

# **PUBLIC DISCLOSURE**

November 4, 2021

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

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

1820 Cumberland Avenue  
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 area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

First State Bank of the Southeast, Inc. (FSBS) satisfactory Community Reinvestment Act (CRA) performance under the Lending Test and Community Development 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 and Community Development Test performance.

**The Lending Test is rated Satisfactory.**

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

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

- The institution demonstrated adequate responsiveness to the needs of its AA through community development loans, qualified investments, and services. Examiners considered the institution’s capacity and the need and availability of such opportunities for community development in the AA.

## DESCRIPTION OF INSTITUTION

FSBS is a \$362.1 million institution headquartered in Middlesboro, Kentucky. The bank operates in the southeastern and central parts of Kentucky, which includes Bell, Whitley, Laurel, and Fayette Counties, and northeastern Tennessee, which includes Claiborne County. FSBS is wholly-owned by First State Bancshares, a one-bank holding company located in Pineville, Kentucky. The institution received an overall “Satisfactory” rating at the previous FDIC Performance Evaluation, dated November 15, 2018, based on Interagency Intermediate Small Bank Examination Procedures. FSBS operates nine full-service branches in the southeastern part of Kentucky (eight branches) and the northeastern part of Tennessee (one branch). There have been two branch closings since the previous evaluation (Bell and Whitley County) and one branch opening (Laurel County). Both branch closures were located in either a moderate-income or distressed census tract. However, branch closures did not negatively impact bank performance, as evidenced in subsequent sections of this performance evaluation.

FSBS offers a variety of credit products including small business, home mortgage, small farm, and consumer loans, primarily focusing on home mortgage and small business loans. Additionally, the bank offers a variety of deposit products including checking, saving, certificate of deposit, and debit cards. Alternative banking services include online banking, mobile banking, and six automated teller machines (ATMs).

In addition, FSBS facilitates the origination of home mortgage loans on the secondary market. The bank's secondary market lending activities demonstrate the bank's willingness and ability to reach low- and moderate- income (LMI) borrowers using special loan programs, such as Veterans Affairs program. Loans originated through the secondary market can help LMI consumers achieve home ownership with reduced or no down payment options. In 2020, FSBS facilitated the origination of 17 secondary market loans totaling \$3.5 million. Since the bank does not make the credit decision on these loans, the bank does not report these on the Home Mortgage Disclosure Act (HMDA) Loan Application Register (LAR). Examiners considered these secondary market loans as performance context under the Lending Test.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), signed into law March 27, 2020, authorized the Small Business Administration (SBA) to guarantee \$349 billion in loans under a new Paycheck Protection Program (PPP). The intent of the Act was for the SBA to provide relief to America's small businesses expeditiously by giving all lenders delegated authority and streamlining the requirements of the regular 7(a) loan program. Additionally, the PPP and Health Care Enhancement Act became law on April 24, 2020, and authorized an additional \$310 billion for guarantees of PPP loans. As of the current evaluation date, FSBS originated 358 loans totaling approximately \$15.1 million under the PPP program. The bank's PPP lending demonstrates the bank's willingness to meet the credit needs of its community by moving quickly to provide small businesses relief during the Coronavirus (COVID-19) pandemic.

As reported in the September 30, 2021, Consolidated Report of Condition and Income (or Call Report), assets totaled \$362.1 million, including total loans of \$280.1 million, total securities of \$35.8 million, and deposits of \$317.3 million. Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet AA credit needs. The following table illustrates the distribution of the loan portfolio.

<b>Loan Portfolio Distribution as of 09/30/2021</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	29,846	10.7
Secured by Farmland	4,451	1.6
Secured by 1-4 Family Residential Properties	105,464	37.7
Secured by Multifamily (5 or more) Residential Properties	15,415	5.5
Secured by Nonfarm Nonresidential Properties	76,288	27.2
<b>Total Real Estate Loans</b>	<b>231,464</b>	<b>82.6</b>
Commercial and Industrial Loans	37,887	13.5
Agricultural Production and Other Loans to Farmers	-	0.0
Consumer Loans	7,664	2.7
Obligations of State and Political Subdivisions in the U.S.	-	0.0
Other Loans	3,348	1.2
Lease Financing Receivable (net of unearned income)	-	0.0
Less: Unearned Income	287	0.1
<b>Total Loans</b>	<b>280,076</b>	<b>100.0</b>
<i>Source: Reports of Condition and Income</i>		

## **DESCRIPTION OF ASSESSMENT AREAS**

CRA requires each financial institution to define one or more AAs within which its performance will be evaluated. FSBS designated the following three separate AAs:

- Kentucky Non-MSA: All census tracts within Bell, Whitley, and Laurel Counties located outside any MSA in the State of Kentucky.
- Lexington, Fayette MSA: All census tracts within Fayette County in the Lexington, Fayette MSA.
- Tennessee Non-MSA: All census tracts within Claiborne County located outside any MSA in the State of Tennessee.

The bank's AAs have changed since the previous evaluation with the addition of Laurel County within the Kentucky Non-MSA AA. FSBS designation is in conformance with the CRA requirements, as it consists of whole geographies where the bank's branches and deposit-taking ATMs are located. Subsequent sections of the evaluation will discuss demographic and economic information for each of the three AAs. Additionally, the following table details the AA weighting when considering the volume of loans, deposits, and branches.

Assessment Area Breakdown of Loans, Deposits, and Branches						
Assessment Area	Loans		Deposits		Branches	
	\$(000s)	%	\$(000s)	%	#	%
Kentucky Non-MSA	215,632	78.6	267,110	85.1	6	66.7
Lexington-Fayette MSA	43,293	15.8	26,365	8.4	2	22.2
Tennessee Non-MSA	15,187	5.6	20,440	6.5	1	11.1
<b>Total</b>	<b>274,112</b>	<b>100.00</b>	<b>313,915</b>	<b>100.0</b>	<b>19</b>	<b>100.0</b>

*Source: Bank Data; FDIC Summary of Deposits (06/30/2021)*

The bank conducts a majority of its business in the Kentucky Non-MSA AA; therefore, examiners gave performance in this AA the greatest weight when assigning the overall rating. In addition, the previous table also demonstrates the reason that examiners placed the most weight on the State of Kentucky rating when assigning the Overall rating.

## SCOPE OF EVALUATION

### General Information

The evaluation uses Interagency Intermediate Small Bank Procedures to evaluate FSBS CRA performance, and it covers the period from the previous evaluation dated November 15, 2018, to the current evaluation dated November 4, 2021. Intermediate Small Bank procedures assess CRA performance under the Lending Test and Community Development Test, as detailed in the Appendix.

### Activities Reviewed

Based on the September 30, 2021, Call Report, examiners determined that FSBS's major product lines are home mortgage and small business lending. This conclusion is based on the bank's lending focus and the number and dollar volume of loans originated during the evaluation period. Small farm and consumer loans do not represent a major product line; therefore, the institution's small farm and consumer lending activity did not provide material support for conclusions or ratings and are not presented. Examiners focused on home mortgage and small business lending activity within the three AAs. Based on loan portfolio composition, lending focus, and product origination volumes, examiners gave equal weight to FSBS's home mortgage and small business lending activities.

Bank records indicate that the product mix remains consistent throughout the evaluation period. Examiners considered all home mortgage loans reported on the bank's HMDA LAR for 2019 and 2020. FSBS originated 120 home mortgage loans totaling \$15.9 million in 2019 and 142 home mortgage loans totaling approximately \$27.6 million in 2020. The 2015 American Community Survey (ACS) data for 2019 and 2020 provided a standard of comparison for home mortgage loans. In addition, 2019 and 2020 peer mortgage lending data provided further comparative data for home mortgage loans.

Additionally, examiners analyzed a sample of small business loans originated or renewed from January 1, 2019, to December 31, 2020. The small business sample represents the bank's performance during the entire evaluation period. The bank originated 64 small business loans in

2019, totaling approximately \$12.9 million, of which examiners sampled 36 loans totaling approximately \$6.4 million. In 2020, FSBS originated 142 small business loans totaling approximately \$17.9 million, of which examiners sampled 47 loans totaling approximately \$4.6 million. Examiners expanded the sample for the Lexington-Fayette MSA AA due to inconclusive results based on the original sample. The expanded sample resulted in the addition of seven loans in 2019 totaling approximately \$2.5 million and 14 loans in 2020 totaling approximately \$2.8 million. D&B data for 2019 and 2020 provided a standard of comparison for the sampled small business loans.

For the Lending Test, examiners analyzed and presented both the number and dollar volume of home mortgage and small business loans. However, examiners emphasized performance on the number of loans, as this is a better indicator of the number of individuals and small businesses served by the institution.

