

PUBLIC DISCLOSURE

April 3, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Valley Republic Bank
Certificate Number: 58828

5000 California Avenue, Suite 110
Bakersfield, California 93309

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

25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105

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.

TABLE OF CONTENTS

| | |
|---|----|
| Institution Rating | 1 |
| Scope of Evaluation | 2 |
| Description of Institution | 4 |
| Description of Assessment Area | 7 |
| Conclusions on Performance Criteria | 12 |
| Discriminatory or Other Illegal Credit Practices Review | 22 |
| Glossary | 23 |

INSTITUTION RATING

INSTITUTION'S COMMUNITY REINVESTMENT ACT (CRA) RATING: This institution is rated Satisfactory. An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area (AA), including low- and moderate-income (LMI) neighborhoods, in a manner consistent with its resources and capabilities.

Valley Republic Bank's (VRB) satisfactory CRA performance under the Lending Test and the Community Development (CD) Test supports the overall rating. Examiners did not identify any evidence of discriminatory or other illegal credit practices. The following points summarize the bank's Lending Test and CD Test performance.

The Lending Test is rated Satisfactory.

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and AA credit needs.
- The bank made a substantial majority of its small business and home mortgage loans within its AA.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.
- The distribution of borrowers reflects poor penetration of loans among businesses of different revenue sizes and individuals of different income levels.
- The institution has not received 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 CD needs of its AA through CD loans, qualified investments, and CD services, as appropriate. Examiners considered the institution's capacity and the need and availability of such opportunities for CD in the AA.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the previous evaluation dated January 27, 2014, to the current evaluation dated April 3, 2017. Examiners used Interagency Intermediate Small Institution Examination Procedures to evaluate VRB's CRA performance. An Intermediate Small Institution is an institution with total assets of at least \$307 million as of December 31st of both of the prior 2 calendar years, and less than \$1.226 billion as of December 31st of either of the prior 2 calendar years. These procedures include two tests: the CRA Small Bank Lending Test and the CD Test.

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

- LTD ratio
- AA concentration
- Geographic distribution
- Borrower profile
- Response to CRA-related complaints

The CD Test considered the following factors.

- Number and dollar amount of CD loans, qualified investments, and CD services
- The responsiveness of such activities to the CD needs of the AA

Examiners relied on records provided by the institution, public financial and loan information, demographic data, community contacts, and Home Mortgage Disclosure (HMDA) loan information reported for CRA purposes. Banks must achieve at least a Satisfactory rating under each test to obtain an overall Satisfactory rating. This evaluation does not include any lending activity performed by affiliates.

Loan Products Reviewed

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

The bank's record of originating small business loans contributed more weight to the overall conclusions due to the larger loan volume when compared to home mortgage lending during the review period. No other loan types, such as consumer loans or small farm loans, represent a major product line. The bank's consumer loan and farm loan activity is too nominal to provide a meaningful analysis; therefore, they provided no material support for conclusions or ratings and are not presented.

Bank records indicated that the lending focus and product mix remained consistent throughout the evaluation period. Examiners utilized the universe of small business loans originated from

January 1, 2015 through December 31, 2016. During the review period, the bank originated 173 small business loans totaling approximately \$51.1 million. The bank originated 70 small business loans totaling approximately \$22.2 million in 2015, and 103 small business loans for \$28.9 million in 2016. D&B data for 2015 and 2016 provided a standard of comparison for the small business loans.

In addition, this evaluation considered all originated or purchased HMDA loans reported on the bank's 2015 and 2016 HMDA loan application registers (LARs). The bank originated or purchased 27 loans totaling approximately \$12.3 million, and 26 loans totaling \$13.5 million in 2015 and 2016, respectively. Aggregate lending data for 2015 provides a standard of comparison for HMDA lending analysis; however, 2016 aggregate HMDA lending data was not available as of the date of this evaluation.

The following table shows the universe of loans and the volume of loans reviewed for the evaluation period of January 1, 2015 through December 31, 2016.

| Loan Category | Universe | | Reviewed | |
|----------------|----------|----------|----------|----------|
| | # | \$(000s) | # | \$(000s) |
| <i>2015</i> | | | | |
| Home Mortgage | 27 | 12,292 | 27 | 12,292 |
| Small Business | 70 | 22,234 | 70 | 22,234 |
| <i>2016</i> | | | | |
| Home Mortgage | 26 | 13,486 | 26 | 13,486 |
| Small Business | 103 | 28,905 | 103 | 28,905 |

Source: Bank Records from 1/1/2015 through 12/31/2016.

For the Lending Test, examiners reviewed the number and dollar volume of small business and HMDA loans. While the number and dollar volume of loans are presented, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of individuals and businesses served. The institution's lending performance is compared to the 2010 U.S. Census data, 2015 to 2016 D&B data, 2015 CRA aggregate data performance, and other information gathered as part of the evaluation process, including community contacts. Examiners also compared the bank's performance against the bank's previous CRA Performance Evaluation and noted any differences.

CRA defines "small business loans" as loans which have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans, as defined in the Consolidated Report of Condition and Income (Call Report). A small business is defined by CRA as a business that has \$1 million or less in gross annual revenues (GARs).

