



Office of the  
Comptroller of the Currency  
Washington, DC 20219

# INTERMEDIATE SMALL BANK

## PUBLIC DISCLOSURE

June 27, 2017

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First, A National Banking Association  
Charter Number 22949

6480 U.S. Highway 98 West Hattiesburg, MS 39404

Office of the Comptroller of the Currency

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NOTE: 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'S CRA RATING:** This institution is rated **Satisfactory**.

**The Lending Test is rated: Satisfactory.**

**The Community Development (CD) Test is rated: Satisfactory.**

The major factors that support this rating are the following:

- A loan-to-deposit (LTD) ratio that is reasonable relative to the institution's size, competition, and financial condition.
- A majority of loans being originated within the assessment area (AA).
- Reasonable borrower distribution of loans in the AA.
- Reasonable geographic distribution of loans in the AA.
- Satisfactory CD performance that demonstrates the bank is meeting the CD needs of its combined AAs through CD loans and services.

## **Scope of Examination**

We evaluated The First, A National Banking Association's (The First) CRA performance utilizing the Interagency Intermediate Small Bank CRA procedures, which focus on the bank's lending performance and CD activities. The lending performance, or test, evaluates The First's record of helping meet the credit needs of its AAs through lending activities. The CD test evaluates the institution's responsiveness to the identified needs of its AAs through the analysis of qualified lending, investments, and services.

In evaluating the bank's lending performance, the bank's primary loan products, as illustrated in the table below, were analyzed to determine which products required review. When analyzed by both percentage of the number of loans and the dollar amount of loans, the bank's loan portfolio primarily consists of commercial loans, at 29.76 percent by number and 65.70 percent by dollar amount, and residential at 25.93 percent by number and 29.17 percent by dollar amount. While consumer loans commanded 43.51 percent of the bank's loan portfolio by number, such loans only comprised 2.77 percent of loans by dollar amount and therefore this product was not analyzed.

The First Loan Portfolio				
Loan Category	Number	Percent of Number	Total Dollars (000)	Percentage of Total Dollars
Residential	1,509	25.93	303,627	29.17
Commercial	1,732	29.76	683,834	65.70
Consumer	2,532	43.51	28,789	2.77
Agricultural	47	0.80	24,725	2.36
<b>Total</b>	<b>5,820</b>	<b>100%</b>	<b>1,040,975</b>	<b>100%</b>

Source: Bank-Provided Data

The review period for the lending test was from January 1, 2015 to June 30, 2017. The bank is a Home Mortgage Disclosure Act (HMDA) reporter and consequently, all HMDA-reportable loans were analyzed. For small business lending, we sampled a total of 72 business loans for analysis over the same time period. The review period for CD activity was from the prior examination, August 5, 2014 to June 27, 2017. All CD activity provided by the bank was analyzed to determine if they qualified as CD activities. When more recent data was needed for comparative purposes, such data was used and the applicable date noted. The previous CRA examination covered a review period from January 1, 2012 until December 31, 2013 and the findings revealed the bank was satisfactorily meeting the credit needs of its community.

Prior to conducting this CRA performance evaluation, we validated the integrity of HMDA data originated during the years of 2014, 2015, and 2016, concluding that the data was reliable. While discussions were also held regarding the bank's CD activities at that time, those activities were not analyzed to determine if they were CD-qualifying activities until the start of this CRA examination.

As part of the examination, we discussed the credit needs of those AAs receiving full-scope reviews with community contacts familiar with the areas. The feedback provided was discussed in the respective areas below and incorporated into the demographic profiles of those areas receiving full-scope reviews.

## Description of Institution

The First is an interstate bank, with approximately \$1.8 billion in total assets, as of March 31, 2017 and is headquartered in Hattiesburg, Mississippi. The institution is a wholly-owned subsidiary of First Bancshares, Inc., a one-bank holding company. The First's primary business strategy is to serve market needs by originating commercial and residential real estate loans. The First's previous CRA evaluation, dated August 4, 2014, resulted in a rating of "Satisfactory". The bank primarily offers commercial and industrial real estate loans, small business loans and lines of credit (LOCs), conventional fixed-rate and adjustable-rate mortgage loans for the purposes of construction purchase and refinance, home equity loans and LOCs, personal unsecured LOCs, personal loans, and automobile loans. No financial or legal impediments prevent The First from meeting the credit needs of the community.

