

# **PUBLIC DISCLOSURE**

May 28, 2024

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Hearthside Bank Corporation  
Certificate Number: 31236

1602 Cumberland Ave  
Middlesboro, Kentucky 40965

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

300 South Riverside Plaza, Suite 1700  
Chicago, Illinois 60606

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 areas (AAs), including low- and moderate-income (LMI) neighborhoods, in a manner consistent with its resources and capabilities.

Hearthside Bank Corporation's (Hearthside) satisfactory Community Reinvestment Act (CRA) performance under the Lending Test is supported by the following.

**The Lending Test is rated Satisfactory.**

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area (AA) credit needs.
- A majority of home mortgage loans and small business loans are in the institution's AAs.
- The geographic distribution of loans reflects reasonable dispersion throughout the AAs.
- 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 demonstrated adequate responsiveness to the needs of its AAs through community development loans, qualified investments, and community development services. Examiners considered the institution's capacity and the need and availability of such opportunities for community development in the AAs.

## DESCRIPTION OF INSTITUTION

Hearthside is a full-service community bank headquartered in Middlesboro, Kentucky, and wholly-owned by HFB Financial Corporation, a one-bank holding company also located in Middlesboro. The institution received an overall "Satisfactory" rating at the previous FDIC Performance Evaluation, dated October 25, 2021, based on Interagency Intermediate Small Institution Examination Procedures.

Hearthside operates seven full-service branches, including the main office, in its AAs in the southeastern part of Kentucky (three branches) and the northeastern part of Tennessee (four branches). Since the previous evaluation, Hearthside opened one branch in Knox County, Tennessee, on January 23, 2024. No merger or acquisition activity has occurred since the previous evaluation.

Hearthside offers a variety of credit, deposit, and other financial products to meet the needs of its consumer and business customers. Deposit products include checking, savings, certificates of deposit, money market accounts, and debit cards. Credit products include home mortgage, commercial, construction, and consumer loans, primarily focusing on home mortgage lending and

commercial lending. Hearthsides continues to act as a broker for several government loan programs, such as Federal Housing Association, Veterans Administration, Rural Development, and the Welcome Home Program. In 2023, Hearthsides facilitated the origination of 35 secondary market loans totaling \$5.5 million and 52 loans totaling \$8.2 million in 2022. Since the bank does not make the credit decision on these loans, the bank does not report these on the Home Mortgage Disclosure Act (HMDA) Loan Application Register (LAR). Examiners considered these secondary market loans as performance context under the Lending Test. Alternate delivery systems include telephone, mobile, and online banking, and cash management services for businesses. Hearthsides operates seven institution-owned automated teller machines. Hearthsides’s hours of operations and product offerings are consistent throughout the AAs.

As of March 31, 2024, Hearthsides’s assets totaled approximately \$519.8 million, including total loans of \$393.2 million, and securities totaled \$87.5 million. Deposits totaled \$460.3 million. The following table provides the loan portfolio composition.

<b>Loan Portfolio Distribution as of 3/31/2024</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	53,156	13.5
Secured by Farmland	297	0.1
Secured by 1-4 Family Residential Properties	204,708	52.1
Secured by Multifamily (5 or more) Residential Properties	10,469	2.7
Secured by Nonfarm Nonresidential Properties	88,187	22.4
<b>Total Real Estate Loans</b>	<b>356,817</b>	<b>90.7%</b>
Commercial and Industrial Loans	19,064	4.8
Agricultural Production and Other Loans to Farmers	0	0.0
Consumer Loans	14,434	3.7
Other Loans	2,146	.5
Lease Financing Receivable (net of unearned income)	731	0.2
Less: Unearned Income	0	0.0
<b>Total Loans</b>	<b>393,192</b>	<b>100%</b>
<i>Source: Reports of Condition and Income. Due to rounding, totals may not equal 100.0%.</i>		

Examiners did not identify any financial, legal, or other impediments that affect Hearthsides’s ability to meet the credit needs of its AAs.

## **DESCRIPTION OF ASSESSMENT AREAS**

The CRA requires each financial institution to define one or more AAs within which examiners will evaluate its CRA performance. Hearthsides designated three separate AAs: one in Kentucky and two in Tennessee. The Kentucky Non-Metropolitan Statistical Area (Kentucky Non-MSA AA) consists of the entirety of Bell and Harlan Counties. The Tennessee Non-MSA AA consists of the entirety of Claiborne County, and the Knoxville, Tennessee (Knoxville MSA AA) consists of the entirety of Campbell and Knox Counties.

As mentioned, on January 23, 2023, Hearthside opened a new branch in Knox County, Tennessee. This expanded the Knoxville MSA AA to include the entirety of Knox County. Due to the timing of this evaluation and the branch opening, examiners did not evaluate activities within Knox County. Hearthside made no other changes to their AAs since the previous evaluation.

This evaluation will include two rated areas (Kentucky and Tennessee). The AAs conform to CRA requirements, consists of contiguous whole geographies in which the bank has offices, does not reflect illegal discrimination, and does not arbitrarily exclude LMI geographies.

The following table presents a brief description of each AA. This evaluation contains separate discussions of the bank’s performance in each AA, with additional demographic information for each.

<b>Description of Assessment Areas</b>			
<b>Assessment Area</b>	<b>Counties in Assessment Area</b>	<b># of CTs</b>	<b># of Branches</b>
Kentucky Non-MSA AA	Bell and Harlan	20	3
Tennessee Non-MSA AA	Claiborne	9	2
Knoxville MSA AA	Campbell*	13	1*
<i>Source: Bank Data; *Does not include Knox County or the branch.</i>			

## **SCOPE OF EVALUATION**

### **General Information**

This evaluation covers the period from the prior evaluation dated October 25, 2021, to the current evaluation dated May 28, 2024. Examiners used the Interagency Intermediate Small Institution Examination Procedures to evaluate Hearthside’s CRA performance. Examiners evaluated the institution’s performance under the criteria noted in the Appendix. Institutions must achieve at least a satisfactory rating under the Lending Test and Community Development Test to obtain an overall “Satisfactory” rating.

Examiners conducted a full-scope review of all three AAs and placed most weight on the State of Kentucky as it contains the largest portion of the institution’s loans, deposits, and branches during the evaluation period.

### **Activities Reviewed**

Based on the March 31, 2024, Call Report data, Hearthside’s major product lines are home mortgage and small business lending. Examiners considered the institution’s business strategy, loan portfolio composition, and number and dollar volume of loans originated during the evaluation period. Collectively, these two loan categories comprise approximately 82.0 percent of Hearthside’s total loan portfolio. No other loan types, such as small farm or consumer lending, represent a major product line. Therefore, they provide no material support for the conclusions or ratings herein. Based on the portfolio composition, primary lending focus, and community credit needs, examiners placed more weight on home mortgage lending performance due to loan volume during the evaluation period.

