

PUBLIC DISCLOSURE

August 6, 2024

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First State Bank of the Southeast, Inc.
Certificate Number: 2710

1820 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 (AA), including low- and moderate-income (LMI) neighborhoods, in a manner consistent with its resources and capabilities.

The Lending Test is rated Satisfactory.

- The loan-to-deposit (LTD) ratio is more than reasonable given the institution's size, financial condition, and the AAs credit needs.
- A majority of home mortgage 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 has not received any CRA-related complaints since the prior evaluation; therefore, the criterion did not affect the Lending Test rating.

The Community Development Test is rated Satisfactory.

The institution's community development (CD) performance demonstrates adequate responsiveness to CD needs in its AAs through CD loans, qualified investments, and CD services, as appropriate, considering the institution's capacity and the need and availability of such opportunities for CD in the institution's AAs.

DESCRIPTION OF INSTITUTION

First State Bank of the Southeast, Inc. (FSBS) is a full-service community bank headquartered in Middlesboro, Kentucky, and wholly owned by First State Bancshares, a one-bank holding company also located in Middlesboro, Kentucky. The institution received an overall "Satisfactory" rating at the prior FDIC Performance Evaluation, dated November 4, 2021, based on Interagency Intermediate Small Institution Examination Procedures.

FSBS operates seven full-service branches, including the main office, in the southeastern part of Kentucky and one full-service branch in the northeastern part of Tennessee. Since the prior evaluation, FSBS closed one branch in Fayette County, Kentucky, on July 15, 2022. No merger or acquisition activity has occurred since the prior evaluation.

FSBS 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, and money market accounts. Credit products include home mortgage, commercial, construction, and consumer loans. FSBS's primarily focuses on home mortgage lending and commercial lending.

Since the prior evaluation, FSBS implemented a broker relationship to offer several government loan programs, such as Federal Housing Administration and United States Department of Agriculture's Rural Housing Services. In addition, FSBS facilitates the origination of home

mortgage loans on the secondary market. In 2023, FSBS facilitated the origination of 16 secondary market loans totaling \$3.3 million and 15 loans totaling \$2.8 million in 2022. Since the institution does not make the credit decision on these loans, the institution does not report these on the Home Mortgage Disclosure Act (HMDA) Loan Application Register (LAR). Alternate delivery systems include telephone, mobile, and online banking, and cash management services for businesses. FSBS operates nine institution-owned automated teller machines. FSBS’s hours of operations and product offerings are consistent throughout the AAs.

As of June 30, 2024, FSBS’s assets totaled approximately \$415.2 million, including total loans of \$353.6 million, and total securities of \$22.5 million. Deposits totaled \$359.5 million. The following table illustrates the distribution of the loan portfolio.

Loan Portfolio Distribution as of 06/30/2024		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	36,977	10.5
Secured by Farmland	3,012	0.8
Secured by 1-4 Family Residential Properties	142,171	40.2
Secured by Multifamily (5 or more) Residential Properties	14,234	4.0
Secured by Nonfarm Nonresidential Properties	107,735	30.5
Total Real Estate Loans	304,129	86.0
Commercial and Industrial Loans	42,208	11.9
Consumer Loans	6,244	1.8
Other Loans	1,493	.4
Less: Unearned Income	(492)	(.1)
Total Loans	353,582	100.0
<i>Source: Call Report. Due to rounding, totals may not equal 100.0%</i>		

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

DESCRIPTION OF ASSESSMENT AREAS

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

This evaluation will include two rated areas: State of Kentucky and the State of Tennessee. The AAs conform to CRA requirements, consists of contiguous whole geographies in which the institution 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 institution’s performance in each AA, with additional demographic information for each.

Description of Assessment Areas			
Assessment Area	Counties in Assessment Area	# of CT	# of Branches
Kentucky Non-MSA	Bell, Laurel, and Whitley	37	6
Lexington MSA	Fayette	82	1
Tennessee Non-MSA	Claiborne	9	1
<i>Source: Institution Data</i>			

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated November 4, 2021, to the current evaluation dated August 6, 2024. Examiners used the Interagency Intermediate Small Institution Examination Procedures to evaluate FSBS's CRA performance. These procedures include two tests: the Lending Test and the CD Test. 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 CD Test to obtain an overall “Satisfactory” rating.

Examiners conducted a full-scope review of all three AAs and most weight was placed on performance in the State of Kentucky as it contains the largest portion of the institution’s loans, deposits, and branches during the evaluation period. Within the State of Kentucky, the institution conducts most of its business in the Kentucky Non-MSA AA; therefore, this AA received the greatest weight in assigning the overall rating.

Activities Reviewed

Based on the June 30, 2024, Call Report data, FSBS’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 88.3 percent of FSBS’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 greater weight on home mortgage lending performance due to loan volume during the evaluation period.

This evaluation considered all home mortgage loans reported on the institution’s 2021, 2022, and 2023, HMDA LARs. FSBS originated 167 home mortgage loans totaling \$36.9 million in 2021; 164 loans totaling \$43.4 million in 2022; and 88 loans totaling \$16.5 million in 2023. Performance was consistent throughout the evaluation period for all three years; therefore, examiners only presented 2023 data in the Geographic Distribution and Borrower Profile analyses. Examiners compared the institution’s performance to 2023 HMDA aggregate data and 2020 U.S. Census Data. Aggregate data is considered a better indicator of market demand and lending opportunities.