As of March 31, 2017, The First's net loans and leases totaled \$1.1 billion, representing 61 percent of total assets. Tier one capital was \$159 million and the tier one leverage ratio was 9.35 percent. As discussed above, the loan portfolio consists of 65.70 percent commercial, 29.17 percent residential real estate, 2.77 percent consumer, and 2.36 percent agricultural.

The First operates 45 branches in ten AAs in four states, including Mississippi, Alabama, Louisiana, and Florida. In Mississippi, the bank has branches in the Hattiesburg MSA, (excluding Perry County) Gulfport-Biloxi MSA, Jones County Non-MSA, and Pearl River County Non-MSA. In Alabama, the bank operates in the Mobile MSA and the Daphne-Fairhope-Foley MSA. In Louisiana, the bank operates in the Baton Rouge MSA, Washington Parish Non-MSA, and the Assumption Parish Non-MSA. In Florida, the bank has branches in the Pensacola MSA. The bank's AAs meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income census tracts (CTs). In addition to the 45 branches, the bank operates with three loan production offices, with one being in Louisiana and the remaining two in Mississippi.

The bank has not closed any branches since the previous examination, but did relocate one branch in the Baton Rouge MSA. The First simultaneously acquired Iberville Bank of Plaquemine, Louisiana and Gulf Coast Community Bank of Pensacola, Florida on January 2, 2017. The acquisition in Louisiana added an additional 10 branches in that state, while the acquisition in Florida added an additional five branches. All 15 additional branches are full-service branches with four of the branches being located in moderate-income CTs (two in Louisiana and two in Florida).

The First continues to operate as a Community Development Financial Institution (CDFI). A CDFI has a mission to increase economic opportunity and promote CD investments for underserved populations and in distressed communities in the United States. As a CDFI, The First is eligible to apply for a Bank Enterprise Award (BEA) from the CDFI Fund. The BEA program rewards banks for their activities that support other CDFIs, provide financing activities in distressed communities and provide special service activities. The CDFI Fund awarded The First \$265 thousand in 2015.

## **Selection of Areas for Full-Scope Review**

The First operates in ten AAs located in the States of Mississippi, Alabama, Louisiana, and Florida. We conducted full-scope reviews in each state with the exception of Florida. Florida was excluded from this evaluation since the bank only entered the Florida market in January 2017 and consequently did not have enough time to establish a market presence for evaluation.

Two areas received full-scope reviews in the state of Mississippi: Hattiesburg MSA and the Gulfport-Biloxi MSA. The Daphne-Fairhope-Foley MSA was the full-scope AA reviewed in Alabama, and Washington Parish Non-MSA was the area reviewed in Louisiana.

## Ratings

The bank’s overall rating is a blend of the ratings from the States of Mississippi and Alabama. The bank’s lending activity in the State of Louisiana was limited and did not have a sufficient volume of lending activity to allow for meaningful analysis. Consequently, activities in Louisiana did not have an impact on the bank’s overall rating.

The ratings in Mississippi and Alabama are based primarily on those areas that received full-scope reviews. The State of Mississippi was weighted more heavily than the State of Alabama primarily based on the fact that Mississippi possessed a significantly higher percentage of the bank’s overall deposits, at 72.66 percent, and branches at 58.62 percent. Additionally, as The First is primarily a commercial lender, more weight was given to the bank’s small business performance than to the bank’s HMDA performance.

## Conclusions with Respect to Performance Criteria

The First’s lending performance is satisfactory. The bank’s LTD ratio is reasonable and a majority of loans were originated in The First’s AA. Overall, the distribution of loans to businesses with revenues under \$1 million, and the distribution of loans to low- and moderate-income families was determined to be reasonable. Furthermore, loans located in low- and moderate-income CTs were also determined to be reasonable.

### LTD Ratio

The bank’s quarterly average LTD ratio of 77.8 percent is reasonable relative to the bank’s size, competition, and financial condition. During the 11 quarters since the previous CRA Evaluation, The First’s quarterly average LTD ratio ranged from a low of 72.63 percent to a high of 84.48 percent. The First’s overall average LTD ratio of 77.83 percent is comparable to similarly-situated financial institutions, which had a quarterly average LTD ratio of 85.87 percent during the same time period, as evidenced in the table below.