This evaluation considered all home mortgage loans reported on the bank's 2021, 2022, and 2023, HMDA LARs. Hearthside originated 222 home mortgage loans totaling \$44.4 million in 2021; 278 loans totaling \$78.8 million in 2022; and 174 totaling \$41.8 million in 2023. Except for the Knoxville MSA AA, performance was consistent throughout the evaluation period; therefore, examiners only presented 2022 data in the Geographic Distribution and Borrower Profile analyses. Examiner compared the bank's performance to 2022 aggregate HMDA data and U.S. Census data for 2020. Aggregate data is a better indicator of market demand and lending opportunities.

The bank is not required to collect or report small business data and has not elected to do so. Examiners used institution records to identify and analyze 2023 small business lending activities. Hearthside originated or renewed 56 small business loans totaling \$9.1 million, of which examiners evaluated the entire universe. D&B data for 2023 provided a standard of comparison for small business lending.

For the Lending Test, examiners reviewed the number and dollar volume of home mortgage and small business loans. However, examiners emphasized performance relative to the number of originations, as it is a better indicator of the number of individuals and small businesses served. In evaluating the Geographic Distribution and Borrower Profile criteria, examiners evaluated loans extended within the AAs.

For the Community Development Test, bank management provided data on community development loans; qualified investments, including grants and donations; and community development services since the previous evaluation.

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

### **LENDING TEST**

Hearthside demonstrated reasonable performance under the Lending Test. Geographic Distribution and Borrower Profile performance primarily support this conclusion. The overall conclusions for each of the performance criteria under which Hearthside was evaluated are provided in this section. Refer to the separate analyses within each AA for more details of the bank's performance.

#### **Loan-to-Deposit Ratio**

The LTD ratio is reasonable given the bank's size, financial condition, and AAs credit needs. The LTD ratio, calculated from Call Report data, averaged 81.2 percent over the past 10 calendar quarters from December 31, 2021, to March 31, 2024. The LTD ratio ranged from a low of 76.0 percent as of March 31, 2021, to a high of 84.4 percent as of December 31, 2023. Examiners selected comparable institutions based on their asset size, loan portfolio distribution, and geographic location. As reflected in the following table, Hearthside's ratio was higher than two similarly situated institutions (SSIs) and lower than two SSIs.

LTD Ratio Comparison		
Bank	Total Assets as of 3/31/2024 (\$000s)	Average Net LTD Ratio (%)
Hearthside Bank	519,818	84.4
SSI #1	399,059	95.8
SSI #2	697,195	57.8
SSI #3	549,858	91.0
SSI #4	282,775	66.4
<i>Source: Call Reports 12/31/31 – 3/31/2024</i>		

### **Assessment Area Concentration**

Hearthside originated a majority of home mortgage and small business loans, by number and dollar volume, within the AA. The following table illustrates the lending activity both inside and outside of the AAs.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans				Total \$ (000)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$ (000)	%	\$ (000)	%	
Home Mortgage										
2021	170	76.6	52	23.4	222	30,934	69.7	13,469	30.3	44,403
2022	193	69.4	85	30.6	278	39,810	50.5	38,972	49.5	78,782
2023	122	70.1	52	29.9	174	22,887	54.7	18,952	45.3	41,839
<b>Total</b>	<b>485</b>	<b>72.0</b>	<b>189</b>	<b>28.0</b>	<b>674</b>	<b>93,631</b>	<b>56.7</b>	<b>71,393</b>	<b>43.3</b>	<b>165,024</b>
Small Business	49	87.5	7	12.5	56	6,622	73.0	2,447	27.0	9,069
<i>Source: HMDA Reported Data; Bank Data. Due to rounding, totals may not equal 100.0%.</i>										

### **Geographic Distribution**

The geographic distribution of home mortgage and small business loans reflects reasonable dispersion throughout the AAs. Examiners focused on the percentage by number of loans in (LMI census tracts. The Kentucky Non-MSA received the most weight. Please refer to the separate AA sections of this evaluation for further discussion of Hearthside’s performance under this criterion.

### **Borrower Profile**

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes within the AAs. Examiners focused on the percentage by number of home mortgage loans to LMI borrowers and the percentage by number of small business loans to businesses with gross annual revenues (GARs) of \$1 million or less. Please refer to the separate AA sections of this evaluation for further discussion of Hearthside’s performance under this criterion.

### **Response to Complaints**

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

## COMMUNITY DEVELOPMENT TEST

Hearthside demonstrates adequate responsiveness to the community development needs of its AAs through community development loans; qualified investments, including grants and donations; and community development services. Examiners considered the institution’s capacity, and the need and availability of such opportunities, as well as performance of four SSIs. Performance is consistent throughout the Kentucky and Tennessee Non-MSA AAs, but not for Knoxville MSA. The Kentucky Non-MSA AA received the most weight overall, and the Tennessee Non-MSA AA received the most weight in the Tennessee rated area. Refer to subsequent sections of this evaluation for specific AA performance.

### Community Development Loans

Hearthside originated 12 community development loans totaling approximately \$6.2 million inside the AA’s during the evaluation period. Although, this is a significant decrease in number and dollar volume since the prior evaluation, the prior evaluation included Paycheck Protection Program (PPP) loans.

Considering community development loans extended in the AAs, the institution’s level of lending activity represents 1.2 percent of total assets and 1.6 percent of total loans. Hearthside’s lending performance is reasonable compared to that of the four SSIs, whose loans ranged from 0.2 to 4.6 percent of total loans, averaging 2.2 percent. Since the institution sufficiently met the credit needs of the AAs, examiners qualified four community development loans totaling \$7.4 million that benefited an area outside the AAs but extended within the broader statewide or regional area. The following table illustrates the bank’s overall lending activity by AA and purpose.

Community Development Lending by AA								
Assessment Area	Affordable Housing		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Kentucky Non-MSA	1	1,400	4	2,606	4	676	9	4,682
Tennessee Non-MSA	1	600	2	880	-	0	3	1,480
Knoxville MSA	-	0	-	0	-	0	-	0
<b>Total in AAs</b>	<b>2</b>	<b>2,000</b>	<b>6</b>	<b>3,486</b>	<b>4</b>	<b>676</b>	<b>12</b>	<b>6,162</b>
Statewide or Regional Activities	2	1,245	1	1,160	1	5,000	4	7,405
<b>Total</b>	<b>4</b>	<b>3,245</b>	<b>7</b>	<b>4,646</b>	<b>5</b>	<b>5,676</b>	<b>16</b>	<b>13,567</b>
<i>Source: Bank Data</i>								

The following are notable examples of statewide and regional activities are below:

- In 2022, Hearthside originated \$750,000 of a \$2.1 million participation loan to construct 64 low-income housing units.
- In 2022, the institution originated a \$1.2 million loan to purchase a 20-unit affordable housing apartment complex.