For the Community Development Test, bank management provided data on loans, qualified investments, and services since the prior evaluation dated November 15, 2018.

Examiners performed full-scope analysis on each AA. Given the volume of deposits and branches within the AA, the Kentucky Non-MSA AA received the highest weight within the analysis. The Tennessee Non-MSA AA received the least weight within the analysis.

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

### **LENDING TEST**

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

#### **Loan-to-Deposit (LTD) Ratio**

The average net LTD ratio is reasonable given the bank's size, financial condition, and AA credit needs. The LTD ratio represents a slight increase from the previous evaluation. The LTD ratio, calculated from the Call Report data, averaged 90.2 percent over the past 11 calendar quarters from December 31, 2018 to June 30, 2021. The ratio ranged from a high of 95.1 percent on December 31, 2018, to a low of 86.6 percent on December 31, 2020. FSBS maintained a similar ratio to those of similarly-situated institutions. Examiners selected comparable institutions based on their geographic location, asset size, and product mix.

LTD Ratio Comparison		
Bank	Total Assets as of 06/30/2021 (\$000s)	Average Net LTD Ratio (%)
<b>First State Bank of the Southeast</b>	<b>362,190</b>	<b>90.2</b>
Similarly-Situated Institution #1	488,420	93.0
Similarly-Situated Institution #2	268,228	91.2
Similarly-Situated Institution #3	311,288	85.5
Similarly-Situated Institution #4	307,706	84.1
<i>Source: Reports of Condition and Income 12/31/2018 – 06/30/2021</i>		

### **Assessment Area Concentration**

FSBS made a majority of its home mortgage and small business loans by number inside the AAs for both 2019 and 2020. However, FSBS originated a majority of small business loans by dollar volume outside of the AA in 2020.

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										
2019	92	76.7	28	23.3	120	11,751	74.0	4,129	26.0	15,880
2020	97	68.3	45	31.7	142	15,294	55.3	12,350	44.7	27,643
<b>Subtotal</b>	<b>189</b>	<b>72.1</b>	<b>73</b>	<b>27.9</b>	<b>262</b>	<b>27,045</b>	<b>62.1</b>	<b>16,478</b>	<b>37.9</b>	<b>43,524</b>
Small Business										
2019	23	63.9	13	36.1	36	3,819	60.1	2,537	39.9	6,356
2020	29	61.7	18	38.3	47	1,800	39.1	2,807	60.9	4,607
<b>Subtotal</b>	<b>52</b>	<b>62.7</b>	<b>31</b>	<b>37.3</b>	<b>83</b>	<b>5,619</b>	<b>51.3</b>	<b>5,344</b>	<b>48.7</b>	<b>10,963</b>
<i>Source: Bank Data</i>										
<i>Due to rounding, totals may not equal 100.0%</i>										

The expanded small business loan sample for the Lexington-Fayette MSA AA did not affect the AA concentration. The sample provided a more accurate depiction of the bank's small business lending activities in the Geographic Distribution and Borrower Profile sections under the Lexington-Fayette MSA AA.

### **Geographic Distribution**

The geographic distribution of home mortgage and small business loans reflects reasonable dispersion throughout the AAs. Examiners focused on the percentage by number of loans in low- and moderate-income census tracts. Additional details regarding the bank's performance within the AAs is within subsequent sections.



### **Borrower Profile**

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes within the AAs. The bank's reasonable performance of home mortgage and small business lending supports this conclusion. Additional details regarding FSBS's performance within each AA is within subsequent sections.

### **Response to Complaints**

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

### **COMMUNITY DEVELOPMENT TEST**

FSBS's community development performance demonstrates adequate responsiveness to the community development needs of its AAs through loans, qualified investments, and services. Examiners considered the institution's capacity and the need and availability of such opportunities.

### **Community Development Loans**

FSBS originated 35 community development loans totaling approximately \$20.1 million inside the AAs during the evaluation period. Since the institution sufficiently met the credit needs of its AA, examiners qualified 6 loans, totaling \$3.4 million that benefited areas outside the AAs. This level of activity represents 6.4 percent of total assets and 8.3 percent of total loans since the prior CRA evaluation. FSBS's community development lending performance exceeds that of similarity-situated banks, whose loans ranged from 0.1 to 5.9 percent of total loans. However, due to the timing of the evaluation, FSBS's performance includes PPP loans and peer performance does not. A significant number of the community development loans made in 2020 and 2021 (11 of the 41, or 26.8 percent) include PPP loans and should not be considered a base-line for the next evaluation.

Of the 41 community development loans qualified, 32 totaling \$18.1 million were used to revitalize and stabilize LMI or distressed/underserved census tracts. These loans demonstrate the bank's responsiveness to this community development need. The following table illustrates FSBS's community development lending by purpose inside and outside the AA.

<b>Community Development Lending by AA</b>										
<b>Assessment Area</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Kentucky Non-MSA	5	3,055	0	-	1	217	20	12,239	26	15,511
Lexington-Fayette MSA	2	1,800	0	-	0	-	0	-	2	1,800
Tennessee Non-MSA	0	-	0	-	0	-	7	2,786	7	2,786
Outside AA	1	283	0	-	0	-	5	3,122	6	3,405
<b>Total</b>	<b>8</b>	<b>5,138</b>	<b>0</b>	<b>-</b>	<b>1</b>	<b>217</b>	<b>32</b>	<b>18,147</b>	<b>41</b>	<b>23,502</b>

*Source: Bank Data 11/15/18 to 11/4/21*

### **Qualified Investments**

FSBS made 24 investments totaling approximately \$330,000 inside the AAs. This performance represents 0.09 percent of the bank's total assets and 0.9 percent of total securities. Examiners also considered four qualified investments totaling approximately \$915,000 outside the AAs. Total

qualified investment performance represents 0.3 percent of total assets and 3.4 percent of total securities. Overall, FSBS’s community development investment performance remained within range of similarly-situated banks when comparing the percent of total assets and percent of total securities. FSBS’s investment performance within each AA decreased since the previous evaluation.

A majority of the investments, 88.4 percent by dollar, benefited efforts towards community service organizations. Additionally, of the 28 investments, 67.8 percent by number supported affordable housing to LMI individuals. The investments demonstrate the bank’s responsiveness to the community development needs identified by local community contacts. The following table illustrates FSBS’s community development investments by purpose within each AA.

<b>Qualified Investments by AA</b>										
<b>Assessment Area</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Kentucky Non-MSA	19	142	4	186	0	-	0	-	23	328
Lexington-Fayette MSA	1	2	0	-	0	-	0	-	1	2
Tennessee Non-MSA	0	-	0	-	0	-	0	-	0	-
Outside AA	0	-	4	915	0	-	0	-	4	915
<b>Total</b>	<b>20</b>	<b>144</b>	<b>8</b>	<b>1,101</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>28</b>	<b>1,245</b>

*Source: Bank Data 11/15/18 to 11/4/21*

**Community Development Services**

During the evaluation period, FSBS provided 118 instances of financial expertise or technical assistance to numerous different community development-related organizations in the AAs. This performance slightly exceeded that of similarly-situated banks, whose community development services ranged from 27 instances to 115 instances over a similar review period. Services performed in the Lexington-Fayette MSA AA decreased since the previous evaluation. However, due to the bank exceeding similarly-situated institution performance in the Kentucky Non-MSA AA and remaining consistent with similarly-situated banks in the Tennessee Non-MSA AA; FSBS’s performance in the Lexington-Fayette MSA AA did not affect overall community development services conclusions. The following table illustrates FSBS’s community development services by purpose within each AA.

<b>Community Development Services by AA</b>					
<b>Assessment Area</b>	<b>Affordable Housing</b>	<b>Community Services</b>	<b>Economic Development</b>	<b>Revitalize or Stabilize</b>	<b>Totals</b>
	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>
Kentucky Non-MSA	2	73	8	9	92
Lexington-Fayette MSA	3	0	0	0	3
Tennessee Non-MSA	0	19	4	0	23
<b>Total</b>	<b>5</b>	<b>92</b>	<b>12</b>	<b>9</b>	<b>118</b>

*Source: Bank Data 11/15/18 to 11/4/21*

**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 CRA rating.

## STATE OF KENTUCKY

### CRA RATING FOR KENTUCKY: SATISFACTORY

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN KENTUCKY

The State of Kentucky rated area consists of two AAs: The Kentucky Non-MSA AA, which is comprised of all portions of Bell, Whitley, and Laurel Counties; and the Lexington-Fayette MSA AA, which consists of Fayette County. The bank operates its main office and three full-service branch locations in Bell County. FSBS also operates one full-service branch in Laurel County and one full-service branch Whitley County. Within the Lexington-Fayette MSA AA, the bank operates two full-service branch locations. Given the volume of loans, deposits, and branches, examiners placed the most weight on the Kentucky Non-MSA AA performance when assigning the State of Kentucky rating.