<b>The First’s Loan-to-Deposit Ratio</b>		
<b>Institution</b>	<b>Assets (000s) (as of 06/30/17)</b>	<b>Quarterly, Average LTD Ratio</b>
The First, A National Banking Association	\$1,782	77.8%
Investar Bank, Baton Rouge, LA	1,174	102.0%
Community Bank, Ellisville, MS	712	82.6%
Community Bank Coast, Biloxi, MS	837	81.6%
The Citizens Bank of Meridian, Meridian, MS	1,350	76.8%

Source: FFIEC Uniform Bank Performance Reports

## Lending in AA

The First originated a majority of loans in its AA during the review period. As shown in the following table, 76.2 percent of the bank’s loans by number and 72.7 percent by dollar amount were made in the bank’s AA.

Lending in The First’s Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage	1,337	75.3	438	24.7	1,775	251,655	71.2	101,748	28.8	353,403
Small Business	71	98.6	1	1.4	72	20,451	98.5	310	1.49	20,761
Totals	1408	76.2	439	23.8	1847	272,106	72.7	102,058	27.3	374,164

Source: 2015, 2016, and first half of 2017 HMDA data and a sample of small business lending. Note: Lending for Home Mortgage includes all of the bank’s AAs while the small business lending was sampled from full-scope areas only.

## Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), or 12 CFR 195.28(c), in determining a national bank’s or The First’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography or in any AA by an affiliate whose loans have been considered as part of the bank’s lending performance. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

## State Rating

### State of Mississippi

**CRA Rating for Mississippi: Satisfactory.**

**The Lending test is rated: Satisfactory.**

**The CD test is rated: Satisfactory.**

Major factors that support the assigned rating include the following:

- The bank's dispersion of loans by revenue of businesses is reasonable.
- The geographic distribution of residential and small business loans reflects a reasonable dispersion within the AAs.
- The First's CD performance demonstrates satisfactory responsiveness to the CD needs of its AAs.

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN MISSISSIPPI

The bank operates in four AAs in the State of Mississippi including the Hattiesburg (excluding Perry County) MSA, Gulfport-Biloxi MSA, Jones County Non-MSA, and Pearl River County Non-MSA.

Each of these AAs are described in detail below.

#### Hattiesburg MSA

The Hattiesburg AA includes the counties of Forrest and Lamar, but excludes Perry County, which is also part of the Hattiesburg MSA. Management determined the entire MSA would be too large to serve, and the bank's branches are only located in Forrest and Lamar counties. Hattiesburg is the principal city in the AA. The AA meets regulatory guidelines by including whole geographies and not arbitrarily excluding low- and moderate-income areas. The Hattiesburg MSA has 25 total CTs (three low-income, seven moderate-income, eight middle-income, and seven upper-income).

See the table below for further details regarding the bank's AA, which is based on 2010 census data:



Demographic Information of Hattiesburg MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
<b>Census Tracts</b>	25	12.00%	28.00%	32.00%	28.00%	0.00%
<b>Population by Tract</b>	130,592	10.97%	21.77%	30.76%	36.50%	0.00%
<b>Housing Units</b>	54,296	10.13%	24.16%	31.13%	34.58%	0.00%
<b>Owner-Occupied Housing by Tract</b>	30,633	6.29%	11.76%	37.47%	44.48%	0.00%
<b>Family Distribution by Income Level</b>	30,937	24.32%	15.83%	16.87%	42.98%	0.00%
<b>Median Family Income</b>		\$54,988	<b>Median Housing Value</b>			\$123,361
<b>FFIEC Updated Median Family Income for 2016</b>		\$53,800	<b>Unemployment Rate</b>			4.88%
<b>Households Below Poverty Level</b>		20.96%				
Source: 2012 FFIEC updated MFI						
(*) The NA category consists of Tracts that have not been assigned an income classification.						