### **Qualified Investments**

Hearthside did not make any qualified investments during the review period in their AA; however, the bank was active in making qualified grants and donations. During the evaluation period, Hearthside made 156 qualified donations totaling approximately \$106,000 inside the AAs. This performance represents 0.02 percent of total assets and 0.1 percent of total securities, which is comparable to the four SSIs whose performance ranged from 0.02 to 0.5 percent of total assets and 0.2 to 11.3 percent of total securities (averaging 3.7 percent). Due to the institution, sufficiently meeting the primary community development needs of its AAs, examiners also considered 41 qualified investments, grants and donations totaling approximately \$13.3 million outside the AAs, but extended within the broader statewide or regional area. The following table illustrates the bank’s overall investment activity by AA and purpose. Refer to the separate discussions for each AA for additional details.

<b>Qualified Investments and Donations by Assessment Area</b>										
<b>Assessment Area</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Kentucky Non-MSA	-	0	104	38	3	15	2	20	<b>109</b>	<b>73</b>
Tennessee Non-MSA	-	0	28	20	-	0	-	0	<b>28</b>	<b>20</b>
Knoxville MSA	-	0	19	13	-	0	-	0	<b>19</b>	<b>13</b>
<b>Total in AAs</b>	-	<b>0</b>	<b>151</b>	<b>71</b>	<b>3</b>	<b>15</b>	<b>2</b>	<b>20</b>	<b>156</b>	<b>106</b>
Statewide, Regional, and National Activities	21	11,019	16	1,780	2	500	2	22	<b>41</b>	<b>13,321</b>
<b>Total</b>	<b>21</b>	<b>11,019</b>	<b>167</b>	<b>1,851</b>	<b>5</b>	<b>515</b>	<b>4</b>	<b>42</b>	<b>197</b>	<b>13,427</b>

*Source: Bank Data*

The following are notable examples of statewide and regional activities:

- As of the evaluation date, Hearthside held \$9.1 million in prior period bonds to support affordable housing in areas of Tennessee.
- In 2021 and 2022, Hearthside held a \$250,000 Certificate of Deposit in a minority-owned financial institution within the state of Kentucky.

### **Community Development Services**

During the evaluation period, Hearthside provided 160 instances of financial expertise or technical assistance to numerous different schools and community development-related organizations throughout the AAs. This performance exceeds four SSIs, whose community development services ranged from 47 to 115 instances. The following table illustrates Hearthside’s community development services by year and purpose within each AA. Refer to the separate discussions for each AA for additional details.

Community Development Services by AA					
Assessment Area	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
Kentucky Non-MSA	0	89	2	1	92
Tennessee Non-MSA	3	55	1	0	59
Knoxville MSA	0	9	0	0	9
<b>Total</b>	<b>3</b>	<b>153</b>	<b>3</b>	<b>1</b>	<b>160</b>
<i>Source: Bank Data</i>					

## 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 evidence of discriminatory or other illegal credit practices.

### STATE OF KENTUCKY - Full-Scope Review

**CRA RATING FOR STATE OF KENTUCKY: SATISFACTORY**

**The Lending Test is rated: Satisfactory**

**The Community Development Test is rated: Satisfactory**

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN STATE OF KENTUCKY

Examiners performed a full-scope review of Hearthside's performance in this rated area, which is comprised of the entirety of Bell and Harlan Counties. The bank operates its main office in Bell County and two full-service branch locations in Harlan County. Hearthside originated 22.4 percent of home mortgage loans, 30.8 percent of small business loans, and 62.5 percent of total deposits within this AA.

#### **Economic and Demographic Data**

Based on the 2020 U.S. Census data, the Kentucky Non-MSA AA consists of 20 census tracts with the following designations: 2 low-, 10 moderate-, and 8 middle-income. There are eight middle-income census tracts designated as distressed or underserved within the AA. The following table provides additional demographic data.

<b>Demographic Information of the Kentucky Non-MSA AA</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	20	10.0	50.0	40.0	0.0	0.0
Population by Geography	50,928	17.0	47.0	36.0	0.0	0.0
Housing Units by Geography	26,809	14.3	47.5	38.2	0.0	0.0
Owner-Occupied Units by Geography	14,088	11.6	50.7	37.7	0.0	0.0
Occupied Rental Units by Geography	7,161	18.4	45.1	36.5	0.0	0.0
Vacant Units by Geography	5,560	16.0	42.4	41.7	0.0	0.0
Businesses by Geography	2,774	20.7	34.1	45.3	0.0	0.0
Farms by Geography	41	9.8	41.5	48.8	0.0	0.0
Family Distribution by Income Level	14,526	37.8	18.9	18.7	24.6	0.0
Household Distribution by Income Level	21,249	39.0	17.6	15.6	27.7	0.0
Median Family Income Non-MSAs - KY		\$54,327	Median Housing Value			\$65,025
Families Below Poverty Level		29.1%	Median Gross Rent			\$562

*Source: 2020 U.S. Census and 2023 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.*

According to the 2020 U.S. Census data, the AA consists of 26,809 housing units, of which 52.5 percent are owner-occupied, 26.7 percent are occupied-rental units, and 20.7 percent are vacant. The Geographic Distribution criterion compares the bank's home mortgage lending to the distribution of owner-occupied housing units in the AA.

The analysis of small business loans under the Geographic Distribution criterion compares the institution's small business lending to the distribution of the businesses in the AA, as noted in the table above.

Examiners used the FFIEC-updated median family income (MFI) level to analyze home mortgage lending under the Borrower Profile criterion. The following table outlines the MFI ranges for the AA in 2022.

<b>MFI Ranges – Kentucky Non-MSA AA (99999)</b>				
<b>MFI</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
2022 (\$61,700)	<\$30,850	\$30,850 to <\$49,360	\$49,360 to <\$74,040	≥\$74,040

*Source: FFIEC*

Examiners compare the distribution of lending by the borrower's GAR to analyze small business lending under the Borrower Profile criterion. According to 2023 D&B data, there were 2,774 businesses in the AA. Approximately 85.8 percent of businesses had GARs of \$1.0 million or less, 3.1 percent had GARs over \$1.0 million, and 11.1 percent had unknown revenues. Of these businesses, 89.3 percent operate from a single location and 57.8 percent have four or fewer

employees. The services industry represents the largest portion of businesses at 30.9 percent, followed by non-classifiable establishments at 24.9 percent, and retail trade at 13.0 percent.

According to the U.S. Bureau of Labor Statistics, the Kentucky Non-MSA AA annualized unemployment rates trended higher than both the state and national rates throughout the evaluation period. The following table below illustrates the unemployment rates by county and year.

<b>Unemployment Rates</b>			
<b>Area</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Bell County	5.5	5.2	5.6
Harlan County	8.0	6.5	6.6
State	4.5	4.0	5.1
National Average	4.8	3.6	3.6
<i>Source: Bureau of Labor Statistics</i>			

### **Competition**

Hearthside operates in a moderately competitive market for financial services when considering geographic size and population in the AA. According to FDIC Deposit Market Share data, as of June 30, 2023, six financial institutions operate 17 full-service branches within the AA. Of these institutions, Hearthside ranks first with 28.1 percent of the deposit market share of total deposits.