FSBS is not required to collect or report small business data and has elected not to do so. Examiners used institution records to identify and analyze 2023 small business lending activities. The institution originated or renewed 70 small business loans totaling \$16.3 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 CD Test, institution management provided data on CD loans; qualified investments, including grants and donations; and CD services since the prior evaluation.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Overall, FSBS 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 FSBS was evaluated are provided in this section. Refer to the separate analyses within each AA for more details of the institution’s performance.

LTD Ratio

The LTD ratio is more than reasonable given the institution’s size, financial condition, and AAs credit needs. The LTD ratio, calculated from the Call Report data, averaged 97.4 percent over the past 11 calendar quarters from December 31, 2021, to June 30, 2024. The LTD ratio ranged from a high of 102.9 percent on June 30, 2023, to a low of 90.0 percent on December 31, 2021. Examiners selected comparable institutions based on their asset size, loan portfolio distribution, and geographic location. As reflected in the following table, FSBS’s ratio was higher than all the similarly situated institutions (SSIs).

LTD Ratio Comparison		
Institution	Total Assets as of 06/30/2024 (\$000s)	Average Net LTD Ratio (%)
FSBS	415,207	97.4
SSI #1	547,039	90.0
SSI #2	508,786	91.0
SSI #3	366,211	84.4
SSI #4	493,001	53.9
<i>Source: Call Report Data 12/31/2021 – 06/30/2024</i>		

Assessment Area Concentration

FSBS made a majority of home mortgage and small business loans, by number and dollar volume, within the AAs, except for the dollar amount of home mortgage loans in 2021. The following table illustrates the lending activity both inside and outside of the AA.

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										
2021	109	65.3	58	34.7	167	16,756	45.4	20,147	54.6	36,903
2022	104	63.4	60	36.6	164	23,350	53.8	20,070	46.2	43,420
2023	52	59.1	36	40.9	88	8,821	53.5	7,677	46.5	16,498
Total	265	63.2	154	36.8	419	48,927	50.5	47,894	49.5	96,821
Small Business	47	67.1	23	32.9	70	10,265	63.0	6,030	37.0	16,295

Source: Institution Data. Due to rounding, totals may not equal 100.0%.

Geographic Distribution

The geographic distribution of home mortgage and small business loans reflects reasonable dispersion throughout the Kentucky Non-MSA and Lexington MSA AAs. However, the Tennessee Non-MSAs AA geographic distribution of home mortgage loans and small business loans reflects poor dispersion among individuals and businesses in LMI tracts. The Kentucky Non-MSA received the greatest weight. Examiners focused on the percentage by number of loans in LMI census tracts. Refer to subsequent sections of this evaluation for further discussion of FSBS’s performance under this criterion.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among individuals of different income levels, including LMI borrowers, and businesses of different revenue levels in the Kentucky Non-MSA AA and Lexington MSA AA. In the Tennessee Non-MSA AA, the distribution of borrowers reflects poor penetration among home loans to individuals of different income levels for 2023; however, small business loans exceeded the number of businesses of different revenue levels. Refer to subsequent sections of this evaluation for further discussion of FSBS’s performance under this criterion.

Response to Complaints

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

COMMUNITY DEVELOPMENT TEST

FSBS demonstrates adequate responsiveness to the CD needs of its AAs through CD loans; qualified investments, including grants and donations; and CD 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 Non-MSA and Lexington Non-MSA AAs, but not for the Tennessee Non-MSA. The Kentucky Non-MSA AA received the greatest weight overall. The Tennessee Non-MSA AA is the only weighted area in Tennessee. Refer to subsequent sections of this evaluation for further discussion of FSBS’s performance under this criterion.

Community Development Loans

FSBS originated 22 CD loans totaling approximately \$27.8 million inside the AA’s during the evaluation period.

Considering CD loans extended in the AAs, the institution’s level of lending activity represents 8.7 percent of total assets and 10.0 percent of total loans. FSBS’s lending performance is reasonable compared to that of the four SSIs, whose CD loans averaged 8.7 percent and ranged from 0.4 to 23.9 percent of total assets. Since the institution sufficiently met the credit needs of the AAs, examiners qualified 3 CD loans totaling approximately \$5.9 million that benefited an area outside the AAs but extended within the broader statewide or regional area. The following table illustrates the institution’s overall lending activity by AA and purpose.

CD Lending by AA										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Kentucky Non-MSA	4	3,293	1	399	6	8,642	8	10,653	19	22,987
Lexington MSA	0	-	0	-	1	4,516	0	-	1	4,516
Tennessee Non-MSA	0	-	0	-	0	-	2	342	2	342
Total in AAs	4	3,293	1	399	7	13,158	10	10,995	22	27,845
Statewide or Regional Activities	0	-	0	-	3	5,888	0	-	3	5,888
Total	4	3,293	1	399	10	19,046	10	10,995	25	33,733

Source: Institution Data 11/4/21 to 8/6/24

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

- In 2023, FSBS originated a \$2 million dollar loan for the acquisition of a drug and alcohol abuse treatment center, as well as the construction of two additional facilities in in Morehead and Paducah, Kentucky. This created many jobs for LMI individuals in the area, an identified need in the community.
- In 2024, FSBS originated a \$3.8 million loan for the purchase of two convenience stores in Somerset, Kentucky. This allows for the creation of jobs for LMI individuals, an identified need in the area, as well as providing goods and services for the area.

Qualified Investments

FSBS made one qualified investment totaling \$14,000, and 49 donations totaling approximately \$22,000 within the AAs. This performance reflects a significant decrease from the prior evaluation where the institution made 24 investments totaling \$330,000, including one investment totaling \$186,000 and 23 donations totaling \$144,000. In addition, this performance represents 0.01 percent of total assets and 0.2 percent of total securities, which trailed SSIs whose performance ranged from

0.10 to 3.7 percent of total assets and 0.9 to 12.3 percent of total securities. Due to the institution poor performance in meeting the investment needs of its AAs, examiners did not consider qualified investments within the broader statewide or regional area. The following table illustrates the institution’s overall investment activity by AA and purpose. Refer to the separate discussions for each AA for additional details.

