

The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR level. According to 2018 D&B data, there were 5,438 non-farm businesses in the MSA NH assessment area. GARs for the businesses are as follows.

- 83.8 percent have \$1 million or less.
- 6.3 percent have more than \$1 million.
- 9.9 percent have unknown revenues.

Service industries represent the largest portion of all businesses at 44.4 percent, followed by retail trade (12.0 percent), finance, insurance, and real estate (10.4 percent), and construction (9.8 percent). In addition, 88.7 percent of businesses operate from a single location, and 69.4 percent of area businesses have four or less employees. Furthermore, 69.4 percent of businesses are very small, with GARs of less than \$0.5 million.

Examiners used the 2018 FFIEC-updated median family income levels to analyze home mortgage loans under the Borrower Profile criterion. The following table presents the low-, moderate-, middle-, and upper-income categories.

| Median Family Income Ranges | | | | |
|--|------------------------|------------------------------------|-----------------------------------|------------------------|
| Median Family Incomes | Low <50% | Moderate 50% to <80% | Middle 80% to <120% | Upper ≥120% |
| Manchester-Nashua, NH MSA Median Family Income (31700) | | | | |
| 2018 (\$94,100) | <\$47,050 | \$47,050 to <\$75,280 | \$75,280 to <\$112,920 | ≥\$112,920 |
| <i>Source: FFIEC Due to rounding, totals may not equal 100.0</i> | | | | |

Competition

According to the June 30, 2019 Deposit Market Share Report, 20 FDIC-insured institutions, including FSB, operate in the MSA assessment area. Ranked by deposits, FSB is 17th with 0.2 percent of total market share. Citizens Bank, N.A., TD Bank, N.A., and Bank of America, N.A. are the top three institutions with a combined deposit market share of 80.7 percent.

Competition is strong for residential home mortgages and small business loans, as indicated by 2017 aggregate data. In 2017, 204 residential mortgage lenders originated or purchased 3,022 mortgage loans. There were also 82 small business lenders that originated or purchased 8,216 small business loans in the MSA assessment area in 2017. Major competitors include banks, credit unions, non-depository mortgage companies, and online lenders in the MSA assessment area.

CONCLUSIONS ON PERFORMANCE CRITERIA IN MANCHESTER-NASHUA NH MSA

LENDING TEST

FSB performance under the Lending Test in the MSA assessment area was limited to three residential home mortgage and five small business loans. Examiners were unable to assess the Geographic Distribution of home mortgage and small business loan activity because the MSA assessment area contains no low- and moderate-income census tracts. Also, the Borrower Profile of home mortgage lending was limited to only upper-income borrowers. However, small business loan activity under the Borrower Profile performance was reasonable. The low lending volume did not provide examiners with sufficient loan data to analyze and reach reasonable performance conclusions in the MSA assessment area.

Geographic Distribution

The MSA assessment area contains no low- and moderate-income census tracts. Therefore, examiners were unable to assess the Geographic Distribution of home mortgage and small business lending activity in the MSA assessment area.

Borrower Profile

There were no home mortgage loans made to low- and moderate-income borrowers. Therefore, the home mortgage loan volume did not provide examiners with sufficient loan data to analyze and reach reasonable performance conclusions. Examiners reviewed the percentage by number of small business loans to businesses with GARs of \$1 million or less. However, small business loan

volume was low, and the small business lending performance did not materially affect overall conclusions.

Home Mortgage Loans

Although the bank made three home mortgage loans to upper-income borrowers, the bank did not make any loans to low- and moderate-income borrowers. The low lending volume is due to the bank's recent entry into this market. Examiners were unable to draw meaningful conclusions from this low volume of home mortgage lending.

Small Business Loans

In 2018, the bank made five small business loans and increased its small business lending performance from the previous year. In addition, four of five small business loans were to businesses with GARs of \$1 million or less. Despite low small business loan volume, the bank's performance was slightly below demographics and reflects reasonable penetration.

COMMUNITY DEVELOPMENT TEST

FSB did not demonstrate responsiveness to the community development needs of the MSA assessment area.

Community Development Loans

During the evaluation period, FSB did not make any community development loans in the MSA assessment area.

Qualified Investments

During the evaluation period, FSB made six qualified donations totaling \$9,000 in the MSA assessment area.

Community Development Services

During the evaluation period, a vice president served as Treasurer and a Board member for a center for people with intellectual and developmental disabilities and acquired brain disorder (ABD), services for children, and senior citizens for the human services workforce. The funding for the organization primarily comes from the State of New Hampshire and Medicaid, which subsidize treatment for low- and moderate-income individuals. The vice president's work supports community services to low- and moderate-income individuals in the assessment area.

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 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.

Community Development: For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms;
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies; or
- (5) Enable or facilitate projects or activities that address needs regarding foreclosed or abandoned residential properties in designated target areas.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Bank CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to

individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Community Development Loan: A loan that

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose bank:
 - (i) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
 - (ii) Benefits the bank's assessment area(s) or a broader statewide or regional area including the bank's assessment area(s).

Community Development Service: A service that

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the bank's retail banking services under § 345.24(d).

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.

Distressed Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or

- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include 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).

Family Income: Includes the income of all members of a family that are age 15 and older.

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 (for example, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement, and temporary-to-permanent construction loans.

Home Mortgage Loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans to purchase manufactured homes, and refinancings of home improvement and home purchase loans.

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

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households are only one person, median household income is usually less than median family income.

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 (for example, 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.

Low Income Housing Tax Credit: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis. Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

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.

Micropolitan Statistical Area: CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

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: 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.

Qualified Investment: A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

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

Small Business Investment Company (SBIC): SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

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.

Underserved Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area’s population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

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

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.