Aggregate HMDA data also provides insight into competition within the AA. Review of the 2022 aggregate data reaffirms the level of competition with 118 lenders reporting 1,215 home mortgage loans originated or purchased within the bank’s Kentucky Non-MSA AA. Hearthside ranked second with a 10.6 percent market share. The top five lenders accounted for 43.6 percent of the market share.

Hearthside is not required to collect or report small business loan data and is not included in the following numbers. As such, analysis of small business loans does not include comparisons to aggregate data. However, aggregate small business data reflects the level of demand for small business loans within the AA. In 2022, the most recent year aggregate data is available, shows that 35 lenders reported 395 small business loans throughout the AA, with the top three lenders, two credit card companies and a large national bank, accounting for 52.2 percent of the total market share.

### **Community Contact**

As part of the evaluation process, examiners contact third parties active in the AA to assist in identifying the credit and community development needs and opportunities. This information helps determine whether local financial institutions are responsive to those needs.

Examiners contacted a representative with an affordable housing organization in the AA. The contact stated that affordable housing is the primary credit need of the area and that with the critical shortage of affordable homes, the need is at an all-time high. The contact attributes the shortage to lack of skilled labor force and to high costs of home construction and maintenance associated with the labor shortage.

**Credit and Community Development Needs and Opportunities**

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that home mortgage and small business loans represent the primary credit need of the AA. In addition, affordable housing continues to be a primary community development need for the AA.

**SCOPE OF EVALUATION - KENTUCKY**

Examiners provide the most weight to Hearthside’s performance with the State of Kentucky given the volume of loans, deposits, and branches. Refer to the overall scope of the evaluation for further details.

**CONCLUSIONS ON PERFORMANCE CRITERIA IN KENTUCKY**

**LENDING TEST**

Hearthside demonstrated reasonable performance under the Lending Test. Geographic Distribution and Borrower Profile performance primarily supports this conclusion.

**Geographic Distribution**

The geographic distribution of loans reflects reasonable dispersion of home mortgage and small business loans throughout the AA.

***Home Mortgage Loans***

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the Kentucky Non-MSA AA. Hearthside’s performance is comparable to aggregate performance for both LMI geographies, and exceeds demographic data for low-income geographies and is less than demographic data for moderate-income geographies.

<b>Geographic Distribution of Home Mortgage Loans - Kentucky Non-MSA AA</b>						
<b>Tract Income Level</b>	<b>% of Owner-Occupied Housing Units</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low	11.6	19.4	17	20.7	1,469	16.5
Moderate	50.7	42.9	34	41.5	3,961	44.4
Middle	37.7	37.7	31	37.8	3,495	39.2
Upper	0.0	0.0	0	0.0	0	0.0
<b>Totals</b>	<b>100.0</b>	<b>100.0</b>	<b>82</b>	<b>100.0</b>	<b>8,925</b>	<b>100.0</b>
<i>Source: 2020 U.S. Census; Bank Data, 2022 HMDA Aggregate Data. Due to rounding, totals may not equal 100.0%.</i>						

***Small Business Loans***

The geographic distribution of small business loans reflects excellent dispersion throughout the AA. Hearthside’s performance significantly exceeded demographic data in the low-income geographies and was slightly less than demographic data for moderate-income geographies. Overall, Hearthside’s performance is excellent.

<b>Geographic Distribution of Small Business Loans - Kentucky Non-MSA AA</b>					
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low	20.7	7	36.8	755	37.0
Moderate	34.1	6	31.6	552	27.1
Middle	45.3	6	31.6	732	35.9
Upper	0.0	0	0.0	0	0.0
Not Available	0.0	0	0.0	0	0.0
<b>Totals</b>	<b>100.0</b>	<b>19</b>	<b>100.0</b>	<b>2,039</b>	<b>100.0</b>

Source: 2023 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%.

### **Borrower Profile**

Hearthside’s distribution of home mortgage and small business loans reflects reasonable penetration among borrowers of different income levels and businesses of different sizes. Examiners focused on the percentages of home mortgage loans to LMI borrowers and small business loans to businesses with GARs of \$1.0 million or less.

### ***Home Mortgage Loans***

The distribution of home mortgage loans reflects reasonable penetration among borrowers of different income levels, including LMI individuals. According to demographic data, 29.1 percent of families in the AA reported incomes below the poverty level in 2022. Due to their limited financial resources, families with incomes below the poverty level often do not have the capacity to support a traditional home mortgage. Examiners generally focused on the comparison to aggregate data, as it is a better indicator of market demand and lending opportunities.

As illustrated in the following table, Hearthside’s lending performance to low-income borrowers is comparable with aggregate data. For moderate-income borrowers, Hearthside’s performance was less than aggregate data by 6.4 percent. However, of the 24 loans bank-facilitated secondary market loans within the AA, 3 (12.5 percent) were to low- and 9 (37.5 percent) were to moderate-income borrowers. Overall, examiners considered Hearthside’s performance reasonable.

<b>Distribution of Home Mortgage Loans by Borrower Income Level - Kentucky Non-MSA AA</b>						
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low	37.8	8.7	7	8.5	490	5.5
Moderate	18.9	21.0	12	14.6	683	7.6
Middle	18.7	25.8	21	25.6	1,778	19.9
Upper	24.6	28.8	31	37.8	4,040	45.3
Not Available	0.0	15.7	11	13.4	1,935	21.7
<b>Totals</b>	<b>100.0</b>	<b>100.0</b>	<b>82</b>	<b>100.0</b>	<b>8,925</b>	<b>100.0</b>

Source: 2020 U.S. Census; Bank Data, 2022 HMDA Aggregate Data, totals may not equal 100.0%.

***Small Business Loans***

As shown in the following table, the distribution of borrowers reflects reasonable penetration among businesses of different sizes. Hearthside’s lending performance to businesses with GARs of \$1 million or less was less than the percentage of businesses within that revenue category. However, the percentage of businesses is not necessarily indicative of the demand for small business loans by those businesses. The reporting of 2022 small business loans data demonstrated that a majority of small businesses within this AA use credit card banks for financing credit needs. In addition, Hearthside increased lending performance, by volume and dollar, to businesses with GARs of \$1 million or less since the previous evaluation. Examiners consider the Hearthside’s performance reasonable.

<b>Distribution of Small Business Loans by GAR Category - Kentucky Non-MSA AA</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<=\$1,000,000	78.6	13	68.4	1,300	63.8
>\$1,000,000	3.3	6	31.6	739	36.2
Revenue Not Available	18.1	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>19</b>	<b>100.0</b>	<b>2,039</b>	<b>100.0</b>

*Source: 2023 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%.*

**COMMUNITY DEVELOPMENT TEST**

Hearthside demonstrated adequate responsiveness to the community development needs of the Kentucky Non-MSA AA through loans, qualified grants and donations, and community development services. Examiners considered the institution’s capacity and the need and availability of such opportunities.

**Community Development Loans**

Hearthside originated nine community development loans totaling approximately \$4.7 million in the evaluation period inside the Kentucky Non-MSA AA. Although, this level of lending activity is a decrease in this AA since the prior evaluation, the prior evaluation included PPP loans. This level of activity represents consistent performance for the current evaluation when compared to SSIs. The following table illustrates the institution’s activity by year and purpose.