The Federal Financial Institutions Examination Council’s (FFIEC) updated 2016 median family income for the AA was \$53,800. Low-income is defined as less than 50 percent of the median family income. Moderate-income is defined as 50 percent to less than 80 percent of the median family income. Middle-income is defined as 80 percent to 119 percent of the median family income. Upper-income is defined as income of 120 percent and over the median family income. The following table depicts income categories:

Income Categories – Hattiesburg			
Low	Moderate	Middle	Upper
<\$26,900	\$26,900 – \$43,039	\$43,040- \$64,022	>\$64,560

Source: US Census data

Low-income families earning a median family income less than \$26,900 represented 24.32 percent of families in the AA. Moderate-income families comprised 15.83 percent of the AA population. In 2012, 20.96 percent of households in the AA earned wages below the property level.

Based on 2016 business demographic data, there were 8,005 non-farm businesses in the AA. Of these, 6,376 (80 percent) of the businesses had revenues of less than \$1 million, 417 (5 percent) had revenues greater than \$1 million, and 1,212 (15 percent) did not report revenue information. Major employers of Hattiesburg include Forrest General Hospital (healthcare), Camp Shelby (military), Hattiesburg Clinic (healthcare), University of Southern Mississippi (education), Lamar County School District (education), and Merritt Health Wesley (Healthcare). According to the Bureau of Labor Statistics, the Hattiesburg MSA had a 4.8 percent unemployment rate in May 2017, compared to Mississippi’s state average of 4.9 percent and the national average of 4.1 percent.

Opportunities for residential lending remain limited within the three low-income and seven moderate-income CTs in the AA. Of the 18,617 housing units within those ten

CTs, more than 50 percent of the units include occupied rental units. A significant majority of those rental units located in those low- and moderate-income CTs are occupied by students that attend the University of Southern Mississippi and William Carey University.

According to the June 30, 2016 FDIC Summary of Deposits report, The First ranked fifth out of 18 deposit institutions, with \$216 million in deposits within the AA and a market share of 7.93 percent. The First has its main office and three branch locations in the AA. The First’s primary competitors in the AA are Bancorp South (9 offices, 25 percent market share), Whitney Bank (6 offices, 13.61 percent market share), Trustmark National Bank (10 offices, 13.36 percent market share), and Regions Bank (6 offices, 13.32 percent market share).

In conjunction with this examination, we conducted an interview with a community leader in the Hattiesburg MSA AA. The type of organization represented was community-based, with a goal of assisting with disaster recovery and affordable housing for area residents, including those whose income status is considered as low and moderate. The community leader communicated the need for affordable housing within the AA.

Gulfport-Biloxi MSA

The Gulfport-Biloxi AA consists of Hancock, Harrison, and Jackson counties, which include the cities of Diamondhead, Bay St. Louis, Gulfport, Long Beach, Biloxi, Ocean Springs, and Pascagoula. The AA meets regulatory guidelines by including whole geographies and not arbitrarily excluding low- and moderate-income areas. The Gulfport-Biloxi-Pascagoula AA has 80 CTs (four low-income, 16 moderate-income, 43 middle-income, and 14 upper-income).

See the table below for further details regarding the bank’s AA, which is based on 2010 census data:

Demographic Information of Gulfport-Biloxi MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
<b>Census Tracts</b>	80	5.00%	22.50%	53.75%	17.50%	1.25%
<b>Population by Tract</b>	370,702	2.76%	13.90%	61.96%	21.35%	0.03%
<b>Housing Units</b>	158,026	2.75%	15.85%	60.84%	20.56%	0.00%
<b>Owner-Occupied Housing by Tract</b>	92,181	2.13%	12.38%	60.21%	25.28%	0.00%
<b>Family Distribution by Income Level</b>	92,171	21.82%	17.09%	20.42%	40.67%	0.00%
<b>Median Family Income</b>		\$54,910	<b>Median Housing Value</b>			\$139,797
<b>FFIEC Updated Median Family Income for 2016</b>		\$52,600	<b>Unemployment Rate</b>			5.5%
<b>Households Below Poverty Level</b>		14.21%				

Source: 2012 FFIEC updated census data  
 (\*) The NA category consists of Tracts that have not been assigned an income classification.