For the CD Test, bank management provided data on CD loans, qualified investments, and CD services since the previous CRA Evaluation. The evaluation of the bank's CD activities is limited to those loans, investments, and services for which management could demonstrate compliance with CRA eligibility requirements. The evaluation of CD investments does not

include prior-period investments since the bank is being evaluated for CD activities for the first time. Examiners evaluated CD loans, investments, and services quantitatively based on the financial capacity of the bank, as well as qualitatively based upon the impact to the AA.

DESCRIPTION OF INSTITUTION

Background

VRB is a state-chartered commercial bank headquartered in Bakersfield, California, which commenced operations in February 2009. The bank is a wholly-owned subsidiary of Valley Republic Bancorp with no affiliates or subsidiaries. The bank operates three full-service branch offices in Bakersfield, which are all situated in upper-income CTs. The institution received a Satisfactory rating at its previous FDIC CRA Performance Evaluation based on Interagency Small Institution Examination Procedures.

Operations

VRB operates three full-service branches in its AA. The bank opened one branch in the AA in an upper-income CT on March 9, 2016. VRB did not close any branches, and no merger or acquisition activities occurred since the previous evaluation. VRB offers loan products including commercial, agricultural, construction, home mortgage, and consumer loans, primarily focusing on commercial lending. The bank provides a variety of deposit services including personal checking accounts, senior checking accounts, savings, money market accounts, certificates of deposit, and individual retirement accounts. Alternative banking services include internet and mobile banking, electronic bill pay, night depository, business deposits pick up, business remote deposit, wire transfers, and safe deposit boxes. The bank has no automated teller machines (ATMs).

Lobby hours for the branch offices are 9:00 a.m. to 5:00 p.m. Monday through Thursday, and 9:00 a.m. to 6:00 p.m. on Friday. Branch offices are not open on weekends and do not offer deposit taking ATM services. VRB offers on-line banking services. Bank customers can access the bank's website at www.valleyrepublicbank.com. The on-line banking service gives customers access to account information 24 hours a day, 7 days a week. Customers can view account activity, arrange for automatic monthly transfers, bill pay, and transfer funds between accounts. The bank's website also provides general bank information including product and service descriptions, office location and hours, and "contact us" capabilities.

Ability and Capacity

Bank assets totaled approximately \$579.0 million as of December 31, 2016, and included total loans of \$390.0 million and securities totaling \$94.6 million. The bank reported equity capital of \$50.4 million. The loan portfolio is illustrated in the following table.

| Table 2 – Loan Portfolio Distribution as of December 31, 2016 | | |
|---|-----------------|--------------|
| Loan Category | \$(000s) | % |
| Construction, Land Development, and Other Land Loans | 43,482 | 11.1 |
| Secured by Farmland | 43,987 | 11.3 |
| Secured by 1 to 4 Family Residential Properties | 43,253 | 11.1 |
| Secured by Multi-family (5 or more) Residential Properties | 1,300 | 0.3 |
| Secured by Non-farm Non-Residential Properties | 179,000 | 45.9 |
| Total Real Estate Loans | 311,022 | 79.7 |
| Commercial and Industrial Loans | 52,832 | 13.5 |
| Agricultural Production and Other Loans to Farmers | 19,048 | 4.9 |
| Consumer | 2,283 | 0.6 |
| Obligations of States and Political Subdivisions in the United States | 4,848 | 1.2 |
| Other Loans | 0 | 0.0 |
| Lease Financing Receivables (net of unearned income) | 0 | 0.0 |
| Less: Unearned Income | (0) | (0.0) |
| Total Loans | 390,033 | 100.0 |
| <i>Source: December 31, 2016 Reports of Condition and Income</i> | | |

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

DESCRIPTION OF ASSESSMENT AREA

CRA requires each financial institution to define one or more AAs within which its CRA performance will be evaluated. VRB designated a single AA which is comprised of Kern County, California. Kern County is wholly contained within the Bakersfield, California Metropolitan Statistical Area (MSA) #12540. Since the previous evaluation, branch opening activity has not changed the bank's AA. The established AA is separated by a natural barrier of the Kern River through the center and various state parks throughout. Various military installations, such as the Edwards Air Force Base maintains a strong presence in the AA.

The AA complies with the technical requirements of CRA and does not arbitrarily exclude any LMI neighborhoods or individuals. Management selected these geographies based on the location of the bank's offices and the expectation of attracting and retaining a customer base within these geographies. The following sections discuss demographic and economic information for the AA.

Economic and Demographic Data

The AA includes all 151 census tracts (CTs) in Kern County. These tracts reflect the following income designations according to the 2010 U.S. Census:

- 6 low-income CTs,
- 47 moderate-income CTs,
- 47 middle-income CTs,
- 47 upper-income CTs, and
- 4 CTs with no income designation.

LMI CTs account for 4.0 percent and 31.1 percent, respectively, of the total number of tracts in the AA. The total estimated population for the AA is approximately 839,631. The AA does not contain any distressed or underserved nonmetropolitan middle-income geographies.