<b>Community Development Lending – Kentucky Non-MSA</b>								
<b>Activity Year</b>	<b>Affordable Housing</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
2021 (partial)	-	0	1	50	-	0	<b>1</b>	<b>50</b>
2022	-	0	1	50	2	300	<b>3</b>	<b>350</b>
2023	-	0	2	2,506	1	126	<b>3</b>	<b>2,632</b>
YTD 2024	1	1,400	-	0	1	250	<b>2</b>	<b>1,650</b>
<b>Total</b>	<b>1</b>	<b>1,400</b>	<b>4</b>	<b>2,606</b>	<b>4</b>	<b>676</b>	<b>9</b>	<b>4,682</b>

*Source: Bank Data*

The following is a notable example of the bank’s community development lending in the AA:

- In 2023, Hearthside originated a \$2.5 million loan to renovate a motel in need of improvements to remain in business. This helped retain jobs in the AA.

**Qualified Investments**

Hearthside did not make any qualified investments during the review period; however, they were active in making qualified grants and donations. The institution made 109 qualified donations totaling approximately \$73,000 to local schools and organizations focused on assisting LMI individuals. This performance is an increase since the prior evaluation by both number and dollar.

<b>Qualified Donations – Kentucky Non-MSA</b>								
<b>Activity Year</b>	<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Qualified Grants & Donations	104	38	3	15	2	20	<b>109</b>	<b>73</b>
<i>Source: Bank Data</i>								

**Community Development Services**

During the evaluation period, bank officers and employees provided 92 instances of community development services and financial expertise or technical assistance to several different organizations in the AA. The following table illustrates the institution’s services by year and purpose.

<b>Community Development Services – Kentucky Non-MSA</b>				
<b>Activity Year</b>	<b>Community Services</b>	<b>Economic Development</b>	<b>Revitalize or Stabilize</b>	<b>Totals</b>
	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>
2021 (partial)	0	0	1	<b>1</b>
2022	35	1	0	<b>36</b>
2023	46	1	0	<b>47</b>
YTD 2024	8	0	0	<b>8</b>
<b>Total</b>	<b>89</b>	<b>2</b>	<b>1</b>	<b>92</b>
<i>Source: Bank Data</i>				



## STATE OF TENNESSEE - Full-Scope Review

### CRA RATING FOR TENNESSEE: SATISFACTORY

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN STATE OF TENNESSEE

Hearthside operates three of its seven branches in the Tennessee rated area. The bank originated 77.6 percent of home mortgage loans, 69.2 percent of small business loans, and 37.6 percent of total deposits within the Tennessee AAs.

### SCOPE OF EVALUATION IN TENNESSEE

The scope of the evaluation in the Tennessee rated area is the same as the overall scope of evaluation for the bank. The performance in the Tennessee Non-MSA AA carried more weight as this AA has more loan activity, deposits, and branch locations.

### CONCLUSIONS ON PERFORMANCE CRITERIA IN STATE OF TENNESSEE

#### LENDING TEST

Hearthside demonstrates reasonable performance under the Lending Test. The Tennessee Non-MSA AA primarily supports this conclusion as it received the most weight in the Tennessee rated area. Below is a discussion of the overall conclusions for each of the performance criteria under which Hearthside was evaluated. Please refer to the separate analyses within each AA for more details of the bank's performance.

#### Geographic Distribution

The geographic distribution of home mortgage and small business loans reflects reasonable dispersion throughout the AAs. Examiners focused on the percentage by number of loans in LMI census tracts. A complete discussion of the performance for this criterion is in the individual AA sections of this evaluation.

#### Borrower Profile

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes within the AAs. The bank's performance in the Tennessee Non-MSA AA primarily supports this conclusion as it received the most weight. Examiners focused on the percentage by number of home mortgage loans to LMI borrowers and small business loans to businesses with GARs of \$1 million or less. A complete discussion of the performance for this criterion is in the individual AA sections of this evaluation.

## COMMUNITY DEVELOPMENT TEST

Hearthside demonstrates adequate responsiveness to the community development needs of the AAs in this rated area through community development loans, qualified grants and donations, and community development services. Examiners considered the institution’s capacity, need, and availability of such opportunities, as well as the performance of SSIs. A majority of Hearthside’s community development activity occurred in the Tennessee Non-MSA AA, which received the most weight. Refer to subsequent sections of this evaluation for specific AA performance.

### Community Development Loans

Overall, in the State of Tennessee rated area, the institution originated three community development loans for a total of approximately \$1.5 million. The loans benefitted affordable housing and economic development.

### Qualified Investments

Hearthside made 47 donations totaling \$33,000 to organizations that assist LMI individuals, families, and small businesses serving the AAs. The following table illustrates community development donations by AA and purpose.

Qualified Donations by AA								
Rated Area	Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Tennessee Non-MSA	28	20	-	0	-	0	28	20
Knoxville MSA	19	13	-	0	-	0	19	13
<b>Total in AAs</b>	<b>47</b>	<b>33</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>47</b>	<b>33</b>
<i>Source: Bank Data</i>								

### Community Development Services

During the evaluation period, bank personnel provided 68 instances of financial expertise or technical assistance to community related organizations serving the AAs. The following table illustrates the community development services by AA and purpose.

Community Development Services by AA					
Assessment Area	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
Tennessee Non-MSA	3	55	1	0	59
Knoxville MSA	0	9	0	0	9
<b>Total</b>	<b>3</b>	<b>64</b>	<b>1</b>	<b>0</b>	<b>68</b>
<i>Source: Bank Data</i>					

## TENNESSEE NON-MSA AA - Full-Scope Review

### DESCRIPTION OF INSTITUTION’S OPERATIONS IN TENNESSEE NON-MSA AA

Examiners performed a full-scope review of Hearthside’s performance in this AA, which includes the entirety of Claiborne County. The bank operates two branch locations within this AA, which are both located in middle-income census tracts. One branch is located less than one mile from a moderate-income census tract. Hearthside originated 37.6 percent of its home mortgage and 43.7 percent of its small business loans, and 28.1 percent of the deposits within this AA.

#### **Economic and Demographic Data**

Based on the 2020 U.S. Census data, the Tennessee Non-MSA AA consists of 9 census tracts with the following designations: 3 moderate- and 6 middle-income. There are no middle-income census tracts designated as distressed or underserved within the AA. The following table illustrates select demographic characteristics of the AA.