CD Investments by AA										
AA	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Kentucky Non-MSA	2	2	12	4	29	14	2	1	45	21
Lexington MSA	0	-	0	-	0	-	0	-	0	-
Tennessee Non-MSA	1	14	4	1	0	-	0	-	5	15
Total in AAs	3	16	16	5	29	14	2	1	50	36

Source: Institution Data 11/4/21 to 8/6/24

Community Development Services

During the evaluation period, FSBS provided 54 instances of financial expertise or technical assistance to numerous CD-related organizations throughout the AAs. This performance is adequate compared to the four SSIs, whose CD services ranged from 20 to 58 instances. The following table illustrates FSBS’s CD services by purpose within the AA. The number represents the number of instances of service. Refer to the subsequent discussions for each AA for additional details.

CD Services by AA					
Assessment Area	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
Kentucky Non-MSA	0	35	0	0	35
Lexington MSA	0	0	0	0	0
Tennessee Non-MSA	0	15	4	0	19
Total	0	50	4	0	54

Source: Institution Data

The following is a notable example of services in the AA:

- FSBS assisted eight individuals within the Kentucky Non-MSA AA in obtaining grants through the Carol M Peterson Housing Fund through the Federal Home Loan Bank of Cincinnati in 2023, totaling approximately \$107,000.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

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

STATE OF KENTUCKY – Full-Scope Review

CRA RATING FOR THE STATE OF KENTUCKY: SATISFACTORY

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE STATE OF KENTUCKY

FSBS operates seven branches in the Kentucky rated area. The institution originated 83.6 percent of home mortgage and 97.6 percent of small business loans within the AA. In addition, FSBS has 95.5 percent of its total deposits within the AA.

SCOPE OF EVALUATION – STATE OF KENTUCKY

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

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE STATE OF KENTUCKY

LENDING TEST

FSBS demonstrates reasonable performance under the Lending Test. The Kentucky Non-MSA AA primarily supports this conclusion in the Kentucky rated area. The following is a discussion of the overall conclusions for each of the performance criteria under which FSBS was evaluated. Refer to the separate analysis within each AA for more details of the institution's performance.

Geographic Distribution

The geographic distribution of home mortgage and small business loans reflects a reasonable dispersion throughout the AA. 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 in the AAs. The institution's performance in the Kentucky

Non-MSA AA primarily supports this conclusion as it received the greatest 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

FSBS demonstrates adequate responsiveness to the CD needs in this rated area through CD loans, qualified investments, including donations, and CD services. Examiners considered the institution’s capacity, need, and availability of such opportunities, as well as the performance of SSIs. A majority of FSBS’s CD activities occurred in the Kentucky Non-MSA. Refer to subsequent sections of this evaluation for specific AA performance.

Community Development Loans

Within the State of Kentucky rated area, the institution originated 20 CD loans for a total of approximately \$27.5 million. These loans benefitted all CD categories as reflected in the following table.

CD Lending by AA										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Kentucky Non-MSA	4	3,293	1	399	6	8,642	8	10,653	19	22,987
Lexington MSA	0	-	0	-	1	4,516	0	-	1	4,516
Totals	4	3,293	1	399	7	13,159	8	10,652	20	27,503

Source: Institution Data

Qualified Investments

FSBS made 45 donations totaling \$21,000 to organizations that assist LMI individuals, families, and small businesses serving the AAs. The following table illustrates CD investments by AA and purpose.

CD Investments by AA										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Kentucky Non-MSA	2	2	12	4	29	14	2	1	45	21
Lexington MSA	0	-	0	-	0	-	0	-	0	-
Total	2	2	12	4	29	14	2	1	45	21

Source: Institution Data

Community Development Services

During the evaluation period, institution personnel provided 35 instances of financial expertise or technical assistance to community related organizations. The following table illustrates the CD services by AA and purpose.

CD Services by AA		
Assessment Area	Community Services	Totals
Kentucky Non-MSA	35	35
Lexington MSA	0	0
Total	35	35

KENTUCKY NON-MSA AA – Full- Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE KENTUCKY NON-MSA

Examiners performed a full-scope review of FSBS’s performance in this AA, which includes Bell, Laurel, and Whitley Counties. The institution operates six branch locations within this AA, which are all located in middle income census tracts. The institution originated 53.4 percent of home mortgage and 61.7 percent of small business loans within the AA. In addition, FSBS has 89.1 percent of its total deposits within the AA.

Economic and Demographic Data

Based on the 2020 U.S. Census Data, the Kentucky Non-MSA consists of 37 census tracts with the following designations: 1 low-, 13 moderate-, 17 middle-, and 6 upper-income. All middle-income census tracts within the AA are designated as distressed or underserved. The following table illustrates select demographic characteristics of the AA.