The following table illustrates select demographic characteristics of the AA.

| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # | NA* % of # |
|--|----------|------------------------------|----------------------------|--------------------------|-------------------------|-----------------------|
| Geographies (Census Tracts) | 151 | 4.0 | 31.1 | 31.1 | 31.1 | 2.6 |
| Population by Geography | 839,631 | 3.4 | 32.6 | 28.8 | 33.2 | 2.1 |
| Housing Units by Geography | 278,239 | 3.6 | 30.1 | 30.5 | 35.8 | 0.0 |
| Owner-Occupied Units by Geography | 152,284 | 2.0 | 23.2 | 30.8 | 44.1 | 0.0 |
| Occupied Rental Units by Geography | 95,773 | 6.2 | 40.7 | 28.5 | 24.6 | 0.0 |
| Vacant Units by Geography | 30,182 | 3.8 | 31.3 | 35.7 | 29.3 | 0.0 |
| Businesses by Geography | 37,502 | 3.8 | 20.6 | 30.0 | 45.6 | 0.0 |
| Farms by Geography | 1,636 | 1.2 | 28.8 | 29.6 | 40.5 | 0.0 |
| Family Distribution by Income Level | 185,559 | 23.0 | 17.2 | 18.0 | 41.8 | 0.0 |
| Household Distribution by Income Level | 248,057 | 24.5 | 16.0 | 17.4 | 42.1 | 0.0 |
| Median Family Income MSA # 12540 Bakersfield, CA MSA | 51,311 | Median Housing Value | | | | 212,638 |
| | | Median Gross Rent | | | | 842 |
| | | Families Below Poverty Level | | | | 16.8% |

*Source: 2010 U.S. Census and 2016 D&B Data
 (*) The NA category consists of geographies that have not been assigned an income classification.*

According to the 2016 D&B data, there were 37,502 businesses in the AA. GARs for these businesses are detailed below:

- 84.3 percent have GARs of \$1 million or less
- 5.0 percent have GARs over \$1 million
- 10.7 percent have unknown revenues

The analysis of small business loans under the borrower profile criterion compares the distribution of businesses by GAR level. Service industries represent the largest portion of AA businesses at 45.4 percent; followed by retail trade at 14.7 percent; construction at 8.0 percent; and finance, insurance and real estate at 7.3 percent. Additionally, 71.6 percent of AA businesses have 4 or fewer employees, and 88.5 percent operate from a single business location.

The Federal Financial Institutions Examination Council (FFIEC)-updated median family income level is used to analyze HMDA loans under the borrower profile criterion. The low-, moderate-, middle-, and upper-income categories are presented in the following table. These categories are based on the 2015 and 2016 FFIEC-updated median family incomes.

| Table 4 – Median Family Income Ranges | | | | |
|---|-------------|-------------------------|------------------------|----------------|
| Median Family Incomes | Low <50% | Moderate 50% to <80% | Middle 80% to <120% | Upper ≥120% |
| Bakersfield, CA MSA Median Family Income (12540) | | | | |
| 2015 (\$52,000) | <\$26,000 | \$26,000 to <\$41,600 | \$41,600 to <\$62,400 | ≥\$62,400 |
| 2016 (\$53,300) | <\$26,650 | \$26,650 to <\$42,640 | \$42,640 to <\$63,960 | ≥\$63,960 |
| <i>Source: FFIEC</i> | | | | |

There are approximately 278,239 housing units in the AA. Of these, 54.7 percent are owner-occupied, 34.4 percent are occupied rental units, and 10.9 percent are vacant. The geographic distribution criterion compares HMDA loans to the distribution of owner-occupied housing units. There are no owner-occupied housing units in the CTs without an income designation.

Kern County

According to Moody's Analytics as of December 2016, gains in private services are keeping Bakersfield's recovery intact. Mining has been a weight on total employment since 2014, but the pace of losses has begun to slow due to rising global oil prices. Since low-paying consumer industries are driving gains, income growth leaves much to be desired; it has lagged the California and U.S. averages for the past two years. After plateauing for three years, the labor force rose steadily in 2016, arresting the decline in the unemployment rate. Finally, the housing market continues to perform well, with single-family permits nearing their long-run average as an expanding population boosts demand. The area's strengths include vast oil deposits in Monterey Shale create opportunities for mining, location in the state promotes opportunities in warehousing and distribution, and abundant farmland supports agriculture. Weaknesses include exposure to volatile energy industry and lack of service-providing jobs increase risk and educational attainment falls far short of national and California rates. The area's top three employers are Edwards Air Force Base, China Lake Naval Weapons Center, and Grimmway Farms. The largest employment sector is Government at 23.8 percent, followed by education and health services at 13.0 percent.

Competition

The AA is moderately competitive in the market for financial services. According to the FDIC Deposit Market Share data as of June 2016, there were 20 financial institutions that operated 89 full-service branches within the bank's AA. Of these institutions, VRB ranked 6th, with 5.6 percent deposit market share. The financial institutions with the highest deposit market share in the AA are Wells Fargo Bank with 22.8 percent, Bank of America with 21.2 percent, and JPMorgan Chase Bank with 11.8 percent.

The bank is not required to collect or report its small business loan data, and it has not elected to do so. Therefore, the analysis of small business loans under the Lending Test does not include comparisons against aggregate lending data. The aggregate data, however, reflects the level of demand for small business loans and is therefore included. Aggregate data for 2015 shows that

81 institutions reported 13,215 small business loans in the AA; this indicates a strong degree of competition for this product.

There is a high level of competition for HMDA loans among several banks, credit unions, and non-depository mortgage lenders. In 2015, 430 lenders reported a total of 23,742 HMDA loans originated or purchased. VRB ranked 115th out of this group of lenders, with a market share of 0.09 percent. The 3 most prominent HMDA lenders accounted for 20.3 percent of the total market share.