<b>Demographic Information of the Assessment Area - Tennessee Non-MSA AA</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	9	0.0	33.3	66.7	0.0	0.0
Population by Geography	32,043	0.0	19.3	80.7	0.0	0.0
Housing Units by Geography	15,539	0.0	20.5	79.5	0.0	0.0
Owner-Occupied Units by Geography	9,608	0.0	21.5	78.5	0.0	0.0
Occupied Rental Units by Geography	3,953	0.0	18.6	81.4	0.0	0.0
Vacant Units by Geography	1,978	0.0	19.3	80.7	0.0	0.0
Businesses by Geography	1,786	0.0	14.1	85.9	0.0	0.0
Farms by Geography	76	0.0	22.4	77.6	0.0	0.0
Family Distribution by Income Level	8,750	25.6	18.5	21.9	33.9	0.0
Household Distribution by Income Level	13,561	30.3	16.5	18.4	34.8	0.0
Median Family Income Non-MSAs - TN		\$64,700	Median Housing Value			\$113,732
Families Below Poverty Level		16.2%	Median Gross Rent			\$646
<i>Source: 2020 U.S. Census and 2023 D&amp;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>						

According the 2020 U.S. Census data, the AA consists for 15,539 housing units, of which 61.8 percent are owner-occupied, 25.4 percent are occupied-rental units, and 12.7 percent are vacant. The Geographic Distribution criterion compares the bank’s home mortgage lending to the distribution of owner-occupied housing units in the AA. The analysis of small business loans under the Geographic Distribution criterion compares the institution’s small business lending to the distribution of the businesses by geography within the AA, as noted in the table above.

Examiners used the FFIEC-updated MFI level to analyze home mortgage lending under the Borrower Profile criterion. The following table outlines the ranges for the AA during 2022.

<b>MFI Ranges – Tennessee Non-MSA AA</b>				
<b>Median Family Incomes</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
2022 (\$64,700)	<\$32,350	\$32,350 to <\$51,760	\$51,760 to <\$77,640	≥\$77,640
<i>Source: FFIEC</i>				

Examiners compare the distribution of lending by the borrower’s GAR to analyze small business lending under the Borrower Profile criterion. According to 2023 D&B data, there were 1,786 businesses in the AA. Approximately 85.2 percent of businesses had GARs of \$1.0 million or less, 3.0 percent had GARs over \$1.0 million, and 11.7 percent had unknown revenues. Of these businesses, 88.0 percent operate from a single location and 59.3 percent have four or fewer employees. The services industry represents the largest portion of businesses at 32.0 percent, followed by non-classifiable establishments at 22.7 percent, and retail trade at 12.8 percent.

According to the U.S Bureau of Labor Statistics, the Tennessee Non-MSA AA annualized unemployment rates trended lower than the state and increased slightly more than the national averages throughout the evaluation period. The following table illustrates the unemployment rates.

<b>Unemployment Rates</b>			
<b>Area</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Claiborne County	4.3	3.8	3.9
State	4.5	4.0	5.1
National Average	4.8	3.6	3.6
<i>Source: Bureau of Labor Statistics</i>			

**Competition**

Hearthside operates in moderately competitive market for financial services when considering geographic size and population in the AA. According to FDIC Deposit Market Share data, as of June 30, 2023, 4 financial institutions operate 12 full-service branches within the AA. Of these institutions, Hearthside ranks fourth with 14.2 percent of the market share of total deposits.

Aggregate HMDA data indicates there is a moderate level of competition for home mortgage loans within the AA. In 2022, 139 lenders originated 1,360 home mortgage loans within the bank’s Tennessee Non-MSA AA. Hearthside ranked second with a market share of 7.2 percent. The top five lenders accounted for 34.6 percent of the total market share.

Hearthside is not required to collect or report small business loan data and is not included in the following numbers. As such, analysis of small business loans does not include comparisons to aggregate data. However, the aggregate small business data reflects the level of demand for small business loans in the AA. In 2022, the most recent year aggregate data is available, shows that 40

institutions reported 349 small business loans throughout the AA. The top three lenders accounted for 48.7 percent of the total market share.

### **Community Contact**

Examiners reviewed a recent contact with an agency serving Eastern Tennessee. The contact stated that the region overall is growing; however, skilled labor shortages continue to effect the economy and has greatly impacted the housing industry. The contact noted the credit needs in the area are affordable housing and small business loans.

### **Credit and Community Development Needs and Opportunities**

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that home mortgage loans and small business loans represent the primary credit need of the AA. In addition, affordable housing continues to be a primary community development need for the AA.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN TENNESSEE NON-MSA AA**

### **LENDING TEST**

Hearthside demonstrated reasonable performance under the Lending Test within this AA. The bank's performance in the Geographic Distribution and Borrower Profile criteria primarily supports this conclusion.

### **Geographic Distribution**

Overall, the geographic distribution of loans reflects reasonable dispersion throughout the AA as supported by the excellent performance for home mortgage loans. Although the bank's performance is poor for small business loan geographic distribution, examiners placed more placed more weight on the home mortgage loans.

### ***Home Mortgage Loans***

The geographic distribution of home mortgage loans reflects excellent dispersion throughout the AA. Hearthside's performance exceeded aggregate performance and was comparable with demographic data for moderate-income geographies. Of the 71 loans originated in 2022, 16 were located in the moderate-income tracts, representing 22.5 percent of the total, which exceeded aggregate performance of 16.2 percent. In addition, of the nine bank-facilitated secondary market loans in the AA, two (22.2 percent) were in moderate-income geographies.

### ***Small Business Loans***

The geographic distribution of small business loans reflects poor dispersion throughout the Tennessee Non-MSA AA. Although demographic data reflects the moderate-income geography contains 14.1 percent of businesses, Hearthside made no loans in the moderate-income geographies in 2023.

### **Borrower Profile**

Hearthside's distribution of home mortgage and small business loans reflects reasonable penetration among borrowers of different income levels and businesses of different sizes. Examiners focused

on the percentage of home mortgage loans to LMI borrowers and small businesses with GARs of \$1.0 million or less.

**Home Mortgage Loans**

The distribution of home mortgage loans reflects reasonable penetration among borrowers of different income levels, including LMI individuals. Hearthside’s lending performance to low-income borrowers is comparable with aggregate data and is less than demographic data. For moderate-income borrowers, Hearthside’s performance was less than both aggregate and demographic data.

According to demographic data, 16.2 percent of families in the AA reported incomes below the poverty level in 2022. Due to their limited financial resources, families with incomes below the poverty level often do not have the capacity to support a traditional home mortgage, generally limiting the demand and opportunity for lending to low-income borrowers. Of the 9 bank-facilitated loans, 2 (22.2 percent) were to low- and 2 (22.2 percent) were to moderate-income borrowers. In addition, the bank’s performance in 2023 improved to 15.6 percent compared to demographic data of 18.5 percent. Overall, examiners considered the bank’s performance reasonable.

<b>Distribution of Home Mortgage Loans by Borrower Income Level – Tennessee Non-MSA AA</b>						
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low	25.6	7.0	5	7.0	402	2.7
Moderate	18.5	16.2	7	9.9	768	5.1
Middle	21.9	24.2	14	19.7	1,719	11.5
Upper	33.9	39.0	37	52.1	9,853	65.8
Not Available	0.0	13.6	8	11.3	2,232	14.9
<b>Totals</b>	<b>100.0</b>	<b>100.0</b>	<b>71</b>	<b>100.0</b>	<b>14,974</b>	<b>100.0</b>
<i>Source: 2020 U.S. Census; Bank Data, 2022 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

**Small Business Loans**

The distribution of borrowers reflects reasonable penetration among businesses of different sizes. Hearthside’s lending performance to businesses with GARs of \$1 million or less was less than the percentage of businesses in that revenue category. However, the percentage of businesses is not necessarily indicative of the demand for small business loans by those businesses. Although performance decreased since the previous evaluation, of the 12 loans made to businesses with GARs greater than \$1 million, 9 were to one borrower alone. Examiners consider the Hearthside’s performance reasonable.