### SCOPE OF EVALUATION – KENTUCKY

Examiners provide the most weight to FSBS's performance with the State of Kentucky given the volume of loans, deposits, and branches. Examiners conducted a full-scope review for both Kentucky Non-MSA AA and Lexington-Fayette MSA AA for both the Lending and Community Development Tests.

### CONCLUSIONS ON PERFORMANCE CRITERIA - KENTUCKY

#### LENDING TEST

FSBS demonstrated reasonable performance under the Lending Test in the Kentucky Non-MSA AA and the Lexington-Fayette MSA AA. Geographic Distribution and Borrower Profile performance within each AA primarily support this conclusion. The Kentucky Non-MSA AA received the most weight when assigning an overall Lending Test rating for the State of Kentucky.

#### Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the KY Non-MSA AA and Lexington-Fayette MSA AA. Overall, the geographic distribution of home mortgage and small business loans are comparable to aggregate lending and demographic data within each AA. Examiners detail the geographic distribution for each AA under the individual sections below.

#### Borrower Profile

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes in the Kentucky Non-MSA AA and Lexington-Fayette MSA AA. Home mortgage low-income lending is comparable to aggregate data. Moderate-income lending is comparable to aggregate in the Kentucky Non-MSA; however, within the Lexington-Fayette MSA AA moderate-income lending is less than both aggregate and demographic data.

Small business lending is comparable to demographic data. Examiners detail the borrower distribution for each AA under the individual sections below.

**COMMUNITY DEVELOPMENT TEST**

FSBS demonstrated adequate responsiveness to the community development needs of the Kentucky Non-MSA AA and Lexington-Fayette MSA AA through loans, qualified investments, and services. Similar to the Lending Test, performance in the Kentucky Non-MSA AA received the most weight.

**Community Development Loans**

FSBS originated 28 community development loans totaling approximately \$17.3 million during the evaluation period within the Kentucky Non-MSA AA and Lexington-Fayette MSA AA. The following table illustrates the lending activity by AA. Please refer to subsequent sections for specific information on each AA.

<b>Kentucky Community Development Lending by AA</b>										
<b>Assessment Area</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Kentucky Non-MSA	5	3,055	0	-	1	217	20	12,239	26	15,511
Lexington-Fayette MSA	2	1,800	0	-	0	-	0	-	2	1,800
<b>Totals</b>	<b>7</b>	<b>4,855</b>	<b>0</b>	<b>-</b>	<b>1</b>	<b>217</b>	<b>20</b>	<b>12,239</b>	<b>28</b>	<b>17,311</b>

*Source: Bank Data*

**Qualified Investments**

FSBS made or retained 24 qualified investments and donations totaling \$330,000 in Kentucky. The following table illustrates the bank’s qualified investment and donations by AA and purpose. Refer to subsequent sections for specific information on each AA.

<b>Kentucky Qualified Investments by AA</b>										
<b>Assessment Area</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Kentucky Non-MSA	19	142	4	186	0	-	0	-	23	328
Lexington-Fayette MSA	1	2	0	-	0	-	0	-	1	2
<b>Totals</b>	<b>20</b>	<b>144</b>	<b>4</b>	<b>186</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>24</b>	<b>330</b>

*Source: Bank Data*

**Community Development Services**

FSBS personnel provided 95 instances of financial expertise or technical assistance within the Kentucky Non-MSA AA and Lexington-Fayette MSA AA. The following table details the services provided by AA and purpose. Refer to subsequent sections for specific information on each AA.

<b>Community Development Services</b>					
<b>Assessment Area</b>	<b>Affordable Housing</b>	<b>Community Services</b>	<b>Economic Development</b>	<b>Revitalize or Stabilize</b>	<b>Totals</b>
	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>
Kentucky Non-MSA	2	73	8	9	<b>92</b>
Lexington-Fayette MSA	0	3	0	0	<b>3</b>
<b>Total</b>	<b>2</b>	<b>76</b>	<b>8</b>	<b>9</b>	<b>95</b>
<i>Source: Bank Data</i>					

## KENTUCKY NON-MSA – Full-Scope Review

### DESCRIPTION OF THE KENTUCKY NON-MSA AA

#### Economic and Demographic Data

The Kentucky Non-MSA AA includes all 30 census tracts within Bell, Whitley, and Laurel Counties. According to the 2015 ACS Data, these tracts reflect the following income designations: 2 low-income tracts, 11 moderate-income tracts, 15 middle-income tracts, and 2 upper-income tract. Of the 53,736 housing units in the AA, 59.9 percent are owner-occupied, 28.3 percent are occupied rental units, and 11.9 percent are vacant. The following table illustrates select demographic characteristics of the AA.

<b>Demographic Information of the Kentucky Non-MSA AA</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	30	6.7	36.7	50.0	6.7	0.0
Population by Geography	123,495	5.6	35.2	54.8	4.4	0.0
Housing Units by Geography	53,736	6.2	36.7	52.7	4.3	0.0
Owner-Occupied Units by Geography	32,170	4.7	36.8	53.2	5.3	0.0
Occupied Rental Units by Geography	15,192	8.6	33.9	55.6	1.9	0.0
Vacant Units by Geography	6,374	8.6	42.6	43.4	5.3	0.0
Businesses by Geography	6,304	2.6	25.4	68.6	3.4	0.0
Farms by Geography	191	0.0	24.1	67.0	8.9	0.0
Family Distribution by Income Level	32,816	28.4	19.6	18.2	33.8	0.0
Household Distribution by Income Level	47,362	29.9	16.4	17.8	35.9	0.0
Median Family Income Non-MSAs - KY	\$45,986		Median Housing Value			\$84,209
			Median Gross Rent			\$564
			Families Below Poverty Level			22.1%
<i>Source: 2015 ACS and 2020 D&amp;B Data</i> Due to rounding, totals may not equal 100.0% (*) The NA category consists of geographies that have not been assigned an income classification.						

Examiners used 2019 and 2020 FFIEC-updated median family income (MFI) level to analyze home mortgage loans under the Borrower Profile criterion. The following table illustrates the categories.

<b>MFI Ranges – Kentucky Non-MSA AA</b>				
MFIs	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2019 (\$49,800)	<\$24,900	\$24,900 to <\$39,840	\$39,840 to <\$59,760	≥\$59,760
2020 (\$51,500)	<\$25,750	\$25,750 to <\$41,200	\$41,200 to <\$61,800	≥\$61,800
<i>Source: FFIEC</i>				

According to 2020 D&B data, 80.0 percent of the 6,304 businesses in the AA have gross annual revenues (GARs) of \$1.0 million or less, 5.3 percent have more than \$1.0 million, and 14.7 percent have unknown revenues. Additionally, 86.7 percent of businesses have nine or fewer employees, and 84.5 percent operate from a single location, indicating the opportunity level to serve small businesses. Service industries represents the largest portion of businesses at 38.0 percent, followed by retail trade at 15.9 percent, and non-classifiable establishments at 12.3 percent.

Data obtained from the U.S. Bureau of Labor Statistics indicates the annual state unemployment rate was 4.1 percent in 2019 and 6.6 percent in 2020. The annual unemployment rates in the AA for 2019 were 6.2 percent in Bell County, 4.9 percent in Whitley County, and 4.7 percent in Laurel County. Additionally, annual unemployment rates were higher throughout the AA in 2020, at 7.8 percent in Bell County, 7.1 percent in Whitley County, and 6.9 percent in Laurel County. The increased unemployment rate throughout the AA in 2020 is due to the COVID-19 pandemic and indicates a weakened labor force and potential decrease in lending opportunities.

### **Competition**

FSBS operates in a moderately competitive market for financial services when considering geographic size and population in the AA. According to FDIC Deposit Market Share data, as of June 30, 2021, 14 financial institutions operate 49 full-service branches within the AA. Of these institutions, FSBS ranks fourth with 12.3 percent of the deposit market share.