The 2016 FFIEC updated median family income is \$52,600. Low income is defined as less than 50 percent of the median family income. Moderate income is defined as 50 percent to less than 80 percent of the median family income. Middle-income is defined as 80 percent to 119 percent of the median family income. Upper-income is defined as income of 120 percent and over the median family income. The following table depicts income categories:

Income Categories – Gulfport-Biloxi MSA			
Low	Moderate	Middle	Upper
<\$26,300	\$26,300 – \$42,079	\$42,080- \$63,594	>\$63,120

Source: US Census data

Low-income families earning a median family income of \$26,299 or less represented 21.82 percent of families in the AA. Moderate-income families comprised 17.09 percent of the AA population. In 2012, 14.21 percent of the AA earned wages below the poverty level.

Based on 2016 business demographic data, there were 20,019 non-farm businesses in the AA. Of these, 16,220 (81 percent) of the businesses had revenues of less than \$1 million, 894 (4 percent) had revenues greater than \$1 million, and 2,905 (15 percent) did not report revenue information. Major employers within the AA include: Keesler Air Force Base (military), Naval Construction Battalion Center (military), Memorial Hospital (healthcare), Beau Rivage Resort and Casino (gaming), Harrison County School District (education), and VA Gulf Coast Healthcare System (healthcare).

According to the June 30, 2016 Federal Deposit Insurance Corporation’s (FDIC) Summary of Deposits report, The First commands 6.67 percent of the market share and ranks fifth out of 16 institutions in the AA. Some of the largest competition comes from Whitney Bank (29 offices, 44.46 percent market share), The Peoples Bank (18 offices, 10.23 percent market share), BancorpSouth Bank (10 offices, 8.37 percent market share), and Merchants & Marine Bank (10 offices, 8.02 percent market share).

In conjunction with this examination, we conducted an interview with a community leader in the Gulfport-Biloxi MSA AA. This community leader is involved in a state wide organization whose goal is to assist with affordable housing, provide gap funding for commercial projects that provide jobs in the state, and financial education. The community leader communicated the need for affordable housing within the AA.

Jones County and Pearl River County Non-MSA

Pearl River County and Jones County comprise the bank’s two Non-MSA AAs in Mississippi. Pearl River County is part of the Picayune Micropolitan area. Poplarville is the county seat for Pearl River County. Jones County is part of the Laurel, Mississippi Micropolitan Statistical Area. Its county seats include Laurel and Ellisville, Mississippi. The combined AAs have 23 CTs (two moderate-income, 12 middle-income, and eight upper-income). There are no low-income CTs in the AA, and one CT is listed as NA.

See the table below for further details regarding the bank’s AAs, which are based on 2010 census data:

Demographic Information of the Mississippi Non-MSA Combined						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Census Tracts	23	0.00%	8.70%	52.17%	34.78%	4.35%
Population by Tract	123,595	0.00%	8.74%	53.95%	37.31%	0.00%
Housing Units	51,897	0.00%	8.86%	54.35%	36.79%	0.00%
Owner-Occupied Housing by Tract	34,560	0.00%	5.71%	52.87%	41.42%	0.00%
Family Distribution by Income Level	33,127	20.12%	15.85%	18.21%	45.82%	0.00%
Median Family Income		\$45,020	Median Housing Value			\$100,645
FFIEC Adjusted Median Family Income for 2016		\$42,900	Unemployment Rate			5.6%
Households Below Poverty Level		20.87%				

Source: 2012 FFIEC updated census data  
 (\*) The NA category consists of Tracts that have not been assigned an income classification.

The 2016 FFIEC adjusted median family income is \$42,900. Low-income is defined as less than 50 percent of the median family income. Moderate-income is defined as 50 percent to less than 80 percent of the median family income. Middle-income is defined as 80 percent to 119 percent of the median family income. Upper-income is defined as income of 120 percent and over the median family income. The following table depicts Income Categories:

Income Categories – Mississippi Non-MSA Combined			
Low	Moderate	Middle	Upper
<\$21,450	\$21,450 – \$34,319	\$34,320- \$51,051	>\$51,480

Source: US Census data

Low-income families earning a median family income of \$21,449 or less represent 20.12 percent of families in the AA. Moderate-income families comprised 15.85 percent of the AA population. In 2012, 20.87 percent of households in the AA earned wages below the property level.