Community Contacts

As part of the evaluation process, examiners contact third parties in the AA to assist in identifying credit and CD needs. This information helps determine the responsiveness of financial institutions to the identified needs and shows what credit and CD opportunities are available. Based on VRB's AA, branch structure, and lending focus, examiners identified and utilized one new and one existing community contacts located in the AA. The community contacts represent a small business development organization and a non-profit organization that is familiar with local affordable housing initiatives. Information from the contacts identified opportunities for financial institutions to assist in providing financing for affordable housing projects and various small businesses credit and operational needs.

The first contact is a director for a regional small business development corporation. The contact's group works to promote community economic development through the delivery of consulting and educational services to underserved small businesses in the AA. The contact stated a majority of businesses and individuals are unable to qualify for traditional loans because of issues related to personal financial health, business health, business history, and tough underwriting criteria. The contact also mentioned that large banks generally do not consider lending in rural areas despite the AA's rural setting, due to the lack of profitability involved. The contact felt that there was a strong need for local financial institutions to provide funds for small businesses, especially individual entrepreneurs who are seeking start-up financing. Additionally, participation by banks in regional economic development collaboration efforts to support the entire region is needed. Overall, the contact indicated that local financial institutions have generally been responsive to the credit and CD needs.

The second community contact represents a housing authority in Kern County. The contact stated that the AA has a high unemployment rate, low education level, and a large group of extremely low-income households. According to the contact, there is a huge need for affordable housing, especially for financing the acquisition of land for multi-family housing. The contact emphasized that supply has not kept up with demand and Kern County has far fewer affordable housing vouchers. The contact also mentioned opportunities like providing direct services (flexible branch hours, low-cost savings accounts, and other products tailored to low-income individuals), timely product-oriented educational outreach, and formal referral programs to reputable non-profit groups. Overall, the contact indicated that local financial institutions have been responsive to the credit and CD needs, and VRB was mentioned to be a good partner in recent years.

Credit and Community Development Needs and Opportunities

Considering information from the community contacts, bank management, demographic and economic data, examiners determined that residential mortgages and small business loans represent primary credit needs for the AA. Affordable housing and small business credit needs were cited as needs in the AA. The community contact associated with affordable housing stated that financial institutions could do more to provide financing for the acquisition of land for multi-family housing. Similarly, the community contact related to small business stated that assistance for extremely small, start-up business was a critical need. The high percentage of businesses with GARs of \$1 million or less and the large number of businesses with 4 or fewer employees support this conclusion. Affordable housing initiatives and small business lending opportunity and demand are significant throughout the AA.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

VRB demonstrated reasonable performance under the Lending Test. The bank's average net LTD ratio is reasonable, AA concentration represents a substantial majority, geographic distribution is reasonable, and the borrower profile reflects poor penetration among businesses of different revenue sizes and individuals of different income levels. Additional performance context considerations were made in evaluating the lending performance of the bank within its AA.

Loan-to-Deposit Ratio

The LTD ratio is reasonable given the institution's size, financial condition, and AA credit needs. The bank's LTD ratio, calculated from Call Report data, averaged 66.0 percent over the past 12 calendar quarters from March 31, 2014 to December 31, 2016. The ratio ranged from a low of 52.0 percent as of March 31, 2014, to a high of 77.9 percent as of June 30, 2016. The LTD ratio remained generally stable during the evaluation period and is well above its performance at the previous evaluation, where the ratio averaged 38.5 percent. VRB maintained a LTD ratio similar to the comparable institution, as shown in the following table. Examiners selected the comparable institution based on asset size, loan portfolio composition, and geographic location.

| Institution | Total Assets as of 12/31/2016 \$ (000s) | Average Net LTD Ratio (%) |
|------------------------|--|------------------------------|
| Valley Republic Bank | 579,024 | 66.0 |
| Comparable Institution | 530,252 | 70.7 |

Source: Reports of Income and Condition 3/31/2014 through 12/31/2016

Assessment Area Concentration

The bank originated a substantial majority of small business and HMDA loans, by number and dollar volume, within its AA, which indicates an excellent responsiveness to AA credit needs. The following table details the bank's lending activity during the review period.

| Table 6 – Lending Inside and Outside of the Assessment Area | | | | | | | | | | |
|---|-----------------|-------------|-----------|-------------|------------|---------------------------------|-------------|--------------|-------------|-------------------|
| Loan Category | Number of Loans | | | | Total # | Dollar Amount of Loans \$(000s) | | | | Total \$(000s) |
| | Inside | | Outside | | | Inside | | Outside | | |
| | # | % | # | % | | \$ | % | \$ | % | |
| Home Mortgage | | | | | | | | | | |
| 2015 | 22 | 81.5 | 5 | 18.5 | 27 | 9,258 | 75.3 | 3,034 | 24.7 | 12,292 |
| 2016 | 22 | 84.6 | 4 | 15.4 | 26 | 11,271 | 83.6 | 2,215 | 16.4 | 13,486 |
| Subtotal | 44 | 83.0 | 9 | 17.0 | 53 | 20,529 | 79.6 | 5,249 | 20.4 | 25,778 |
| Small Business | | | | | | | | | | |
| 2015 | 68 | 97.1 | 2 | 2.9 | 70 | 21,549 | 96.9 | 685 | 3.1 | 22,234 |
| 2016 | 99 | 96.1 | 4 | 3.9 | 103 | 27,097 | 93.7 | 1,808 | 6.3 | 28,905 |
| Subtotal | 167 | 96.5 | 6 | 3.5 | 173 | 48,646 | 95.1 | 2,493 | 4.9 | 51,139 |
| Total | 211 | 93.4 | 15 | 6.6 | 226 | 69,175 | 89.9 | 7,742 | 10.1 | 76,917 |