There is a high level of competition for home mortgage loans in the AA among several banks, credit unions, and non-depository mortgage lenders. In 2019 and 2020, FSBS was subject to HMDA reporting requirements. In 2020, 160 lenders originated 3,177 home mortgage loans within the bank's Kentucky Non-MSA AA. FSBS ranked 14<sup>th</sup> out of this group of lenders with a 2.2 percent of the lending market share. The top three lenders originated 31.2 percent of those loans. FSBS was within the top ten percent of the home mortgage market share 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 banks, credit unions, and non-depository lenders in the AA. Aggregate small business lending data for 2020 reflects 61 lenders reported 1,458 business loans in the Kentucky Non-MSA AA, with the top three lenders accounting for 53.5 percent of the market share, indicating a high concentration of lenders for a large amount of business loans. The top three lenders include two credit card companies and one large national bank. This indicates a moderate level of demand and high level of competition.

### **Community Contacts**

As a part of the evaluation process, examiners contact third parties in the AA to assist in identifying the credit and community development needs. This information helps determine whether local institutions are responsive to these needs. It also demonstrates what credit and community development activities are available.

Examiners contacted two local government representatives in the AA. The first contact stated there is a need for more rental units, noting individuals are buying property unseen. Additionally, the contact considered small business and consumer loans to represent the primary credit needs of the



community. The contact believes that institutions are meeting the credit needs of the community; however, the contact would like to see more financial literacy taught to students at the local high schools. In addition, the contact believes that there are multiple investment and donation opportunities within the area.

The second contact interviewed by examiners indicated the local economy remained consistently strong during the COVID-19 pandemic. However, the contact also noted that housing inventory is low and stated they would like to see more involvement from financial institutions. Additionally, the contact believes competition does play a role in a financial institution's opportunities in the area, noting a high level of banking operations due to the number of branches.

Examiners also reviewed a recent contact from an affordable housing organization located in the Kentucky Non-MSA AA that described a need for affordable housing options and financing to improve the existing rental properties in the area. The contact believes that banks need to implement more flexible underwriting with appraisals and comparisons of home mortgage loans with smaller loan amounts. This would allow for better revitalization and stabilization of these areas with homes in need of improvements to help impoverished residents and areas. The smaller homes and properties in LMI census tracts are not appreciating in value as quickly as other parts of the state of Kentucky. The area does not have sufficient comparison appraisals to help meet the credit needs of the Kentucky Non-MSA AA. This community contact emphasized the importance of PPP loans meeting critical credit needs of organizations and businesses throughout the Kentucky Non-MSA AA during the pandemic.

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

Considering information from the community contacts, bank management, and demographic and economic data, examiners determined that affordable home mortgage, consumer, and small business lending represent the primary credit needs of the AA. The community contact also noted the community development needs of affordable housing, revitalization and stabilization efforts, and financial education programs for residents in the area.

## **CONCLUSIONS ON PERFORMANCE CRITERIA - KENTUCKY NON-MSA AA**

### **LENDING TEST**

FSBS demonstrated reasonable performance under the Lending Test. Geographic Distribution and Borrower Profile performance primarily support this conclusion. Examiners placed equal weight on home mortgage and small business performance within the AA.

### **Geographic Distribution**

The geographic distribution of loans reflects reasonable dispersion throughout the AA. FSBS's overall performance is the result of excellent home mortgage lending and reasonable small business lending. Examiners focused on the percentage of the number of loans in low and moderate-income census tracts.

### **Home Mortgage Loans**

The geographic distribution of home mortgage loans reflect excellent dispersion throughout the AA. Examiners focused on the comparison to aggregate data. As shown in the following table, in 2019 and 2020, FSBS’s lending performance in low and moderate-income tracts exceeded aggregate. Additionally, from 2019 to 2020, aggregate performance decreased in low-income census tracts while FSBS’s performance increased.

<b>Geographic Distribution of Home Mortgage Loans – Kentucky Non-MSA AA</b>						
<b>Tract Income Level</b>	<b>% of Owner-Occupied Housing Units</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>Low</b>						
2019	4.7	3.8	4	5.8	393	4.9
2020	4.7	2.5	8	11.0	527	5.0
<b>Moderate</b>						
2019	36.8	28.9	38	55.1	3,581	44.5
2020	36.8	26.1	33	45.2	5,334	50.6
<b>Middle</b>						
2019	53.2	61.5	27	39.1	4,072	50.6
2020	53.2	65.5	32	43.8	4,683	44.4
<b>Upper</b>						
2019	5.3	5.8	0	0.0	0	0.0
2020	5.3	5.9	0	0.0	0	0.0
<b>Not Available</b>						
2019	0.0	0.0	0	0.0	0	0.0
2020	0.0	0.0	0	0.0	0	0.0
<b>Totals</b>						
<b>2019</b>	<b>100.0</b>	<b>100.0</b>	<b>69</b>	<b>100.0</b>	<b>8,045</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>100.0</b>	<b>73</b>	<b>100.0</b>	<b>10,545</b>	<b>100.0</b>
<i>Source: 2015 ACS; Bank Data, 2019 &amp; 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

### **Small Business Loans**

The geographic distribution of small business loans reflects reasonable dispersion 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 sampled small business lending performance slightly exceeded the percentage of businesses within the low- and moderate-income tracts for 2019. However, the bank’s performance slightly decreased in low-income tracts while still slightly exceeding the percent of businesses in 2020. FSBS’s performance in moderate-income tracts in 2020 decreased to a level consistent with the percentage of businesses.

<b>Geographic Distribution of Small Business Loans – Kentucky Non-MSA AA</b>					
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low					
2019	2.7	1	5.9	15	0.6
2020	2.6	1	4.5	8	0.6
Moderate					
2019	25.8	5	29.4	1,195	47.0
2020	25.4	5	22.7	526	41.8
Middle					
2019	68.3	11	64.7	1,331	52.4
2020	68.6	16	72.7	723	57.5
Upper					
2019	3.2	0	0.0	0	0.0
2020	3.4	0	0.0	0	0.0
Not Available					
2019	0.0	0	0.0	0	0.0
2020	0.0	0	0.0	0	0.0
<b>Totals</b>					
<b>2019</b>	<b>100.0</b>	<b>17</b>	<b>100.0</b>	<b>2,541</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>22</b>	<b>100.0</b>	<b>1,257</b>	<b>100.0</b>
<i>Source: 2019 &amp; 2020 D&amp;B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>					

### **Borrower Profile**

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes. FSBS’s reasonable performance in home mortgage and small business lending supports this conclusion. Examiners focused on the percentage by number of home mortgage loans to low- and moderate-income borrowers. They also focused on 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 reasonable penetration among individuals of different income levels. Examiners focused on the comparison to aggregate data. As shown in the following table, FSBS’s home mortgage lending performance to low and moderate-income borrowers was similar to aggregate performance in both 2019 and 2020. However, from 2019 to 2020, aggregate penetration among moderate-income borrowers decreased while FSBS’s penetration increased.

<b>Distribution of Home Mortgage Loans by Borrower Income Level – Kentucky Non-MSA AA</b>						
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>Low</b>						
2019	28.4	5.0	6	8.7	201	2.5
2020	28.4	4.2	5	6.8	140	1.3
<b>Moderate</b>						
2019	19.6	16.6	10	14.5	466	5.8
2020	19.6	14.2	14	19.2	1,209	11.5
<b>Middle</b>						
2019	18.2	21.9	16	23.2	1,475	18.3
2020	18.2	19.9	15	20.5	1,313	12.5
<b>Upper</b>						
2019	33.8	40.1	30	43.5	3,928	48.8
2020	33.8	40.5	28	38.4	4,649	44.1
<b>Not Available</b>						
2019	0.0	16.3	7	10.1	1,976	24.6
2020	0.0	21.3	11	15.1	3,233	30.7
<b>Totals</b>						
<b>2019</b>	<b>100.0</b>	<b>100.0</b>	<b>69</b>	<b>100.0</b>	<b>8,045</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>100.0</b>	<b>73</b>	<b>100.0</b>	<b>10,545</b>	<b>100.0</b>
<i>Source: 2015 ACS; Bank Data, 2019 &amp; 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

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

The distribution of borrowers reflects reasonable penetration among businesses of different sizes. FSBS's lending performance to borrowers with GARs of \$1 million or less was above the percentage of businesses in that revenue category in 2019; however, the bank's performance did decrease in 2020. The percentage of businesses, however, is not necessarily indicative of the demand for small business loans by those businesses. Each loan reported under the Revenue Not Available category for 2020 is a PPP loan. PPP loans did not require collection of revenue data; however, PPP lending activity served as an essential credit need during the pandemic.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category – Kentucky Non-MSA AA</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>&lt;=\$1,000,000</b>					
2019	79.0	16	94.1	2,345	92.3
2020	80.0	10	45.5	334	26.6
<b>&gt;\$1,000,000</b>					
2019	5.8	1	5.9	196	7.7
2020	5.3	5	22.7	765	60.9
<b>Revenue Not Available</b>					
2019	15.2	0	0.0	0	0.0
2020	14.7	7	31.8	158	12.6
<b>Totals</b>					
<b>2019</b>	<b>100.0</b>	<b>17</b>	<b>100.0</b>	<b>2,541</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>22</b>	<b>100.0</b>	<b>1,257</b>	<b>100.0</b>
<i>Source: 2019 &amp; 2020 D&amp;B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>					

## **COMMUNITY DEVELOPMENT TEST**

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

### **Community Development Loans**

FSBS originated 26 community development loans totaling approximately \$15.5 million during the evaluation period inside the Kentucky Non-MSA AA. Of the 26 loans, 20 totaling \$12.2 million were used to revitalize or stabilize LMI of distressed/underserved census tracts. This demonstrates the bank’s willingness to meet a community development credit need, as noted by a recent community contact familiar with this area. The following table illustrates the bank’s activity by year and purpose.