Demographic Information of the Assessment Area - Kentucky Non-MSA					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	37	2.7	35.1	45.9	16.2
Population by Geography	123,422	3.6	31.5	52.1	12.8
Housing Units by Geography	54,664	3.5	35.0	49.2	12.3
Owner-Occupied Units by Geography	31,284	2.4	34.8	49.0	13.9
Occupied Rental Units by Geography	14,570	5.0	35.5	49.5	10.1
Vacant Units by Geography	8,810	5.1	35.1	49.5	10.4
Businesses by Geography	9,558	1.9	26.7	57.4	14.0
Farms by Geography	316	0.3	25.6	63.3	10.8
Family Distribution by Income Level	32,188	27.5	18.6	17.8	36.0
Household Distribution by Income Level	45,854	30.1	16.2	14.7	39.1
Median Family Income Non-MSAs - KY		\$54,327	Median Housing Value		\$100,698
Families Below Poverty Level		19.7%	Median Gross Rent		\$627

Source: 2020 U.S. Census and 2023 D&B Data. Due to rounding, totals may not equal 100.0%.

Of the total housing units within the AA, 57.2 percent are owner-occupied, 26.7 percent are occupied-rental units, and 16.1 percent are vacant. The Geographic Distribution criterion compares the institution’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 Median Family Income (MFI) updated ranges to analyze home mortgage lending under the Borrower Profile criterion. The following table outlines the ranges for the AA for 2023.

MFI Ranges - Kentucky Non-MSA				
MFI	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2023 (\$64,900)	<\$32,450	\$32,450 to <\$51,920	\$51,920 to <\$77,880	≥\$77,880
<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. Of the businesses operating in the AA, approximately 85.6 percent had GARs of \$1.0 million or less, 3.5 percent had GARs of over \$1.0 million, and 10.9 percent had unknown revenues. In addition, 89.0 percent operate from a single location and 64.1 percent have four or fewer employees. The services industry represents the largest portion of businesses at 34.0 percent, followed by non-classifiable establishments at 18.8 percent, and retail trade at 13.6 percent.

According to the 2023 U.S. Bureau of Labor Statistics, the Kentucky Non-MSA’s annualized unemployment rates trended higher than both the state and national rates throughout the evaluation period, except for Whitley County which only trended higher than the national rate.

Competition

FSBS operates in a highly 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, 15 financial institutions operate 50 full-service branches within the AA. FSBS has 13.8 percent of the deposit market share in the AA.

Aggregate HMDA data also provides insight into competition within the AA. Review of the 2023 aggregate data reaffirms the level of competition with 187 lenders reporting 4,147 home mortgage loans originated or purchased within the AA.

Although FSBS is not subject to CRA data collection and reporting requirements for small business loans, market share data provides a measurement of the level of competition for these loans among institutions, credit unions, and non-depository lenders in the AA. Aggregate small business lending data for 2022 reflects 62 lenders reported 1,866 business loans in the AA.

Community Contact

As part of the evaluation process, examiners contact third parties active in the AA to assist in identifying the credit and CD needs and opportunities. This information helps determine whether local financial institutions are responsive to those needs. Examiners reviewed a recent contact with an affordable housing organization representative in the AA. The contact stated that affordable housing is the primary credit need of the area and that the critical shortage of affordable homes is at an all-time high. The contact attributes the shortage to lack of skilled labor force and the high costs of home construction and associated maintenance.

Credit and Community Development Needs and Opportunities

Considering information from the community contact, institution 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 CD need for the AA.

CONCLUSIONS ON PERFORMANCE CRITERIA IN KENTUCKY NON-MSA

LENDING TEST

FSBS demonstrated reasonable performance under the Lending Test within this AA. The institution's performance in the Geographic Distribution and Borrower Profile criteria primarily support this conclusion.

Geographic Distribution

Overall, the geographic distribution of loans reflects reasonable dispersion throughout the AA. FSBS's performance is the result of excellent distribution of home mortgage and reasonable distribution of small business lending. Examiners focused on the percentage of the number of loans in LMI tracts.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects excellent dispersion throughout the AA. Examiners focused on the comparison to aggregate data. As shown in the following table, FSBS's 2023 lending performance in LMI tracts exceeded aggregate performance.

Geographic Distribution of Home Mortgage Loan - Kentucky Non-MSA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low	2.4	3.1	2	5.0	324	4.9
Moderate	34.8	25.8	14	35.0	2,582	38.6
Middle	49.0	53.9	19	47.5	2,715	40.6
Upper	13.9	17.2	5	12.5	1,061	15.9
Totals	100.0	100.0	40	100.0	6,683	100.0

Source: 2020 U.S. Census; Institution Data; and 2023 HMDA Aggregate Data. Due to rounding, totals may not equal 100.0%.

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion throughout the AA. Examiners focused the comparison to the percentage of small businesses within each tract income level. As shown in the following table, FSBS’s universe of small business lending reflects excellent performance in low-income tracts compared to the demographic and trails performance by 6.2 percentage points in the moderate-income tracts.

Geographic Distribution of Small Business Loans - Kentucky Non-MSA					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	1.9	2	5.1	543	7.0
Moderate	26.7	8	20.5	1,601	20.8
Middle	57.4	23	59.0	4,549	59.0
Upper	14.0	6	15.4	1,018	13.2
Total	100.0	39	100.0	7,710	100.0
<i>Source: 2023 D&B Data; Institution Data. Due to rounding, totals may not equal 100.0%</i>					

Borrower Profile

The distribution of loans reflects reasonable penetration among individuals 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 loans reflects poor penetration among individuals of different income levels, including LMI individuals. FSBS’s lending performance to LMI borrowers is less than aggregate performance and demographic data. However, low-income families in the AA with below poverty incomes equaled 19.7 percent, and this population is considered when evaluating the institution’s lending in comparison to the demographic data. Having an income below poverty can make it more difficult to afford a mortgage and maintain a home. Therefore, the aggregate data comparison is given more weight and provides a better illustration of loan demand in that income segment.