<b>Distribution of Small Business Loans by GAR Category - Tennessee Non-MSA</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<=\$1,000,000	86.1	10	45.5	1,963	67.8
>\$1,000,000	2.8	12	54.5	933	32.2
Revenue Not Available	11.1	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>22</b>	<b>100.0</b>	<b>2,896</b>	<b>100.0</b>

*Source: 2023 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%.*

## **COMMUNITY DEVELOPMENT TEST**

Hearthside demonstrated adequate responsiveness to the community development needs of the Tennessee Non-MSA AA through community development loans, qualified grants and donations, and community development services. Examiners considered the institution’s capacity and the need and availability of such opportunities.

### **Community Development Loans**

Hearthside originated three community development loans totaling approximately \$1.5 million inside the AA during the evaluation period. Examiners note the number and dollar volume of community development loans has decreased since the previous evaluation; however, the previous evaluation included PPP loans. The following table illustrates the bank’s community development loans by year and purpose.

<b>Community Development Lending – Tennessee Non-MSA</b>						
<b>Activity Year</b>	<b>Affordable Housing</b>		<b>Economic Development</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
2021 (partial)	1	600	1	870	<b>2</b>	<b>1,470</b>
2022	-	0	1	10	<b>1</b>	<b>10</b>
2023	-	0	-	0	-	<b>0</b>
YTD 2024	<b>1</b>	<b>600</b>	<b>2</b>	<b>880</b>	<b>3</b>	<b>1,480</b>

*Source: Bank Data*

The following is a notable example of the community development loan activity in this AA.

- In 2021, the institution renewed a \$600,000 loan that used to construct affordable housing units in a distressed and underserved middle-income census tract.

### **Qualified Investments**

Hearthside did not make any qualified investments during the review period; however, the institution was active in making qualified grants and donations. The institution made 28 donations totaling approximately \$20,000 in the Tennessee Non-MSA AA. All 28 donations were made for Community Services that support LMI individuals or areas. This activity is an increase from the previous evaluation.

**Community Development Services**

During the evaluation period, bank officers and employees provided 59 instances of financial expertise or technical assistance for community development purposes in this AA. The following table illustrates the bank’s community development services by year and purpose.

<b>Community Development Services – Tennessee Non-MSA</b>				
<b>Activity Year</b>	<b>Affordable Housing</b>	<b>Community Services</b>	<b>Economic Development</b>	<b>Totals</b>
	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>
2021 (partial)	0	6	0	<b>6</b>
2022	1	23	0	<b>24</b>
2023	2	20	1	<b>23</b>
YTD 2024	0	6	0	<b>6</b>
<b>Total</b>	<b>3</b>	<b>55</b>	<b>1</b>	<b>59</b>
<i>Source: Bank Data</i>				

**KNOXVILLE MSA AA - Full-Scope Review**

**DESCRIPTION OF INSTITUTION’S OPERATIONS IN KNOXVILLE MSA AA**

Examiners performed a full-scope review of Hearthside’s performance in this AA, which includes the entirety of Campbell County. The bank operates one branch location within this AA, which is located in a moderate-income census tract. Hearthside originated 40.0 percent of its home mortgage loans, 25.5 percent of its small business loans, and 9.5 percent of the deposits within this AA.

**Economic and Demographic Data**

Based on the 2020 U.S. Census data, the Knoxville MSA AA consists of 13 census tracts with the following designations: 10 moderate- and 3 middle-income. There are no census tracts designated as low- or upper-income. The following table provides additional demographic data.



<b>Demographic Information of the Assessment Area - Knoxville MSA AA</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	13	0.0	76.9	23.1	0.0	0.0
Population by Geography	39,272	0.0	74.5	25.5	0.0	0.0
Housing Units by Geography	21,207	0.0	73.4	26.6	0.0	0.0
Owner-Occupied Units by Geography	10,934	0.0	74.0	26.0	0.0	0.0
Occupied Rental Units by Geography	5,527	0.0	75.5	24.5	0.0	0.0
Vacant Units by Geography	4,746	0.0	69.3	30.7	0.0	0.0
Businesses by Geography	2,618	0.0	68.9	31.1	0.0	0.0
Farms by Geography	71	0.0	71.8	28.2	0.0	0.0
Family Distribution by Income Level	11,035	32.8	22.8	19.7	24.7	0.0
Household Distribution by Income Level	16,461	35.0	18.2	17.2	29.7	0.0
Median Family Income MSA - 28940 Knoxville, TN MSA		\$88,600	Median Housing Value			\$117,415
Families Below Poverty Level		15.5%	Median Gross Rent			\$590

*Source: 2020 U.S. Census and 2023 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.*

According to the 2020 U.S. Census data, the AA consists of 21,207 housing units, of which 51.6 percent are owner-occupied, 26.1 percent are occupied-rental units, and 22.4 percent are vacant. The Geographic Distribution criterion compares the bank's home mortgage lending to the distribution of owner-occupied housing units in the AA. The analysis of small business loans under the Geographic Distribution criterion compares the institution's small business lending to the distribution of the businesses by geography within the AA, as noted in the table above.

Examiners used the FFIEC-update MFI level to analyze home mortgage lending under the Borrower Profile criterion. The following table outlines the range for the AA during 2022.

<b>MFI Ranges – Knoxville MSA AA (28940)</b>				
<b>MFI</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
2022 (\$82,000)	<\$41,000	\$41,000 to <\$65,600	\$65,600 to <\$98,400	≥\$98,400

*Source: FFIEC*

The examiners compare the distribution of lending by borrower's GAR to analyze small business lending under the Borrower Profile criterion. According to 2023 D&B data, there were 2,618 businesses in the AA. Approximately 85.7 percent of businesses had GARs of \$1.0 million or less, 3.2 percent had GARs over \$1.0 million, and 11.1 percent had unknown revenues. Of these businesses, 89.3 percent operate from a single location and 57.8 percent have four or fewer employees. The services industry represents the largest portion of businesses at 30.9 percent, followed by non-classifiable establishments at 24.2 percent, and retail trade at 13.0 percent.

According to the U.S Bureau of Labor Statistics, the Knoxville MSA AA annualized unemployment rates generally trended lower than the state and was higher than the national averages throughout the evaluation period. The following table illustrates the unemployment rates.