Community Development Lending – Kentucky Non-MSA AA										
Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2018 (Partial)	0	-	0	-	0	-	0	-	0	-
2019	1	31	0	-	1	217	1	3,000	3	3,248
2020	2	1,675	0	-	0	-	12	3,216	14	4,891
2021 (YTD)	2	1,349	0	-	0	-	7	6,023	9	7,373
<b>Total</b>	<b>5</b>	<b>3,055</b>	<b>0</b>	<b>-</b>	<b>1</b>	<b>217</b>	<b>20</b>	<b>12,239</b>	<b>26</b>	<b>15,511</b>

Source: Bank Data

Below are notable examples of the bank’s community development loans:

- In 2019 and 2021, FSBS made two loans for approximately \$5.5 million to a local community health center. This business is located in a moderate-income census tract in Bell County and helps to provide essential medical services to the AA (Revitalize & Stabilize).
- In 2020, FSBS originated a loan for approximately \$1.2 million to finance an apartment complex with all units offering rent below the median rent value for Laurel County (Affordable Housing).

### Qualified Investments

FSBS made or retained 23 qualified investments and/or donations during the review period. The bank made one qualified investment totaling approximately \$186,000 during a prior review period; however, the investment is still outstanding as of the evaluation date. FSBS also made 22 grants or donations totaling approximately \$142,000 during the review period. The bank’s performance decreased in this AA since the prior evaluation. The following table illustrates the bank’s community development investments by year and purpose.

Qualified Investments - Kentucky Non-MSA AA										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	0	-	1	186	0	-	0	-	1	186
2018	0	-	1	<1	0	-	0	-	1	<1
2019	10	74	1	<1	0	-	0	-	11	74
2020	9	68	1	<1	0	-	0	-	10	68
<b>Totals</b>	<b>19</b>	<b>142</b>	<b>4</b>	<b>186</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>23</b>	<b>328</b>

Source: Bank Data

Below is a notable example of the bank’s community development investments:

- FSBS retained one prior period investment totaling approximately \$186,000 to improve schools in Bell County with a majority of the students eligible to receive free or reduced-price lunches (Community Services).
- In 2019 and 2020, the bank provided grants to assist 19 LMI individuals to purchase affordable housing in the Kentucky Non-MSA AA (Affordable Housing).

### **Community Development Services**

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

<b>Community Development Services – Kentucky Non-MSA AA</b>					
<b>Year</b>	<b>Affordable Housing</b>	<b>Community Services</b>	<b>Economic Development</b>	<b>Revitalize or Stabilize</b>	<b>Totals</b>
	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>
2018 (Partial)	1	22	2	2	<b>27</b>
2019	1	29	2	3	<b>35</b>
2020	0	11	2	2	<b>15</b>
2021 (YTD)	0	11	2	2	<b>15</b>
<b>Total</b>	<b>2</b>	<b>73</b>	<b>8</b>	<b>9</b>	<b>92</b>

*Source: Bank Data*

Below are notable examples of the bank's community development services:

- On an annual basis since the previous evaluation, an FSBS employee served on a local economic foundation board within Bell County. This organization promotes economic development within the area (Economic Development).
- In 2019, an employee of FSBS served as the chairperson of the family recourse center advisory board of a local high school in Bell County. This service primarily benefits LMI individuals (Community Services).

## LEXINGTON-FAYETTE MSA– Full-Scope Review

### DESCRIPTION OF THE LEXINGTON-FAYETTE MSA AA

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

The Lexington-Fayette MSA AA includes 82 census tracts with the following income designations: 10 low-income, 18 moderate-income, 28 middle-income, and 26 upper-income. Of the 137,885 housing units in the AA, 49.4 percent are owner-occupied, 41.8 percent are occupied rental units, and 8.8 percent are vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units. The following table illustrates select demographic characteristics of the Lexington-Fayette MSA AA.

<b>Demographic Information of the Lexington-Fayette MSA AA</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	82	12.2	22.0	34.1	31.7	0.0
Population by Geography	308,306	11.6	22.4	33.3	32.7	0.0
Housing Units by Geography	137,885	11.7	23.8	33.8	30.7	0.0
Owner-Occupied Units by Geography	68,194	6.3	16.2	35.2	42.3	0.0
Occupied Rental Units by Geography	57,558	17.0	32.2	32.0	18.7	0.0
Vacant Units by Geography	12,133	16.7	26.3	34.5	22.6	0.0
Businesses by Geography	29,804	7.6	15.9	40.7	35.8	0.0
Farms by Geography	1,015	6.4	10.4	43.5	39.6	0.0
Family Distribution by Income Level	72,466	23.3	15.7	18.3	42.6	0.0
Household Distribution by Income Level	125,752	26.9	15.4	15.7	42.1	0.0
Median Family Income MSA - 30460 Lexington-Fayette, KY MSA		\$66,800	Median Housing Value			\$180,124
			Median Gross Rent			\$781
			Families Below Poverty Level			12.1%
<i>Source: 2015 ACS and 2020 D&amp;B Data                      Due to rounding, totals may not equal 100.0%                      (*) The NA category consists of geographies that have not been assigned an income classification.</i>						

Examiners used the 2019 and 2020 FFIEC-updated MFI level to analyze home mortgage loans under the Borrower Profile criterion. The following table illustrates the income categories.



<b>MFI Ranges – Lexington-Fayette MSA AA</b>				
<b>MFI</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
2019 (\$74,500)	<\$37,250	\$37,250 to <\$59,600	\$59,600 to <\$89,400	≥\$89,400
2020 (\$79,400)	<\$39,700	\$39,700 to <\$63,520	\$63,520 to <\$95,280	≥\$95,280
<i>Source: FFIEC</i>				

According to 2020 D&B data, 84.9 percent of the 29,804 businesses in the AA have GARs of \$1 million or less, 4.7 percent have more than \$1 million, and 10.4 percent have unknown revenues. Additionally, 88.3 percent of businesses have nine or fewer employees, and 88.9 percent operate from a single location, indicating the opportunity level to serve small businesses. Service industries represents the largest portion of businesses at 40.6 percent, followed by non-classifiable establishments at 19.0 percent, and finance, insurance, and real estate at 11.9 percent. The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR level.

Data obtained from the U.S. Bureau of Labor Statistics indicates the annual state unemployment rate was 4.1 percent in 2019 and 6.6 percent in 2020. The annual unemployment rates in the Lexington-Fayette MSA AA were 3.2 percent in 2019 and 5.7 percent in 2020. The increased unemployment rate throughout the Lexington-Fayette MSA AA in 2020 is due to the COVID-19 pandemic and indicates a weakened labor force and potential decrease in lending opportunities.

### **Competition**

FSBS operates in 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, 2021, 32 financial institutions operate 118 full-service branches within the AA. Of these institutions, FSBS ranks 26<sup>th</sup> with 0.2 percent of the deposit market share.

There is a high level of competition for home mortgage loans among numerous banks, credit unions, and non-depository mortgage lenders. In 2019 and 2020, FSBS was subject to the HMDA reporting requirements. In 2020, 348 lenders originated 17,145 home mortgage loans within the bank's Lexington-Fayette MSA AA. FSBS ranked 101<sup>st</sup> out of this group of lenders with 0.09 percent of the lending market share. The top five lenders originated 27.3 percent of those loans.

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 banks, credit unions, and non-depository lenders in the AA. Aggregate small business lending data for 2020 reflects 80 lenders reported 7,368 business loans in the Lexington-Fayette MSA AA, with the top three lenders accounting for 48.1 percent of the market share, indicating a high concentration of lenders for a large amount of business loans. The top three lenders include one credit card company and two large national banks. This indicates a high level of demand and high level of competition.