Distribution of Home Mortgage Loans by Borrower Income Level - Kentucky Non-MSA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	27.5	6.7	1	2.5	32	0.5
Moderate	18.6	18.5	5	12.5	340	5.1
Middle	17.8	26.3	6	15.0	392	5.9
Upper	36.0	33.1	19	47.5	4,500	67.3
Not Available	0.0	15.4	9	22.5	1,419	21.2
Total	100.0	100.0	40	100.0	6,683	100.0
<i>Source: 2020 U.S. Census; Institution Data, and 2023 HMDA Aggregate Data. 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. FSBS’s 2023 lending performance to businesses with GARs of \$1 million or less is slightly less than the percentage of businesses (3.5 percentage points) in that revenue category.

Distribution of Small Business Loans by Gross Annual Revenue Category - Kentucky Non-MSA					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	85.6	32	82.1	4,883	63.3
>\$1,000,000	3.5	7	17.9	2,827	36.7
Revenue Not Available	10.9	0	0.0	0	0.0
Total	100.0	39	100.0	7,710	100.0
<i>Source: 2022 & 2023 D&B Data; Institution Data. Due to rounding, totals may not equal 100.0%</i>					

COMMUNITY DEVELOPMENT TEST

FSBS demonstrated adequate responsiveness to the CD needs of the Kentucky Non-MSA through CD loans; investments, including qualified donations; and CD services. Examiners considered the institution’s capacity, and the need and availability of such opportunities.

Community Development Loans

FSBS originated 19 CD loans totaling approximately \$23.0 million inside the AA during the evaluation period, exceeding the prior evaluations total dollar amount of \$15.5 million and below the total number of CD loans, 26. The following table illustrates the institution’s CD loans by year and purpose.

CD Lending - Kentucky Non-MSA AA										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2022	3	1,776	1	399	3	4,499	3	5,312	10	11,986
2023	0	-	0	-	2	3,481	4	5,299	6	8,780
YTD 2024*	1	1,517	0	-	1	662	1	42	3	2,221
Total	4	3,293	1	399	6	8,642	8	10,653	19	22,987
<i>Source: Institution Data. * YTD 2024 – 1/1/2024 to 8/6/2024</i>										

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

- In 2022, FSBS refinanced a \$1.9 million commercial building located in a distressed middle-income tract (poverty) used by an adult healthcare agency and home health agency providing jobs and healthcare services.

Qualified Investments

FSBS did not make any qualified investments during the review period; however, the institution was active in making qualified donations. The institution made 45 donations totaling approximately \$21,000 in the AA. This activity an increase by number and a decrease by dollar amount since the prior evaluation where the bank made 22 donations totaling \$142,000 and 1 prior investment totaling \$186,000. The following table illustrates the qualified donations by purpose.

Qualified Investments - Kentucky Non-MSA AA										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Qualified Donations*	2	2	12	4	29	14	2	1	45	21
<i>Source: Institution Data. *11/5/2021 to 8/6/2024</i>										

Community Development Services

During the evaluation period, institution officers and employees provided 35 instances of financial expertise or technical assistance for CD purposes in the AA. This activity is a decrease from the prior evaluation where the bank provided 92 CD Services. The following table illustrates the institution’s CD services by year and purpose.

CD Services - Kentucky Non-MSA AA		
Year	Community Services	Total
	#	#
2021 (Partial)	3	3
2022	21	21
2023	5	5
2024 (YTD)	6	6
Total	35	35
<i>Source: Institution Data</i>		

LEXINGTON MSA AA – Full Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN LEXINGTON MSA

Examiners performed a full-scope review of FSBS’s performance in Lexington MSA AA, which includes Fayette County. The institution operates one branch location within this AA, which is in a moderate-income census tract. The institution originated 30.2 percent of home mortgage and 35.9 percent of small business loans within the AA. In addition, FSBS has 6.4 percent of its total deposits within the AA.

Economic and Demographic Data

Based on the 2020 U.S. Census data, the Lexington MSA consists of 82 census tracts with the following designations: 7 low-, 19 moderate-, 28 middle-, 25 upper-income, and 3 tracts with no income category assigned. The following table provides additional demographic data.

Demographic Information of the Assessment Area – Lexington MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	82	8.5	23.2	34.1	30.5	3.7
Population by Geography	322,570	7.3	23.0	34.0	32.8	2.9
Housing Units by Geography	142,813	7.6	22.9	34.6	32.1	2.7
Owner-Occupied Units by Geography	71,547	3.5	17.6	35.7	42.6	0.6
Occupied Rental Units by Geography	59,379	11.4	29.0	33.9	20.7	5.1
Vacant Units by Geography	11,887	14.0	24.6	31.7	26.3	3.4
Businesses by Geography	47,892	4.8	17.5	33.0	37.3	7.4
Farms by Geography	1,625	3.4	13.0	40.4	38.3	4.9
Family Distribution by Income Level	74,500	22.4	16.2	19.2	42.2	0.0
Household Distribution by Income Level	130,926	25.3	16.4	17.2	41.1	0.0
Median Family Income MSA - 30460 Lexington-Fayette, KY MSA		\$78,944	Median Housing Value			\$209,900
Families Below Poverty Level		9.9%	Median Gross Rent			\$921

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.*

Of the total housing units within the AA, 50.1 percent are owner-occupied, 41.6 percent are occupied-rental units, and 8.3 percent are vacant. The Geographic Distribution criterion compares the institution’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 ranges to analyze home mortgage lending under the Borrower Profile criterion. The following table outlines the range for the AA in 2023.