Based on 2016 business demographic data, there were 6,790 non-farm businesses in the combined AAs. Of these, 5,577 (82 percent) of the businesses had revenues of less than \$1 million, 324 (5 percent) had revenues greater than \$1 million, and 880 (13 percent) did not report revenue information. Major employers in Jones County include: Howard Industries (manufacturing), South Central Regional Medical Center (healthcare), Ellisville State School (healthcare), Jones County Schools (education), and Wayne Farms (food processing). Some of the major employers in Pearl River County include: Stennis Space Center (aeronautics), Pearl River Community College (education), Highland Community Hospital (hospital), Pearl River County School District (education), and Wal-Mart Supercenter (retail). According to the Bureau of Labor

Statistics, Jones County and Pearl River counties both had an unemployment rate of 5.6 percent in May 2017, compared to Mississippi's state average of 4.9 percent and the national average of 4.1 percent.

According to the June 30, 2016 FDIC Summary of Deposits report, The First ranked sixth out of nine institutions in Jones County with a market share of 10.39 percent. The First's primary competitors in Jones County are Community Bank (6 offices, 26.42 percent market share), First State Bank (2 offices, 15.66 percent market share), Trustmark National Bank (4 offices, 14.70 percent market share), and Bancorp South (3 offices, 12.56 percent). In Pearl River County, The First ranked fifth out of seven institutions with \$24 million in deposits and market share of 3.79 percent. Primary competitors in Pearl River County are Whitney Bank (3 offices, 48.50 percent market share), First National Bank of Picayune (5 offices, 25.57 percent market share), and Bank Plus (3 offices, 12.68 percent market share).

## **SCOPE OF EVALUATION IN MISSISSIPPI**

Both the Hattiesburg MSA and the Gulfport-Biloxi MSA received full-scope reviews, with the Non-MSA counties of Jones and Pearl River received limited-scope reviews. The ratings for the state of Mississippi are based primarily on results of those areas that received full-scope reviews. The Hattiesburg MSA and Gulfport-Biloxi were weighted equally when determining the overall rating for the state of Mississippi.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MISSISSIPPI**

The First's CRA performance in the state of Mississippi is reasonable. The lending test and the CD test both received a rating of satisfactory.

### **LENDING TEST**

The bank's performance under the lending test in the state of Mississippi is rated satisfactory.

The distribution of loans within the state of Mississippi reflects a reasonable penetration among individuals of different income levels and businesses of different sizes, given the bank's product offerings and economic conditions.

### **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

#### Hattiesburg MSA

The distribution of borrowers reflects reasonable penetration to borrowers of different incomes and among businesses of different sizes, when compared to AA demographics.

Home Mortgage

The level of lending to low-income borrowers is considerably less than the percentage of families, and reflects poor penetration to borrowers of different incomes. However, the level of lending to moderate-income borrowers is only slightly less than the percentage of families in the moderate-income CTs, and is considered reasonable.

The bank’s performance in this area is strengthened by the fact that the bank only commands 7.93 percent of the market share in the AA. The top five financial institutions in the AA command 65.29 percent of the market share, evidencing strong competition for loans in the AA. Furthermore, opportunities for residential lending remain limited within the AA. Of the 18,617 housing units within the AA, approximately 32.83 percent of the units are rentals. A significant majority of those rental units are occupied by students that attend the University of Southern Mississippi and William Carey University. Furthermore, low-income families earning a median family income less than \$26,900 represented 24.32 percent of families in the AA. Moderate-income families comprised 15.83 percent of the AA population. In 2012, 20.96 percent of households in the AA earned wages below the property level. Lastly, affordable housing was noted to be a need in the AA. The table below discusses the borrower distribution of residential real estate loans in the AA.

<b>Borrower Distribution of Residential Real Estate Loans in Hattiesburg MSA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Loans	24.3	3.1	15.8	13.0	16.9	19.1	43.0	57.2

Source: CRA WIZ DATA and demographic data

Small Business

The distribution of business loans reflects reasonable penetration among businesses of different sizes. The bank’s performance significantly exceeded the percentage of businesses in the AA by dollar amount, and was only slightly less than percentage of businesses by number. Although the 19 percent of unreported businesses could potentially be additional small businesses, we have no reason to believe that the non-reporters are a disproportionate amount of small businesses. The table below discusses the distribution of small business loans in the AA.