Source: Evaluation Period: 1/1/2015 - 12/31/2016

The analysis shows that VRB originated a substantial majority of its small business and HMDA loans within its AA during the review period. Overall, 93.4 percent by number and 89.9 percent by dollar volume were originated inside the AA. These percentages reflect the bank's excellent commitment to lending within the communities it serves.

Both the number and dollar amount of HMDA loans originated in the AA increased slightly from 2015 to 2016. For small business lending, both the number and dollar amount of loans originated in the AA slightly decreased from 2015 to 2016. HMDA loans were not analyzed at the previous evaluation. However, the bank's small business loan concentration inside the AA at 96.5 percent by number and 95.1 percent by dollar volume both slightly increased from the previous evaluation which was 95.2 percent by number and 91.8 percent by dollar volume. Therefore, overall, the bank originated a substantial majority of its small business and HMDA loans inside the AA.

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the AA. The bank's reasonable performance of small business lending and poor HMDA lending supports this conclusion. Examiners focused on the percentage by number of loans in LMI CTs. Small business loans were weighted more than HMDA loans due to the larger volume of originations during the review period. No conspicuous lending gaps in the geographic distribution of loans were identified.

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion throughout the AA. The following table illustrates the bank's geographic distribution of small business loans by CT income level. The bank's small business lending performance is compared to the percentage of businesses located within the AA based on D&B data.

| Table 7 – Geographic Distribution of Small Business Loans | | | | | |
|--|------------------------|----------|----------|-----------------|----------|
| Tract Income Level | % of Businesses | # | % | \$(000s) | % |
| Low | | | | | |
| 2015 | 3.7 | 1 | 1.5 | 119 | 0.6 |
| 2016 | 3.8 | 2 | 2.0 | 900 | 3.3 |
| Moderate | | | | | |
| 2015 | 20.6 | 6 | 8.8 | 2,261 | 10.5 |
| 2016 | 20.6 | 20 | 20.2 | 8,143 | 30.1 |
| Middle | | | | | |
| 2015 | 29.8 | 16 | 23.5 | 7,139 | 33.1 |
| 2016 | 30.0 | 25 | 25.3 | 6,463 | 23.9 |
| Upper | | | | | |
| 2015 | 45.8 | 45 | 66.2 | 12,030 | 55.8 |
| 2016 | 45.6 | 52 | 52.5 | 11,591 | 42.8 |
| Not Available | | | | | |
| 2015 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| 2016 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Totals | | | | | |
| 2015 | 100.0 | 68 | 100.0 | 21,549 | 100.0 |
| 2016 | 100.0 | 99 | 100.0 | 27,097 | 100.0 |

Source: 2015 & 2016 D&B Data; 1/1/2015 - 12/31/2016 Bank Data; "--" data not available.

In 2015, the bank originated 1.5 percent of its small business loans in low-income CTs, which was below the percentage of AA businesses reported by D&B at 3.7 percent. In 2016, the bank's performance increased slightly to 2.0 percent, which continued to remain below the percentage of businesses at 3.8 percent.

The bank's performance in moderate-income CTs in 2015 at 8.8 percent was well below the percentage of businesses at 20.6 percent. However, in 2016, the bank's lending performance increased significantly to 20.2 percent which mirrored the percentage of businesses at 20.6 percent.

Although aggregate data is not used for direct comparison purpose, it shows the potential levels of demand in the AA. In 2015, the bank's performance was below the aggregate performance in both low-income and moderate-income CTs at 2.9 percent and 19.0 percent, respectively. The 2016 aggregate data was not available at the time of this evaluation. Overall, the bank's lending patterns during the evaluation period indicate a significant increase in LMI CT dispersion of small business loans. This also compares favorably to the bank's performance in this criterion at the previous evaluation, where the geographic distribution of small business loans was considered poor.

State and local government represents the leading industry in Kern County. The Edwards Air Force Base, a national defense military facility, encompasses the southeastern portion of the AA. The military base represents the number one employer in the area. This type of industry do not represent a substantial need for small business financing, which is an indicator of the demand for small business lending in the area. Additionally, 71.6 percent of AA businesses have 4 or fewer employees, and 88.5 percent operate from a single business location. These percentages represent small businesses of limited financial capacity, as most do not plan to expand or have the financial need or capacity to seek out credit. Lending opportunities to smaller businesses is very competitive in the bank's AA. Although not an SBA preferred lender, the bank offers SBA-504 loans to help meet the AA credit needs. Since the bank is not part of the SBA preferred lender program, the level of market competition is higher within its local community as there are various local SBA preferred lenders.

The bank's overall small business lending in LMI CTs reflects reasonable dispersion when considering competition, lending opportunities, and the bank's capacity, especially given VRB has all three branch locations located in upper-income CTs.