### **Community Contact**

As part of the evaluation process, examiners contact third parties familiar with the AA. This process assists examiners in identifying credit and community development needs and opportunities, including the bank's responsiveness to those needs. It also demonstrates what credit and community development needs are available.

Examiners interviewed a contact from an affordable housing organization in Lexington, Kentucky. The contact stated there is a need for affordable housing within the county, noting that the local economy was strong pre-pandemic; however, it is in a recovery period. Major sources of employment include the University of Kentucky, Toyota, and seasonal horse racing. The contact stated that a majority of employees that work in Lexington commute from surrounding counties. The contact does not believe there are many investment opportunities that a financial institution can participate in within this AA. Additionally, the contact stated the credit needs have been addressed within the AA.

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

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

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN LEXINGTON-FAYETTE MSA AA**

### **LENDING TEST**

FSBS demonstrated reasonable performance under the Lending Test. Geographic Distribution and Borrower Profile performance primarily support this conclusion. Examiners placed equal weight on home mortgage and small business performance within the AA.

### **Geographic Distribution**

The geographic distribution of loans reflects reasonable dispersion throughout the AA. FSBS's overall performance is the result of reasonable home mortgage and small business lending performance. Examiners focused on the percentage by number of loans in low-and moderate-income census tracts.

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

The geographic distribution of home mortgage loans reflect reasonable dispersion throughout the AA. Examiners focused on the comparison to aggregate data. As shown in the following table, in 2019 FSBS's lending performance in low-income tracts trailed that of aggregate. In 2020, the bank's lending performance in the low-income tracts increased from 2019 and exceeded aggregate performance. In moderate-income tracts for 2019, the bank's performance remained consistent with aggregate. In 2020, FSBS's performance in moderate tracts increased and exceeded aggregate. Additionally, aggregate performance decreased in low- and moderate-income tracts from 2019 to 2020, while FSBS's performance increased.

Geographic Distribution of Home Mortgage Loans – Lexington-Fayette MSA AA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	6.3	5.0	0	0.0	0	0.0
2020	6.3	3.7	2	12.5	425	12.1
Moderate						
2019	16.2	14.3	2	14.3	141	4.8
2020	16.2	13.0	4	25.0	474	13.6
Middle						
2019	35.2	33.6	12	85.7	2,806	95.2
2020	35.2	32.6	5	31.3	1,434	41.0
Upper						
2019	42.3	47.2	0	0.0	0	0.0
2020	42.3	50.7	5	31.3	1,165	33.3
Not Available						
2019	0.0	0.0	0	0.0	0	0.0
2020	0.0	0.0	0	0.0	0	0.0
<b>Totals</b>						
<b>2019</b>	<b>100.0</b>	<b>100.0</b>	<b>14</b>	<b>100.0</b>	<b>2,947</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>100.0</b>	<b>16</b>	<b>100.0</b>	<b>3,497</b>	<b>100.0</b>
<i>Source: 2015 ACS; Bank Data, 2019 &amp; 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

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

The geographic distribution of small business loans reflects reasonable dispersion throughout the AA. Examiners focused on the comparison to the percentage of business within each tract income level. As shown in the following table, FSBS’s small business lending performance trailed the percentage of businesses within low-income census tracts in 2019; however, the bank slightly exceeded the percent of businesses in moderate-income tracts. Additionally, the bank’s lending performance in low- and moderate-income tracts in 2020 is below but comparable with the percent of businesses.

<b>Geographic Distribution of Small Business Loans – Lexington-Fayette MSA AA</b>						
<b>Tract Income Level</b>		<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low						
	2019	7.7	0	0.0	0	0.0
	2020	7.6	1	5.9	640	21.9
Moderate						
	2019	16.0	2	18.2	570	15.4
	2020	15.9	2	11.8	374	12.8
Middle						
	2019	41.0	6	54.5	2,105	56.7
	2020	40.7	7	41.2	1,510	51.7
Upper						
	2019	35.3	3	27.3	1,036	27.9
	2020	35.8	7	41.2	399	13.6
Not Available						
	2019	0.0	0	0.0	0	0.0
	2020	0.0	0	0.0	0	0.0
<b>Totals</b>						
	<b>2019</b>	<b>100.0</b>	<b>11</b>	<b>100.0</b>	<b>3,711</b>	<b>100.0</b>
	<b>2020</b>	<b>100.0</b>	<b>17</b>	<b>100.0</b>	<b>2,923</b>	<b>100.0</b>
<i>Source: 2019 &amp; 2020 D&amp;B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

### **Borrower Profile**

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes. FSBS’s reasonable performance in home mortgage and small business lending supports this performance conclusion. Examiners focused on the percentage by number of home mortgage loans to low- and moderate-income borrowers. They also focused on 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 reasonable penetration among individuals of different income levels. Examiners focused on the comparison to aggregate data. As shown in the following table, FSBS’s home mortgage lending performance to low-income borrowers was comparable to aggregate performance in both 2019 and 2020. FSB did not make any home mortgage loans to moderate-income borrowers in 2019 and 2020. However, as previously discussed, the level of competition for home mortgages is high in this AA. FSBS ranks 101<sup>st</sup> with a market share of only 0.09 percent of home mortgage lending in the Lexington-Fayette MSA AA.

The community contact stated a need for affordable housing in this market, which could impact the bank’s ability to lend to LMI individuals. Additionally, the majority of the bank’s lending activity in

the AA is for non-owner occupied investment properties, which are included in the “Not Available” income designation below. Removing the loans from the “Not Available” designation would increase the performance among low-income borrowers; however, performance among moderate-income borrowers would remain poor. Overall, the distribution of low- and moderate-income borrowers is reasonable when considering the level of competition, community contact comments, and the impact of the loans with income “Not Available” on the bank’s performance.

<b>Distribution of Home Mortgage Loans by Borrower Income Level – Lexington-Fayette MSA AA</b>						
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low						
2019	23.3	8.5	1	7.1	36	1.2
2020	23.3	6.8	1	6.3	372	10.6
Moderate						
2019	15.7	18.5	0	0.0	0	0.0
2020	15.7	18.6	0	0.0	0	0.0
Middle						
2019	18.3	20.2	0	0.0	0	0.0
2020	18.3	20.2	2	12.5	339	9.7
Upper						
2019	42.6	39.8	1	7.1	64	2.2
2020	42.6	40.0	5	31.3	1,440	41.2
Not Available						
2019	0.0	13.0	12	85.7	2,848	96.6
2020	0.0	14.3	8	50.0	1,347	38.5
<b>Totals</b>						
<b>2019</b>	<b>100.0</b>	<b>100.0</b>	<b>14</b>	<b>100.0</b>	<b>2,947</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>100.0</b>	<b>16</b>	<b>100.0</b>	<b>3,497</b>	<b>100.0</b>
<i>Source: 2015 ACS; Bank Data, 2019 &amp; 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

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

The distribution of borrowers reflects reasonable penetration among businesses of different sizes. The following table shows that FSBS’s lending performance to businesses with GARs of \$1 million or less trailed the percentage of businesses within that revenue category in 2019 and 2020. In addition, the bank’s lending performance decreased from 2019 to 2020. The percentage of businesses, however, is not necessarily indicative of the demand for small business loans. As previously mentioned, this AA has a high level of competition with the top three lenders having a combined market share of 48.1. Additionally, each loan reported in the Revenue Not Available category in 2020 are PPP loans, which served as an essential credit need during the pandemic. If

the PPP loans are not included in the calculation, the bank’s lending performance for 2020 is comparable to 2019 performance.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category – Lexington-Fayette MSA AA</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<=\$1,000,000					
2019	83.6	7	63.6	2,901	78.2
2020	84.9	9	52.9	1,388	47.5
>\$1,000,000					
2019	5.4	4	36.4	810	21.8
2020	4.7	5	29.4	1,500	51.3
Revenue Not Available					
2019	11.1	0	0.0	0	0.0
2020	10.4	3	17.6	35	1.2
<b>Totals</b>					
<b>2019</b>	<b>100.0</b>	<b>11</b>	<b>100.0</b>	<b>3,711</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>17</b>	<b>100.0</b>	<b>2,923</b>	<b>100.0</b>
<i>Source: 2019 &amp; 2020 D&amp;B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>					

**COMMUNITY DEVELOPMENT TEST**

FSBS demonstrated adequate responsiveness to the community development needs of the Lexington-Fayette MSA AA through loans, qualified investments, and services. Examiners considered the institution’s capacity and the need and availability of such opportunities.