MFI Ranges – Lexington MSA AA				
MFI	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2023 (\$93,400)	<\$46,700	\$46,700 to <\$74,720	\$74,720 to <\$112,080	≥\$112,080

Source: FFIEC

Examiners compare the distribution of lending by the borrower’s GAR to analyze small business lending under the Borrower Profile criterion. Of the businesses operating in the AA, approximately 90.1 percent had GARs of \$1.0 million or less, 2.7 percent had GARs of over \$1.0 million, and 7.2 percent had unknown revenues. In addition, 92.7 percent operate from a single location and 62.1 percent have four or fewer employees. The services industry represents the largest portion of businesses at 36.3 percent, followed by non-classifiable establishments at 24.6 percent, and retail trade at 13.0 percent.

According to the U.S Bureau of Labor Statistics, the Lexington MSA AA annualized unemployment rates trended lower than the state and national averages.

Competition

FSBS 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, 37 financial institutions operate 177 full-service branches within the AA. Of these institutions, FSBS has less than 1 percent of the market share of total deposits.

Aggregate HMDA data also provides insight into competition within the AA. Review of the 2023 aggregate data reaffirms the level of competition with 344 lenders reporting 9,777 home mortgage loans originated or purchased within the AA.

FSBS 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 data. The aggregate data, however, reflects the level of demand for small business loans. Aggregate small business lending data for 2022 reflects 89 lenders reported 7,962 business loans in the AA.

Community Contact

Examiners reviewed a recent contact with a representative from a local organization that promotes economic development, job creation, and overall business growth within the City of Lexington and its neighboring communities. The contact stated that employers continue to struggle to find and retain employees within and outside the city to fill open positions. The contact also stated that the housing market in Lexington is limited, and home sales have decreased due increased housing prices and interest rates. The contact stated that affordable housing continues to be a credit need in the area.

Credit and Community Development Needs and Opportunities

Considering information from the community contacts, institution 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 to be the primary CD need of the AA.

CONCLUSIONS ON PERFORMANCE CRITERIA IN LEXINGTON MSA

LENDING TEST

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

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the AA. Home mortgage loans were given the greatest weight due to the volume. Examiners focused on the percentage by number of loans in LMI census tracts.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the AA. Examiners focused on the comparison to aggregate data. As shown in the following table, FSBS’s did not make any home mortgage loans in the low-income tracts; however, in the moderate-income tracts, the institution’s performance is reasonable when considering the low volume of originations in the AA.

Geographic Distribution of Home Mortgage Loans – Lexington MSA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low	3.5	3.9	0	0.0	0	0.0
Moderate	17.6	15.7	2	50.0	357	57.6
Middle	35.7	38.8	2	50.0	263	42.4
Upper	42.6	40.8	0	0.0	0	0.0
Not Available	0.6	0.9	0	0.0	0	0.0
Total	100.0	100.0	4	100.0	619	100.0

Source: 2020 U.S. Census; Institution Data, 2023 HMDA Aggregate Data. Due to rounding, totals may not equal 100.0%.

Small Business Loans

The geographic distribution of small business loans reflects poor dispersion throughout the AA, because FSBS did not make any small business loans within the LMI tracts.

Geographic Distribution of Small Business Loans - Lexington MSA AA						
Tract Income Level	% of Businesses	#	%	\$(000s)	%	
Low	4.8	0	0.0	0	0.0	
Moderate	17.5	0	0.0	0	0.0	
Middle	33.0	1	20.0	40	1.7	
Upper	37.3	4	80.0	2,328	98.3	
Not Available	7.4	0	0.0	0	0.0	
Totals	100.0	5	100.0	2,368	100.0	

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

Borrower Profile

FSBS’s distribution of home mortgage and small business loans reflect 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 borrowers reflects reasonable penetration among individuals of different income levels, including LMI borrowers, when considering the low volume of originations in the AA. Examiners focused on the comparison to aggregate data.

Distribution of Home Mortgage Loans by Borrower Income Level - Lexington MSA AA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	22.4	8.1	1	25.0	135	21.8
Moderate	16.2	18.5	1	25.0	208	33.6
Middle	19.2	20.5	0	0.0	0	0.0
Upper	42.2	38.3	0	0.0	0	0.0
Not Available	0.0	14.7	2	50.0	276	44.6
Totals	100.0	100.0	4	100.0	619	100.0

Source: 2020 U.S. Census; Institution Data, 2023 HMDA Aggregate Data. Due to rounding, totals may not equal 100.0%

Small Business Loans

The distribution of borrowers reflects reasonable penetration among businesses of different sizes. FSBS’s lending performance to borrowers with GARs of \$1 million or less was comparable to 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.

Distribution of Small Business Loans by Gross Annual Revenue Category-Lexington MSA AA					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	90.1	4	80.0	1,648	69.6
>\$1,000,000	2.7	1	20.0	720	30.4
Revenue Not Available	7.2	0	0.0	0	0.0
Total	100.0	5	100.0	2,368	100.0

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

COMMUNITY DEVELOPMENT TEST

FSBS demonstrated adequate responsiveness to the CD needs of the Lexington MSA. Examiners considered the institution’s capacity and the need and availability of such opportunities.

Community Development Loans

FSBS originated one CD loan in 2022 within the AA totaling \$4.5 million during the evaluation period. At the prior exam, FSBS made two loans totaling \$1.8 million. Although the number of loans made in this area trails the prior evaluation, examiners consider the dollar amount reasonable.

Community Development Lending Lexington MSA AA				
Activity Year	Economic Development		Totals	
	#	\$(000s)	#	\$(000s)
2022	1	4,516	1	4,516
Total	1	4,516	1	4,516

Source: Institution Data.