HMDA Loans

The geographic distribution of HMDA loans reflects poor dispersion throughout the AA. The bank's HMDA lending performance is compared to the percentage of owner-occupied housing units and aggregate data. The following table shows the geographic distribution of HMDA loans by CT income level.

| Table 8 – Geographic Distribution of Home Mortgage Loans | | | | | | |
|--|-----------------------------------|------------------------------|----|-------|----------|-------|
| Tract Income Level | % of Owner-Occupied Housing Units | Aggregate Performance % of # | # | % | \$(000s) | % |
| Low | | | | | | |
| 2015 | 2.0 | 0.7 | 0 | 0.0 | 0 | 0.0 |
| 2016 | 2.0 | -- | 0 | 0.0 | 0 | 0.0 |
| Moderate | | | | | | |
| 2015 | 23.2 | 14.3 | 4 | 18.2 | 1,354 | 14.6 |
| 2016 | 23.2 | -- | 2 | 9.1 | 1,711 | 15.2 |
| Middle | | | | | | |
| 2015 | 30.8 | 26.1 | 1 | 4.5 | 43 | 0.5 |
| 2016 | 30.8 | -- | 0 | 0.0 | 0 | 0.0 |
| Upper | | | | | | |
| 2015 | 44.1 | 58.9 | 17 | 77.3 | 7,861 | 84.9 |
| 2016 | 44.1 | -- | 20 | 90.9 | 9,560 | 84.8 |
| Not Available | | | | | | |
| 2015 | 0.0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| 2016 | 0.0 | -- | 0 | 0.0 | 0 | 0.0 |
| Totals | | | | | | |
| 2015 | 100.0 | 100.0 | 22 | 100.0 | 9,258 | 100.0 |
| 2016 | 100.0 | -- | 22 | 100.0 | 11,271 | 100.0 |

Source: 2010 U.S. Census; 1/1/2015 - 12/31/2016 Bank Data, 2015 HMDA Aggregate Data, "--" data not available.

The bank's 2015 lending performance in low-income CTs at 0.0 percent was slightly below both the percentage of owner-occupied housing units of 2.0 percent and aggregate performance of 0.7 percent. In 2016, the bank's lending performance was unchanged and was again below the percentage of owner-occupied housing units at 2.0 percent.

In 2015, the bank's lending in moderate-income CTs at 18.2 percent was below the percentage of owner-occupied housing units at 23.2 percent but greater than aggregate performance of 14.3 percent. In 2016, the bank's performance decreased significantly to 9.1 percent which was well below the percentage of owner-occupied housing units at 23.2 percent. The bank's HMDA lending performance in this criterion was not analyzed at the previous evaluation.

Borrower Profile

The distribution of borrowers reflects poor penetration among small businesses of different revenue sizes and individuals of different income levels in the AA. The bank's poor performance of small business and HMDA lending supports this conclusion. Examiners focused on the percentage by number of small business loans to businesses with GARs of \$1 million or

less and the percentage by number of HMDA loans to LMI borrowers. Small business loans were weighted more than HMDA loans, based on the number of loan originations during the review period.

Small Business Loans

The distribution of small business loans reflects poor penetration of loans to businesses with GARs of \$1 million or less. The following table illustrates the distribution of small business loans by GAR category.

| Gross Revenue Level | % of Businesses | # | % | \$(000s) | % |
|------------------------------|-----------------|----|-------|----------|-------|
| <=\$1,000,000 | | | | | |
| 2015 | 78.6 | 29 | 42.6 | 9,230 | 42.8 |
| 2016 | 84.3 | 40 | 40.4 | 7,620 | 28.1 |
| >1,000,000 | | | | | |
| 2015 | 4.3 | 39 | 57.4 | 12,319 | 57.2 |
| 2016 | 5.0 | 59 | 59.6 | 19,477 | 71.9 |
| Revenue Not Available | | | | | |
| 2015 | 17.1 | 0 | 0.0 | 0 | 0.0 |
| 2016 | 10.6 | 0 | 0.0 | 0 | 0.0 |
| Totals | | | | | |
| 2015 | 100.0 | 68 | 100.0 | 21,549 | 100.0 |
| 2016 | 100.0 | 99 | 100.0 | 27,097 | 100.0 |

Source: 2015 & 2016 D&B Data; 1/1/2015 - 12/31/2016 Bank Data; "-" data not available.

The analysis shows that in 2015, 42.6 percent of small business loans were originated to businesses with GARs of \$1 million or less. This number is less than the D&B-reported percentage of businesses at 78.6 percent. The bank's performance also decreased slightly in 2016 to 40.4 percent, while the D&B-reported percentage of businesses increased to 84.3 percent.

Although not used as a benchmark for intermediate small bank lending performance, aggregate lending data is indicative of the credit needs of businesses, local competition, as well as lending opportunities within the AA. In 2015, aggregate lending data showed that 51.5 percent of the small business loans were extended to businesses with GARs of \$1 million or less. The bank's lending is closer to aggregate data for 2015, but it is still 8.9 percent below aggregate data. Aggregate data for 2016 was not yet available for comparison purposes.

The bank's current performance compares unfavorably from the previous evaluation where the bank exceeded aggregate data at 40.8 percent by making 44.8 percent and 50.0 percent of small business loans to businesses with GARs of \$1 million or less in 2012 and 2013, respectively.

The bank's performance in this criterion was rated reasonable at the previous evaluation.