<b>Borrower Distribution of Loans to Businesses in Hattiesburg MSA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	76.5	4.7	18.8	100%
% of Bank Loans in AA by #	70	30	0	100%
% of Bank Loans in AA by \$	82.83	17.17	0	100%

Sampled Data; Dunn and Bradstreet data

Gulfport-Biloxi MSA

The distribution of borrowers reflects poor penetration to borrowers of different incomes but reasonable penetration among businesses of different sizes, when compared to AA demographics.

Home Mortgage

The level of lending to both low- and moderate-income borrowers is considerably less than the percentage of families, and reflects poor penetration to borrowers of different incomes. The bank is ranked fifth out of 16 financial institutions in the AA, with a market share of 6.67 percent. The top five institutions in the AA command 63.20 percent, evidencing strong competition for loans in the AA. Nevertheless, the relatively low percentage of households living below the poverty level, at 14.21 percent, and low rental rate, at 25.16 percent, evidence a market with lending opportunities.

<b>Borrower Distribution of Residential Real Estate Loans in Gulfport-Biloxi MSA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Mortgage	21.8	3.0	17.1	9.5	20.4	16.1	40.7	51.8

Source: CRA WIZ DATA and demographic data

Small Business

The distribution of business loans reflects reasonable penetration among businesses of different sizes. The bank’s performance significantly exceeded the percentage of businesses in the AA by dollar amount, and was only slightly less than percentage of businesses by number. Although the 18 percent of unreported businesses could potentially be additional small businesses, we have no reason to believe that the non-reporters are a disproportionate amount of small businesses. The table below discusses the distribution of small business loans in the AA.

<b>Borrower Distribution of Loans to Businesses in Gulfport-Biloxi MSA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	78.6	4.0	17.4	100%
% of Bank Loans in AA by #	75	25	0	100%
% of Bank Loans in AA by \$	83.61	16.39	0	100%

Sampled Data; Dunn and Bradstreet data

## Geographic Distribution of Loans

### Hattiesburg MSA

The overall geographic distribution of residential loans and small business loans in the Hattiesburg MSA reflects a reasonable dispersion when compared to AA demographic characteristics.

### Home Mortgage

The bank’s geographic distribution of residential loans in low-income and moderate-income census tracts is slightly below the AA census characteristics and is considered reasonable. Opportunities for residential lending remain limited within the three low-income and seven moderate-income CTs in the AA. Of the 18,617 housing units within those 10 CTs, approximately 50 percent of the units include occupied rental units. A significant majority of those rental units located in those low- and moderate-income CTs are occupied by students that attend the University of Southern Mississippi and William Carey University.

Geographic Distribution of Residential Real Estate Loans in Hattiesburg MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Mortgage	6.3	4.6	11.7	10.7	37.5	22.1	44.5	62.6

*CRA WIZ DATA and demographic data*

### Small Business

The bank’s geographic distribution of business loans in the low-income CTs is less than the percentage of businesses in the AA and is considered poor. However, the bank’s geographic distribution of business loans in the moderate-income CTs is greater than the percentage of businesses in the AA and is considered excellent.

Geographic Distribution of Loans to Businesses in Hattiesburg MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Small Business	11.4	5.00	24.6	25.00	29.3	35.00	34.7	35.00

*Sampled Data; Dunn and Bradstreet data*



Gulfport-Biloxi MSA

The overall geographic distribution of residential loans and small business loans in the Gulfport-Biloxi MSA reflects a reasonable dispersion when compared to AA demographic characteristics.

Home Mortgage

The bank’s geographic distribution of residential loans in low-income CTs is greater than the percentage of owner-occupied housing and is considered excellent. The bank’s geographic distribution of residential loans in moderate-income CTs is less than the percentage of owner-occupied housing and is considered poor, given AA demographics.

<b>Geographic Distribution of Residential Real Estate Loans in Gulfport-Biloxi MSA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Mortgage	2.1	2.4	12.4	9.5	60.2	51.8	25.3	36.3

*CRA WIZ DATA and demographic data*

Small Business

The bank’s geographic distribution of business loans in both low- and moderate-income CTs exceeds the percentage of businesses in those CTs and is considered excellent.