Unemployment Rates			
Area	2021	2022	2023
	%	%	%
Campbell County	5.0	4.1	4.1
State	4.5	4.0	5.1
National Average	4.8	3.6	3.6
<i>Source: Bureau of Labor Statistics</i>			

**Competition**

Hearthside operates in moderately competitive market for financial services when considering geographic size and population in the AA. According to FDIC Deposit Market Share data, as of June 30, 2023, 8 financial institutions operate 12 full-service branches within the AA. Of these institutions, Hearthside ranked sixth with 5.3 percent of the market share of total deposits.

Aggregate HMDA data also provides insight into the competition within the AA. Review of the 2022 aggregate data indicates a higher level of competition for home mortgage loans 236 lenders reporting 2,208 home mortgage loans originated or purchased. Hearthside ranked tenth with a market share of 2.5 percent. The top five lenders accounting for 27.0 percent of the market share.

Hearthside is not required to collect or report small business loan data and is not included in the following numbers. As such, analysis of small business loans does not include a comparison to aggregate data. Although CRA regulations do not require Hearthside to report data about its small business loans within the AA, it is useful in determining the level of competition for such loans. In 2022, the most recent aggregate data available shows that 42 lenders reported 457 small business loans throughout the AA. The top three lenders accounted for 57.8 percent of the total market share.

**Community Contact**

Examiners reviewed a recent contact with a representative from a local organization to improve the economy and quality of life in the AA. The contact stated that skilled and talented labor shortages continue to effect the economy, as well as inflation. The contact also stated that the number one problem for the area is affordable housing, followed by small business loans. The higher interest rates are keeping individuals from selling; therefore, inventory is not keeping up with demand.

**Credit and Community Development Needs and Opportunities**

Considering information from the community contacts, bank management, and demographic and economic data, examiners determined that home mortgage and small business lending represents the primary credit needs. Examiners also determined affordable housing and financial education to be the primary community development needs of the AA.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN KNOXVILLE MSA AA**

### **LENDING TEST**

Hearthside demonstrated reasonable performance under the Lending Test within this AA. Geographic Distribution and Borrower Profile performance primarily support this conclusion. As stated earlier, this area is given the lesser weight of the Tennessee rated area.

### **Geographic Distribution**

The geographic distribution of loans reflects reasonable dispersion throughout the AA.

#### ***Home Mortgage Loans***

Hearthside's performance is less than both aggregate performance at 66.5 percent and demographic data at 74.0 percent for moderate-income geographies. Of the 40 loans originated in 2022, 18 were located in the moderate-income tracts, representing 45.0 percent of the total. In addition, of the four bank-facilitated secondary market loans within the AA, three (75 percent) were in moderate-income geographies. The bank's performance increased in 2023 to 64.7 compared to demographic data of 74.0 percent. Overall, examiners considered the bank's performance reasonable.

#### ***Small Business Loans***

The geographic distribution of small business loans reflects excellent dispersion throughout the AA, as Hearthside originated all eight loans within the moderate-income geographies, representing 100 percent of the total, compared to the percent of businesses at 68.9 percent.

### **Borrower Profile**

Hearthside's distribution of home mortgage and small business loans reflects reasonable penetration among borrowers of different income levels and businesses of different sizes. Examiners focused on the percentage of home mortgage loans to LMI borrowers and small businesses with GARs of \$1.0 million or less.

#### ***Home Mortgage Loans***

The distribution of home mortgage loans reflects reasonable penetration among borrowers of different income levels, including LMI individuals. Hearthside's lending performance to low-income borrowers is less than both aggregate performance and demographic data. For moderate-income borrowers, Hearthside's performance was less than both aggregate and demographic data.

According to demographic data, 15.5 percent of families in the AA reported incomes below the poverty level in 2022. Due to their limited financial resources, families with incomes below the poverty level often do not have the capacity to support a traditional home mortgage, generally limiting the demand and opportunity for lending to low-income borrowers. In addition, of the four bank-facilitated secondary market loans within the AA, 2 (50 percent) were to moderate-income borrowers. For moderate-income borrowers, the bank's performance in 2023 improved to 23.5 percent compared to demographic data of 22.8 percent. Overall, examiners considered the bank's performance reasonable.

<b>Distribution of Home Mortgage Loans by Borrower Income Level - Knoxville MSA AA</b>						
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low	32.8	14.9	4	10.0	826	5.2
Moderate	22.8	21.5	0	0.0	0	0.0
Middle	19.7	23.1	11	27.5	1,786	11.2
Upper	24.7	27.2	22	55.0	9,756	61.3
Not Available	0.0	13.3	3	7.5	3,543	22.3
<b>Totals</b>	<b>100.0</b>	<b>100.0</b>	<b>40</b>	<b>100.0</b>	<b>15,911</b>	<b>100.0</b>

*Source: 2020 U.S. Census; Bank Data, 2022 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%.*

### ***Small Business Loans***

The distribution of borrowers reflects reasonable penetration among businesses of different sizes. Hearthside’s lending performance to borrowers with GARs of \$1 million or less was less than the percentage of businesses in that revenue category. Performance decreased slightly since the previous evaluation. However, the percentage of businesses is not necessarily indicative of the demand for small business loans by those businesses. The reporting of 2022 small business data demonstrated that a majority of small businesses within this AA utilize credit card banks for financing needs.

<b>Distribution of Small Business Loans by GAR Category - Knoxville MSA AA</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<=\$1,000,000	85.8	5	62.5	318	18.9
>\$1,000,000	3.2	3	37.5	1,369	81.1
Revenue Not Available	11.1	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>8</b>	<b>100.0</b>	<b>1,687</b>	<b>100.0</b>

*Source: 2023 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%.*

## **COMMUNITY DEVELOPMENT TEST**

Hearthside demonstrated adequate responsiveness to the community development need of the Knoxville MSA AA through qualified investments and services.

### **Community Development Loans**

Hearthside did not originate and community development loans inside this AA during the evaluation period. This performance is a decrease since the prior evaluation; however, the prior evaluation included PPP loans.

### **Qualified Investments**

The institution did not make any qualified investments in the AA during the review period; however, they were active in making qualified grants and donations. Hearthside made 19 donations

totaling approximately \$13,000, all toward Community Services benefitting LMI individuals or areas. This performance is an increase since the prior evaluation.

**Community Development Services**

During the evaluation period, Hearthside provided nine instances of financial expertise or technical assistance to different community development-related organizations in the Knoxville MSA AA. All instances were for the purpose of Community Services. This performance is consistent with the prior evaluation.

## APPENDICES

### INTERMEDIATE 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).

#### **Community Development Test**

The Community Development Test considers the following criteria:

- 1) The number and amount of community development loans;
- 2) The number and amount of qualified investments;
- 3) The extent to which the bank provides community development services; and
- 4) The bank's responsiveness through such activities to community development lending, investment, and service needs.

## SUMMARY OF RATINGS FOR RATED AREAS

<b>Rated Area</b>	<b>Lending Test</b>	<b>Community Development Test</b>	<b>Rating</b>
KENTUCKY	Satisfactory	Satisfactory	Satisfactory
TENNESSEE	Satisfactory	Satisfactory	Satisfactory

## 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.

**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; or
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

**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).

**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.

**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.

**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.

**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.