Examiners took into consideration that the bank has all three branch locations located in upper-income CTs. However, with the bank's performance below the aggregate data and D&B-reported percentage of businesses in both 2015 and 2016, the slightly decreasing trend during the current review period, and the decreasing trend from the previous evaluation; the bank's penetration among businesses of different revenue sizes is still considered poor.

HMDA Loans

The distribution of HMDA loans to individuals of different income levels, including LMI borrowers, is poor. Examiners focused on the comparison to the percentage of families in LMI CTs based on 2010 U.S. Census data and on aggregate performance. The following table illustrates the distribution of HMDA loans by borrower income during the review period.

| Table 10 – Distribution of Home Mortgage Loans by Borrower Income Level | | | | | | |
|---|---------------|------------------------------|----|-------|----------|-------|
| Borrower Income Level | % of Families | Aggregate Performance % of # | # | % | \$(000s) | % |
| Low | | | | | | |
| 2015 | 23.0 | 2.3 | 0 | 0.0 | 0 | 0.0 |
| 2016 | 23.0 | -- | 0 | 0.0 | 0 | 0.0 |
| Moderate | | | | | | |
| 2015 | 17.2 | 9.6 | 0 | 0.0 | 0 | 0.0 |
| 2016 | 17.2 | -- | 0 | 0.0 | 0 | 0.0 |
| Middle | | | | | | |
| 2015 | 18.0 | 17.9 | 0 | 0.0 | 0 | 0.0 |
| 2016 | 18.0 | -- | 0 | 0.0 | 0 | 0.0 |
| Upper | | | | | | |
| 2015 | 41.8 | 45.3 | 12 | 54.5 | 5,203 | 56.2 |
| 2016 | 41.8 | -- | 11 | 50.0 | 3,951 | 35.1 |
| Not Available | | | | | | |
| 2015 | 0.0 | 25.0 | 10 | 45.5 | 4,055 | 43.8 |
| 2016 | 0.0 | -- | 11 | 50.0 | 7,320 | 64.9 |
| Totals | | | | | | |
| 2015 | 100.0 | 100.0 | 22 | 100.0 | 9,258 | 100.0 |
| 2016 | 100.0 | -- | 22 | 100.0 | 11,271 | 100.0 |

Source: 2010 U.S. Census; 1/1/2015 - 12/31/2016 Bank Data, 2015 HMDA Aggregate Data, "--" data not available.

During the evaluation period, the bank did not originate any HMDA loans to LMI borrowers. The bank's performance in this criterion for HMDA loans was not analyzed at the previous

evaluation.

The bank's poor performance is partially mitigated by the AA's 16.8 percent poverty level, which affects a LMI family's ability to purchase a house. Additionally, VRB originated 45.5 percent and 50.0 percent of HMDA loans in 2015 and 2016, respectively, which are without an income designation. Even taking this into consideration, the bank's distribution of HMDA loans among individuals of different income levels is still considered poor.

Response to Complaints

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

COMMUNITY DEVELOPMENT TEST

VRB demonstrated adequate responsiveness to the CD needs of its AA through qualified CD loans, qualified investments, and CD services. Examiners considered the institution's capacity and the need and availability of such opportunities.

Community Development Loans

VRB originated 17 CD loans totaling approximately \$28.8 million during the evaluation period. By dollar volume, this level of activity represents approximately 5.0 percent of total assets and 7.4 percent of total loans as of December 31, 2016. The majority of the activities were targeted towards community services that primarily serve the needs of LMI individuals. Of the 17 CD loans, 8 totaling \$9.0 million were used to create affordable housing in the AA. These loans demonstrate the bank's responsiveness to this CD need identified by a community contact. The following table illustrates the bank's CD lending activity by year and CD purpose.

Table 11 – Community Development Lending

| Activity Year | Affordable Housing | | Community Services | | Economic Development | | Revitalize or Stabilize | | Neighborhood Stabilization | | Totals | |
|---------------|--------------------|--------------|--------------------|---------------|----------------------|----------|-------------------------|--------------|----------------------------|----------|-----------|---------------|
| | # | \$(000s) | # | \$(000s) | # | \$(000s) | # | \$(000s) | # | \$(000s) | # | \$(000s) |
| 2014 | 0 | 0 | 3 | 8,300 | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 8,300 |
| 2015 | 4 | 3,099 | 2 | 1,754 | 0 | 0 | 0 | 0 | 0 | 0 | 6 | 4,853 |
| 2016 | 4 | 5,900 | 2 | 7,800 | 0 | 0 | 1 | 1,850 | 0 | 0 | 7 | 15,550 |
| YTD 2017 | 0 | 0 | 1 | 75 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 75 |
| Total | 8 | 8,999 | 8 | 17,929 | 0 | 0 | 1 | 1,850 | 0 | 0 | 17 | 28,778 |

Source: Bank Records

CD loans were not evaluated at the previous evaluation given that the bank is being evaluated as Intermediate Small Institution for the first time at the current evaluation.

The following are notable examples of the bank's CD loans made during the review period:

- VRB originated a \$2.6 million loan to support the construction of a 20-unit affordable housing project located in a moderate-income CT. The new houses will be constructed after the buyers are pre-approved for United States Department of Agriculture (USDA) subsidized term loans, such as the 502 Direct Program and the 502 Government Guaranteed Program that had LMI as one of the underwriting criteria.
- The bank originated a \$1.0 million loan to support the purchase of LMI properties that qualify for the Section 8 Tenant-Based Assistance Housing Choice Voucher Program.
- The bank originated an approximately \$1.9 million loan to support the construction of a 140-space mobile home park. The mobile homes are in a moderate-income CT for senior citizens, which helped to attract new and retain existing residents.