Qualified Investments

FSBS did not make any qualified investments, including donations in the AA during the review period. This is consistent with the prior evaluation where the bank made one donation totaling approximately \$2,000. According to the community contact, the primary need of the area focuses

on housing and small business loans, therefore making it challenging for financial institutions to participate in investments within the AA.

Community Development Services

Institution officers and employees did not provide any financial expertise or technical assistance within this AA during the evaluation period compared to three CD services made at the prior evaluation.

STATE OF TENNESSEE – Full-Scope Review

CRA RATING FOR (RATED AREA #2): NEEDS TO IMPROVE

The Lending Test is rated: Needs to Improve

The Community Development Test is rated: Satisfactory

**DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE STATE OF
TENNESSEE**

Examiners performed a full-scope review of FSBS’s performance in the State of Tennessee, which is comprised of Claiborne County (Tennessee Non-MSA). The institution operates one full-service branch location within Claiborne County. The institution originated 16.4 percent of home mortgage and 2.4 percent of small business loans within the AA. In addition, FSBS has 4.5 percent of its total deposits within the AA.

Economic and Demographic Data

Based on the 2020 U.S Census data, the Tennessee Non-MSA consists of nine census tracts with the following designations: three moderate- and six middle-income. There are no low- or upper-income tracts within the AA. All the middle-income census tracts within the AA are designated as distressed or underserved. The following table provides additional demographic data.

Demographic Information of the Tennessee Non-MSA					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	9	0.0	33.3	66.7	0.0
Population by Geography	32,043	0.0	19.3	80.7	0.0
Housing Units by Geography	15,539	0.0	20.5	79.5	0.0
Owner-Occupied Units by Geography	9,608	0.0	21.5	78.5	0.0
Occupied Rental Units by Geography	3,953	0.0	18.6	81.4	0.0
Vacant Units by Geography	1,978	0.0	19.3	80.7	0.0
Businesses by Geography	1,786	0.0	14.1	85.9	0.0
Farms by Geography	76	0.0	22.4	77.6	0.0
Family Distribution by Income Level	8,750	25.6	18.5	21.9	33.9
Household Distribution by Income Level	13,561	30.3	16.5	18.4	34.8
Median Family Income Non-MSAs - TN		\$56,418	Median Housing Value		\$113,732
Families Below Poverty Level		16.2%	Median Gross Rent		\$646

Source: 2020 U.S. Census and 2023 D&B Data. Due to rounding, totals may not equal 100.0%.

Of the total housing units within the AA, 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 institution’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 ranges to analyze home mortgage lending under the Borrower Profile criterion. The following table outlines the ranges for the AA for 2023.

MFI Ranges – Tennessee Non-MSA				
MFI	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2023 (\$69,500)	<\$34,750	\$34,750 to <\$55,600	\$55,600 to <\$83,400	≥\$83,400

Source: FFIEC

Examiners compare the distribution of lending by the borrower’s GAR to analyze small business lending under the Borrower Profile criterion. Of the businesses operating in the AA, approximately 86.1 percent had GARs of \$1.0 million or less, 2.8 percent had GARs of over \$1.0 million, and 11.1 percent had unknown revenues. In addition, 88.8 percent operate from a single location and 62.4 percent have four or fewer employees. The services industry represents the largest portion of businesses at 33.0 percent, followed by non-classifiable establishments at 22.3 percent, and retail trade at 12.7 percent.

According to the 2023 U.S. Bureau of Labor Statistics, the Tennessee Non-MSA annualized unemployment rates trended lower than the state average and slightly above national average in 2023.

Competition

FSBS operates in a slightly competitive market for financial services when considering geographic size and population in the AA. According to FDIC Deposit Market Share data, as of June 20, 2023, 4 financial institutions operate 12 full-service branches within the AA. Of these institutions, FSBS has 1.8 percent of the market share of total deposits.

Aggregate HMDA data also provides insight into competition within the AA. Review of the 2023 aggregate data reaffirms the level of competition with 139 lenders reporting 963 home mortgage loans originated or purchased within the AA.

FSBS 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 data. The aggregate data, however, reflects the level of demand for small business loans. Aggregate small business lending data for 2022 reflects 39 lenders reported 332 business loans in the AA.

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 affect the economy and has greatly impacted the housing industry. The contact noted that 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, institution 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 CD need for the AA.

SCOPE OF EVALUATION IN THE STATE OF TENNESSEE

Examiners provide the least weight to FSBS's performance within the Tennessee Non-MSA given the minimal volume of loans, deposits, and branches of all the rated area. Refer to the overall scope of the evaluation for further details.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE STATE OF TENNESSEE

LENDING TEST

FSBS demonstrated poor performance under the Lending Test. Poor performance under Geographic Distribution and Borrower Profile supports this conclusion. Examiners placed more weight on home mortgage performance within the AA due to volume.

Geographic Distribution

The geographic distribution of loans reflects poor dispersion throughout the AA. FSBS's overall performance is the result of poor home mortgage and small business lending. The AA does not

include low-income census tracts; therefore, examiners focused on the percentage of the number of loans in moderate-income tracts.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects poor dispersion throughout the AA. Examiners focused on the comparison to aggregate data. FSBS originated one home mortgage loan in the moderate-income census tract, which trailed aggregate performance by 3.4 percentage points.

Geographic Distribution of Home Mortgage Loans - Tennessee Non-MSA AA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Moderate	21.5	15.9	1	12.5	190	12.5
Middle	78.5	84.1	7	87.5	1,330	87.5
Totals	100.0	100.0	8	100.0	1,519	100.0

Source: 2020 U.S. Census; Institution Data, 2023 HMDA Aggregate Data. Due to rounding, totals may not equal 100.0%.