**Community Development Loans**

FSBS originated 2 community development loans totaling approximately \$1.8 million during the evaluation period inside the Lexington-Fayette MSA AA. Both loans were for affordable housing that benefited LMI individuals, and reflects the bank’s willingness to meet community development credit needs that were noted by a community contact. The following table illustrates the bank’s activity by year and purpose.

<b>Community Development Lending – Lexington-Fayette MSA AA</b>										
<b>Year</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
2018 (Partial)	0	-	0	-	0	-	0	-	0	-
2019	0	-	0	-	0	-	0	-	0	-
2020	1	300	0	-	0	-	0	-	1	300
2021 (YTD)	1	1,500	0	-	0	-	0	-	1	1,500
<b>Total</b>	<b>2</b>	<b>1,800</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>2</b>	<b>1,800</b>
<i>Source: Bank Data</i>										

**Qualified Investments**

FSBS did not make any qualified investments during the review period. However, the bank made 1 qualified donation totaling approximately \$1,500 to an affordable housing organization in the Lexington-Fayette MSA AA. FSBS’s investment performance decreased from the prior evaluation. The community contact commented on the high level of competition in the area and did not believe there are numerous investment opportunities that financial institutions can participate in within the AA. The following table illustrates the bank’s community development investments by purpose.

<b>Qualified Investments-Lexington-Fayette MSA</b>										
<b>Activity Year</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Qualified Grants & Donations	1	2	0	-	0	-	0	-	1	2
<i>Source: Bank Data</i>										

**Community Development Services**

During the evaluation period, bank officers and employees provided 3 instances of community development services by offering financial expertise or technical assistance to one community development-related organization in the Lexington-Fayette MSA AA. In 2019, 2020, and 2021, an FSBS employee served on the advisory board for a local assisted living facility with a majority of residents being LMI (Community Services). The following table illustrates the bank’s services by year and purpose.

<b>Community Development Services – Lexington-Fayette MSA AA</b>					
<b>Year</b>	<b>Affordable Housing</b>	<b>Community Services</b>	<b>Economic Development</b>	<b>Revitalize or Stabilize</b>	<b>Totals</b>
	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>
2018 (Partial)	0	0	0	0	<b>0</b>
2019	0	1	0	0	<b>1</b>
2020	0	1	0	0	<b>1</b>
2021 (YTD)	0	1	0	0	<b>1</b>
<b>Total</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>3</b>
<i>Source: Bank Data</i>					



## STATE OF TENNESSEE – Full-Scope Review

**CRA RATING FOR TENNESSEE: SATISFACTORY**

**The Lending Test is rated: Satisfactory**

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

### DESCRIPTION OF INSTITUTION’S OPERATIONS IN TENNESSEE

FSBS has one AA within Tennessee: the Tennessee Non-MSA AA (Claiborne County). The bank operates one full-service branch location in Claiborne County.

### SCOPE OF EVALUATION – TENNESSEE NON-MSA AA

The State of Tennessee is the secondary focus of this evaluation, since this state has fewer deposits and branches. Examiners weighted FSBS’s performance within Tennessee less than the performance within Kentucky. Examiners conducted a full-scope review of the Tennessee Non-MSA AA for both the Lending and Community Development Tests.

### DESCRIPTION OF INSTITUTION’S OPERATIONS IN TENNESSEE

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

The Tennessee Non-MSA AA includes 9 census tracts with the following income designations: 2 moderate-income, 6 middle-income, and 1 upper-income. Of the 15,001 housing units in the AA, 60.9 percent are owner-occupied, 23.7 percent are occupied rental units, and 15.3 percent are vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units. The following table illustrates select demographic characteristics of the Tennessee Non-MSA AA.

<b>Demographic Information of the Tennessee Non-MSA AA</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	9	0.0	22.2	66.7	11.1	0.0
Population by Geography	31,748	0.0	17.3	73.8	9.0	0.0
Housing Units by Geography	15,001	0.0	17.8	73.6	8.6	0.0
Owner-Occupied Units by Geography	9,142	0.0	16.7	74.6	8.6	0.0
Occupied Rental Units by Geography	3,563	0.0	17.3	73.9	8.8	0.0
Vacant Units by Geography	2,296	0.0	22.6	69.0	8.4	0.0
Businesses by Geography	1,314	0.0	21.8	66.4	11.9	0.0
Farms by Geography	54	0.0	22.2	64.8	13.0	0.0
Family Distribution by Income Level	8,658	22.3	17.9	22.3	37.5	0.0
Household Distribution by Income Level	12,705	27.7	15.1	17.2	40.0	0.0
Median Family Income Non-MSAs - TN		\$46,066	Median Housing Value			\$100,585
			Median Gross Rent			\$505
			Families Below Poverty Level			17.7%
<i>Source: 2015 ACS and 2020 D&amp;B Data</i>						
<i>Due to rounding, totals may not equal 100.0%</i>						
<i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

Examiners used the 2019 and 2020 FFIEC-updated MFI level to analyze home mortgage loans under the Borrower Profile criterion. The following table illustrates the income categories.

<b>MFI Ranges – Tennessee Non-MSA AA</b>				
<b>MFIs</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
2019 (\$50,100)	<\$25,050	\$25,050 to <\$40,080	\$40,080 to <\$60,120	≥\$60,120
2020 (\$52,200)	<\$26,100	\$26,100 to <\$41,760	\$41,760 to <\$62,640	≥\$62,640
<i>Source: FFIEC</i>				

According to 2020 D&B data, 82.3 percent of the 1,314 businesses in the AA have GARs of \$1 million or less, 4.0 percent have more than \$1 million, and 13.7 percent have unknown revenues. Additionally, 88.3 percent of businesses have nine or fewer employees, and 85.8 percent operate from a single location, indicating the opportunity level to serve small businesses. Service industries represents the largest portion of businesses at 33.8 percent, followed by non-classifiable establishments at 17.7 percent, and retail trade at 14.6 percent. The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR level.

Data obtained from the U.S. Bureau of Labor Statistics indicates the annual state unemployment rate was 3.4 percent in 2019 and 7.5 percent in 2020. The annual unemployment rates in the Tennessee Non-MSA AA were 4.2 percent in 2019 and 7.0 percent in 2020. The increased

unemployment rate throughout the Tennessee Non-MSA AA in 2020 is due to the COVID-19 pandemic and indicates a weakened labor force and potential decrease in lending opportunities.

### **Competition**

FSBS operates in a moderately competitive market for financial services when considering geographic size and population of the Tennessee Non-MSA AA. According to FDIC Market Share data, as of June 30, 2021, 4 financial institutions operate 12 full-service branches within the AA. Of these institutions, FSBS ranks 4<sup>th</sup> with 2.6 percent of the deposit market share.

As previously discussed, FSBS was subject to HMDA reporting requirements in 2019 and 2020. In 2020, 131 lenders originated 839 mortgage loans in Tennessee Non-MSA AA. The top three lenders originated 20.5 percent of those loans. FSBS ranked 25<sup>th</sup> with 0.9 percent of the lending market share in 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 banks, credit unions, and non-depository lenders in the AA. Aggregate small business lending data for 2020 reflects 27 lenders reported 219 business loans in the AA, with the top three lenders accounting for 45.6 percent of the market share. This indicates a moderate level of demand and a high level of competition. The top three lenders include two credit card companies and one large national bank.

### **Community Contact**

As part of the evaluation process, examiners contact third parties in the AA to assist in identifying credit and community development needs and opportunities, including the bank's responsiveness to those needs. It also demonstrates what credit and community development needs are available.

Examiners reviewed a contact form from a local government representative in Claiborne County. The contact stated there is a need for affordable housing within the county, noting that the local university's doctoral program has caused rent and housing prices to surge. Additionally, the contact considered small business and home mortgage loans to represent the primary credit needs of the community. The contact believes that institutions are meeting the credit needs of the community and that competition does play a role in opportunities for financial institutions within the area.

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

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

# CONCLUSIONS ON PERFORMANCE CRITERIA IN TENNESSEE NON-MSA AA

## LENDING TEST

FSBS demonstrated reasonable performance under the Lending Test. Geographic Distribution and Borrower Profile performance primarily support this conclusion. Examiners placed equal weight on home mortgage and small business performance within the AA.

### Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the AA. FSBS's overall performance is the result of reasonable 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 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, the bank exceeded aggregate performance in moderate-income tracts in 2019. In 2020, FSBS's lending decreased to a level consistent with aggregate performance.