Qualified Investments

VRB made 44 qualified investments totaling approximately \$13.2 million. This total includes qualified equity investments of approximately \$13.0 million and donations of \$155,930. This dollar amount of equity investments equates to 2.3 percent of total assets, 26.2 percent of total equity capital, and 14.0 percent of total securities as of December 31, 2016.

The total qualified investments includes 2 CD investments totaling \$5.5 million for low-income housing tax credit projects that directly benefited the AA and a \$7.5 million investment for a low-income housing tax credit project outside the AA. As the bank has been responsive to the CD needs of its AA, examiners considered this investment under the CD Test. Also, the bank made 41 donations totaling approximately \$155,930.

Of the total dollar amount of qualified investments, 97.6 percent benefited efforts to support affordable housing in the bank's AA. These investments demonstrate the bank's responsiveness to affordable housing needs, which is an identified CD need. CD investments were not evaluated at the previous evaluation; therefore, no investments are included as prior-period investments. The following table illustrates the bank's CD investments by year and CD purpose.

| Activity Year | Affordable Housing | | Community Services | | Economic Development | | Revitalize or Stabilize | | Neighborhood Stabilization | | Totals | |
|------------------------------|--------------------|--------------|--------------------|------------|----------------------|-----------|-------------------------|----------|----------------------------|----------|-----------|--------------|
| | # | \$(000s) | # | \$(000s) | # | \$(000s) | # | \$(000s) | # | \$(000s) | # | \$(000s) |
| 2014 | 1 | 3,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 3,000 |
| 2015 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2016 | 1 | 2,500 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 2,500 |
| YTD 2017 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Subtotal | 2 | 5,500 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 5,500 |
| Qualified Grants & Donations | 7 | 22 | 24 | 108 | 7 | 23 | 3 | 3 | 0 | 0 | 41 | 156 |
| Total | 9 | 5,522 | 24 | 108 | 7 | 23 | 3 | 3 | 0 | 0 | 43 | 5,656 |

Source: Bank Records

The following are notable examples of qualified donations made during the review period:

- VRB made donations totaling approximately \$49,000 to a non-profit organization with a mission to support medical needs for seriously ill LMI individuals in Bakersfield.
- The bank made donations totaling \$22,500 to a non-profit organization located in the AA that supports affordable housing and provides community services to LMI individuals.
- A total of approximately \$23,000 was donated to a non-profit organization supporting small businesses to fund seminars and training to help small business owners get started with their business.

Community Development Services

During the evaluation period, 11 bank employees provided 58 instances of financial expertise or technical assistance to 18 CD-related organizations in the AA for a total of 2,271 hours. These include 11 instances (462 hours) in 2014, 15 instances (711 hours) in 2015, 16 instances (859 hours) in 2016, and 16 instances (239 hours) in YTD 2017. CD services were not evaluated at the previous evaluation.

The majority of the activities were targeted towards community services that primarily serve the needs of LMI individuals. The percentage of employees providing financial expertise or technical assistance is 13.8 percent of the total 80 full-time employees. The majority of the employees serve on a qualified non-profit boards or committees using their financial expertise. For the quantitative factors of CD services, more weight was placed on the number of instances rather than total hours. The bank's CD services include four instances each year that serve a broader statewide area which includes the AA. As the bank has been responsive to the CD needs of its AA, examiners considered these services under the CD Test. The following table illustrates the instances of CD services provided by year and CD purpose.

| Table 13 – Community Development Services | | | | | | |
|--|---------------------------|---------------------------|-----------------------------|--------------------------------|-----------------------------------|---------------|
| Activity Year | Affordable Housing | Community Services | Economic Development | Revitalize or Stabilize | Neighborhood Stabilization | Totals |
| | # | # | # | # | # | # |
| 2014 | 0 | 7 | 2 | 2 | 0 | 11 |
| 2015 | 1 | 9 | 2 | 3 | 0 | 15 |
| 2016 | 1 | 10 | 2 | 3 | 0 | 16 |
| YTD 2017 | 1 | 10 | 2 | 3 | 0 | 16 |
| Total | 3 | 36 | 8 | 11 | 0 | 58 |

Source: Bank Records

The following are notable examples of CD services provided during the review period:

- A VRB Board member served as the chairman of the board for an organization that stimulates economic development and create/retain jobs in the region by helping small businesses obtain financing in the AA.
- A bank officer served as the treasurer and Executive Committee member for a non-profit organization that assists residents in the AA's low-income public housing and low-income families in achieving self-sufficiency by helping them to overcome barriers like lack of education, little or no job experience or training, poor self-esteem, and no positive role models.
- A Board member of VRB served as the Capital Campaign Committee member for a non-profit organization which is the only hospice facility in the AA. Medicare and Medi-Cal have special hospice benefits that relieve many patients and families of virtually all their healthcare payment concerns. Social workers are available to conduct financial assessments and to assist patients with financial issues. The non-profit organization accepts hospice-eligible patients regardless of their ability to pay.

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.

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.