Small Business Loans

The geographic distribution of small business loans reflects poor dispersion throughout the AA. FSBS's had no small business loans originated within the moderate-income census tracts for 2023.

Geographic Distribution of Small Business Loans - Tennessee Non-MSA AA					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate	14.1	0	0.0	0	0.0
Middle	85.9	3	100.0	187	100.0
Totals	100.0	3	100.0	187	100.0

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

Borrower Profile

The distribution of borrowers reflects poor penetration among individuals of different income levels. FSBS's poor performance in home mortgage lending supports this performance conclusion, despite the reasonable penetration of small business loans in the AA. 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 GARs of \$1 million or less.

Home Mortgage Loans

The distribution of borrowers reflects poor penetration among individuals of different income levels. Examiners focused on the comparison to aggregate data. In 2023, FSBS did not originate any home mortgage loans to low-income borrowers compared to aggregate performance of 5.2 percent. The institution originated one home loan to a moderate-income borrower, which was below aggregate performance by 5.2 percentage points.

Distribution of Home Mortgage Loans by Borrower Income Level - Tennessee Non-MSA AA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	25.6	5.2	0	0.0	0	0.0
Moderate	18.5	17.7	1	12.5	242	16.0
Middle	21.9	25.2	3	37.5	512	33.7
Upper	33.9	35.5	4	50.0	765	50.3
Not Available	0.0	16.5	0	0.0	0	0.0
Totals	100.0	100.0	8	100.0	1,519	100.0

Source: 2020 U.S. Census; Institution Data, 2023 HMDA Aggregate Data. Due to rounding, totals may not equal 100.0%.

Small Business Loans

The distribution of borrowers reflects reasonable penetration among businesses of different sizes after considering the limited origination volume in the AA. FSBS's lending performance to borrowers with GARs of \$1 million or less exceeded the percentage of businesses in that revenue category in 2023 by 13.9 percentage points.

Distribution of Small Business Loans by Gross Annual Revenue Category – Tennessee Non-MSA					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	86.1	3	100.0	187	100.0
>\$1,000,000	2.8	0	0.0	0	0.0
Revenue Not Available	11.1	0	0.0	0	0.0
Totals	100.0	3	100.0	187	100.0

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

COMMUNITY DEVELOPMENT TEST

FSBS demonstrated adequate responsiveness to the CD needs of the Tennessee Non-MSA through CD loans, qualified donations, and CD services. Examiners considered the institution's capacity, and the need and availability of such opportunities. As previously stated, minimal weight is given to this AA.

Community Development Loans

FSBS originated two CD loans totaling approximately \$342,000 during in the evaluation period in the AA. Each loan was used to revitalize or stabilize distressed or underserved tracts in the AA. This activity is a decrease from the prior evaluation in which the institution originated seven CD loans totaling \$2.8 million.

Community Development Lending Tennessee Non-MSA AA				
Activity Year	Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)
2021*	1	170	1	170
2022	1	172	1	172
Total	2	342	2	342
<i>Source: Institution Data. *-2021 – 11/5/2021 to 12/31/2021; YTD 2024 – 1/1/2024 to 8/6/2024</i>				

Qualified Investments

The institution made one qualified investment totaling approximately \$14,000 in 2022. FSBS also made four donations totaling approximately \$1,000 since the prior evaluation. This activity is an improvement from the prior evaluation in which the institution did not make any qualified investment in the AA.

Qualified Investments – Tennessee Non-MSA AA						
Activity Year	Affordable Housing		Community Services		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)
2022	1	14	0	-	1	14
Subtotal	1	14	0	-	1	14
Qualified Donations	0	-	4	1	4	1
Total	1	14	4	1	5	15
<i>Source: Institution Data. *-2021 – 11/5/2021 to 12/31/2021; YTD 2024 – 1/1/2024 to 8/6/2024</i>						

Community Development Services

Institution officers and employees provided a total of 19 CD Services during the evaluation period. Services were primarily provided for Community Services and four for Economic Development. This activity is comparable to the prior evaluation in which the institution provided 23 instances of CD services within the AA.

Community Development Services Tennessee Non-MSA AA			
Year	Community Services	Economic Development	Totals
	#	#	#
2021 (Partial)	2	1	3
2022	9	1	10
2023	2	1	3
2024 (YTD)	2	1	3
Total	15	4	19
<i>Source: Institution Data</i>			

A notable example of a service provided in this AA:

- In 2022, an employee of FSBS taught four different financial education courses to members of three different citizen centers. This service primarily benefits LMI individuals (Community Services).

APPENDICES

INTERMEDIATE SMALL INSTITUTION PERFORMANCE CRITERIA

Lending Test

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

- 1) The institution'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 institution's assessment area(s);
- 3) The geographic distribution of the institution's loans;
- 4) The institution's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The institution'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 institution provides community development services; and
- 4) The institution's responsiveness through such activities to community development lending, investment, and service needs.

SUMMARY OF RATINGS FOR RATED AREAS

Rated Area	Lending Test	Community Development Test	Rating
Kentucky	Satisfactory	Satisfactory	Satisfactory
Tennessee	Needs to Improve	Satisfactory	Needs to Improve

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 institution under the requirements of the Community Reinvestment Act.

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

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

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 institutions and holding companies to make equity type of investments in community development projects. CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. 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 institutions, 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 institution:
 - (i) Has not been reported or collected by the institution or an affiliate for consideration in the institution'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 institution's assessment area(s) or a broader statewide or regional area including the institution'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 institution'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.