<b>Geographic Distribution of Home Mortgage Loans – Tennessee Non-MSA AA</b>						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Moderate						
2019	16.7	13.8	3	33.3	320	42.1
2020	16.7	13.2	1	12.5	115	9.2
Middle						
2019	74.6	79.4	5	55.6	361	47.5
2020	74.6	75.2	6	75.0	794	63.5
Upper						
2019	8.6	6.8	1	11.1	79	10.4
2020	8.6	11.6	1	12.5	342	27.4
Not Available						
2019	0.0	0.0	0	0.0	0	0.0
2020	0.0	0.0	0	0.0	0	0.0
<b>Totals</b>						
<b>2019</b>	<b>100.0</b>	<b>100.0</b>	<b>9</b>	<b>100.0</b>	<b>759</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>100.0</b>	<b>8</b>	<b>100.0</b>	<b>1,251</b>	<b>100.0</b>
<small>Source: 2015 ACS; Bank Data, 2019 &amp; 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</small>						

***Small Business Loans***

The geographic distribution of small business loans reflects reasonable dispersion throughout the AA. As shown in the following table, FSBS’s sampled small business lending performance was below the percentage of businesses within the moderate-income census tracts for 2019; however, the bank’s performance in 2020 increased to a level that slightly exceeded the percent of businesses.

<b>Geographic Distribution of Small Business Loans – Tennessee Non-MSA AA</b>					
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Moderate					
2019	21.2	0	0.0	0	0.0
2020	21.8	1	25.0	330	75.3
Middle					
2019	67.8	2	100.0	71	100.0
2020	66.4	3	75.0	108	24.7
Upper					
2019	11.1	0	0.0	0	0.0
2020	11.9	0	0.0	0	0.0
Not Available					
2019	0.0	0	0.0	0	0.0
2020	0.0	0	0.0	0	0.0
<b>Totals</b>					
<b>2019</b>	<b>100.0</b>	<b>2</b>	<b>100.0</b>	<b>71</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>4</b>	<b>100.0</b>	<b>438</b>	<b>100.0</b>
<i>Source: 2019 &amp; 2020 D&amp;B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>					

**Borrower Profile**

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes. FSBS’s reasonable performance in home mortgage and small business lending supports this performance conclusion. Examiners focused on the percentage by number of home mortgage loans to low- and moderate-income borrowers. They also focused on 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 reasonable penetration among individuals of different income levels. Examiners focused on the comparison to aggregate data. As shown in the following table, FSBS did not make any home mortgage loans to low-income borrowers in 2019 and 2020. Aggregate performance to low-income borrowers decreased from 2019 to 2020. For moderate-income borrowers, FSBS’s home mortgage lending performance exceeded aggregate performance in both 2019 and 2020. Additionally, from 2019 to 2020 aggregate penetration among moderate-income borrowers decreased, while FSBS’s penetration increased.

<b>Distribution of Home Mortgage Loans by Borrower Income Level – Tennessee Non-MSA AA</b>						
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low						
2019	22.3	7.4	0	0.0	0	0.0
2020	22.3	5.6	0	0.0	0	0.0
Moderate						
2019	17.9	15.7	2	22.2	152	20.0
2020	17.9	14.7	2	25.0	181	14.5
Middle						
2019	22.3	19.9	3	33.3	255	33.6
2020	22.3	17.9	1	12.5	115	9.2
Upper						
2019	37.5	40.0	3	33.3	239	31.5
2020	37.5	40.4	5	62.5	955	76.3
Not Available						
2019	0.0	17.1	1	11.1	113	14.9
2020	0.0	21.5	0	0.0	0	0.0
<b>Totals</b>						
<b>2019</b>	<b>100.0</b>	<b>100.0</b>	<b>9</b>	<b>100.0</b>	<b>759</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>100.0</b>	<b>8</b>	<b>100.0</b>	<b>1,251</b>	<b>100.0</b>
<i>Source: 2015 ACS; Bank Data, 2019 &amp; 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

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

The distribution of borrowers reflects reasonable penetration among businesses of different sizes. FSBS's lending performance to borrowers with GARs of \$1 million or less was significantly above the percentage of businesses in that revenue category in 2019. However, the bank's performance did decrease in 2020. The percentage of businesses, however, is not necessarily indicative of the demand for small business loans by those businesses. Additionally, the loan reported in the Revenue Not Available category in 2020 is a PPP loan, which served as an essential credit need during the pandemic.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category – Tennessee Non-MSA AA</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>&lt;=\$1,000,000</b>					
2019	81.7	2	100.0	71	100.0
2020	82.3	2	50.0	59	13.5
<b>&gt;\$1,000,000</b>					
2019	4.4	0	0.0	0	0.0
2020	4.0	1	25.0	330	75.3
<b>Revenue Not Available</b>					
2019	13.9	0	0.0	0	0.0
2020	13.7	1	25.0	49	11.2
<b>Totals</b>					
<b>2019</b>	<b>100.0</b>	<b>2</b>	<b>100.0</b>	<b>71</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>4</b>	<b>100.0</b>	<b>438</b>	<b>100.0</b>
<i>Source: 2019 &amp; 2020 D&amp;B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>					

### **COMMUNITY DEVELOPMENT TEST**

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

#### **Community Development Loans**

FSBS originated 7 community development loans totaling approximately \$2.8 million during the evaluation period inside the Tennessee Non-MSA AA. Each of the 7 loans were used to revitalize or stabilize distressed or underserved middle-income or moderate-income census tracts in the AA. The following table illustrates the bank’s activity by year and purpose.

<b>Community Development Lending – Tennessee Non-MSA AA</b>										
<b>Year</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
2018 (Partial)	0	-	0	-	0	-	0	-	0	-
2019	0	-	0	-	0	-	0	-	0	-
2020	0	-	0	-	0	-	6	2,355	6	2,355
2021 (YTD)	0	-	0	-	0	-	1	431	1	431
<b>Total</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>7</b>	<b>2,786</b>	<b>7</b>	<b>2,786</b>
<i>Source: Bank Data</i>										

Below is a notable example of the banks community development loans:

- In 2020, the bank made a loan for approximately \$719,000 to a local store in Claiborne County. The store is located in distressed or underserved area (Revitalize or Stabilize).
- In 2020, the bank originated a loan for approximately \$517,000 to a local healthcare service facility. The health service facility is located in a moderate-income census tract (Revitalize or Stabilize).

**Qualified Investments**

FSBS did not make any qualified investments within the Tennessee Non-MSA AA during the review period. The bank’s investment performance has decreased slightly since the prior evaluation.

**Community Development Services**

During the evaluation period, bank officers and employees provided 23 instances of community development services and financial expertise to multiple organizations. Services provided were for Community Services and Economic Development.

<b>Community Development Services – Tennessee Non-MSA AA</b>					
<b>Year</b>	<b>Affordable Housing</b>	<b>Community Services</b>	<b>Economic Development</b>	<b>Revitalize or Stabilize</b>	<b>Totals</b>
	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>
2018 (Partial)	0	4	1	0	<b>5</b>
2019	0	5	1	0	<b>6</b>
2020	0	5	1	0	<b>6</b>
2021 (YTD)	0	5	1	0	<b>6</b>
<b>Total</b>	<b>0</b>	<b>19</b>	<b>4</b>	<b>0</b>	<b>23</b>
<i>Source: Bank Data</i>					

Below are notable examples of community development service activities:

- On an annual basis since the previous evaluation, an FSBS employee serves as a director of an economic partnership organization in Claiborne County. This organization helps promote economic opportunities within the area (Economic Development).
- In 2019, 2020, and 2021, an employee of FSBS participated in fundraiser events held at a local middle school in Claiborne County. The majority of students at the middle school are LMI. (Community Service).



## APPENDICES

### INTERMEDIATE SMALL BANK PERFORMANCE CRITERIA

#### **Lending Test**

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

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

#### **Community Development Test**

The Community Development Test considers the following criteria:

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

## SUMMARY OF RATINGS FOR RATED AREAS

<b>Rated Area</b>	<b>Lending Test</b>	<b>Community Development Test</b>	<b>Rating</b>
Kentucky	Satisfactory	Satisfactory	Satisfactory
Tennessee	Satisfactory	Satisfactory	Satisfactory

## GLOSSARY

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

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

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

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

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

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

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

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms; or
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

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

**Community Development Financial Institutions (CDFIs):** CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

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

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

**Community Development Loan:** A loan that:

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

**Community Development Service:** A service that:

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

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

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

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

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

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

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

**Full-Scope Review:** A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

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

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

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

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

**Limited-Scope Review:** A limited-scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area.

Performance under applicable tests is often analyzed using only quantitative factors (e.g., geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

**Low Income Housing Tax Credit:** The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

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

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

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

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

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

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

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

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

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

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

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

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

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

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

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

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