<b>Geographic Distribution of Loans to Businesses in Gulfport-Biloxi MSA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Small Business	3.5	5.00	20.3	25.00	54.6	50.00	21.6	20.00

*Source: Sampled Data; Dunn and Bradstreet data*

Performance in Limited-Scope AAs

Based on the limited-scope reviews, the bank’s performance under the lending test in the Pearl River County and Jones County Non-MSA is not inconsistent with the bank’s satisfactory performance regarding the borrower distribution and geographic distribution tests in those areas receiving full-scope reviews.

**Responses to Complaints**

No CRA-related complaints were made against the bank in the AAs during the evaluation period.

## **CD TEST**

The bank's performance under the CD test in Mississippi is rated satisfactory.

The First has demonstrated adequate responsiveness to CD needs in its AA given the bank's size, financial condition, and known CD opportunities.

### **Number and Amount of CD Loans**

#### Hattiesburg MSA

The First's level of CD lending in the Hattiesburg MSA was considered excellent. The First originated 13 loans totaling \$19.9 million in qualified CD loans in the AA during the evaluation period. Highlights of the bank's CD lending include the following:

- Two loans totaling \$1.3 million for the construction of two medical facilities located in low-income CTs. The areas are targeted for new market tax credits and part of a larger plan to improve the area's healthcare system that employs over 6,300 people in the Hattiesburg MSA.
- An \$8.8 million loan to fund the construction of a mixed used retail development center in a moderate-income CT. The project will create approximately 300 new jobs in the Hattiesburg Community.
- Four loans totaling \$4.9 million to fund the construction of four variety stores within the Hattiesburg MSA, of which three were located in low- and moderate-income CTs. Each store created 6-10 full-time jobs.

#### Gulfport-Biloxi MSA

The First's level of CD lending in the Gulfport-Biloxi MSA was considered excellent. During the evaluation period, The First originated 16 qualified CD loans, totaling \$12.6 million, including:

- A \$5 million loan to fund the construction of a 30-unit detached subdivision providing low- and moderate-income housing.
- A \$4.5 million loan to support the construction of 117-unit complex designed specifically to provide affordable senior living. Additional funding for the project was provided by the Mississippi Development Authority along with Coast Development Block Grant Money, and private partners.
- Eleven loans totaling \$1.4 million to fund construction of affordable housing units for low- and moderate-income individuals and families. Each loan is to build a new house after the homeowner is qualified. Homeowner gets other funding

through the Mississippi Home Corporation and Mississippi Development Authority.

#### Performance in Limited-Scope AAs

Based on limited-scope reviews, The First's performance in Jones County Non-MSA was not inconsistent with the performance in both the Hattiesburg and Gulfport-Biloxi MSA. The performance in Pearl River County Non-MSA was considered weaker than the performance in those areas receiving full-scope reviews. The bank did not originate any CD loans in Pearl River County during the review period.

#### Performance in Broader/Regional Areas

In addition to the CD loans that benefit the bank's AAs in Mississippi, The First originated three qualified CD loans, totaling \$5.2 million, located in the state of Mississippi. CD loans originated in the broader regional area of Mississippi had a positive impact on the bank's CD lending performance. Highlights of the lending in the broader regional area include: a loan to a nonprofit corporation that provides affordable housing and after school programs for students in the Midtown area of Jackson, Mississippi and the construction of a new car dealership near an existing dealership in Covington County, Mississippi. The car dealership added five new jobs, and is located in a moderate-income CT adjacent to Forrest County, Mississippi.

### **Number and Amount of Qualified Investments**

#### Hattiesburg MSA

The First demonstrated poor responsiveness with the amount of qualified investments made during the evaluation period. The First made 59 charitable contributions totaling \$110 thousand in the Hattiesburg MSA. The bank did not make any qualified investments in the Hattiesburg MSA during the review period.

#### Gulfport-Biloxi MSA

The First demonstrated poor responsiveness with the amount of qualified investments made during the evaluation period. The First made 64 charitable contributions totaling \$131 thousand in the Gulfport-Biloxi MSA. The bank did not make any qualified investments in the Gulfport-Biloxi MSA during the review period.

#### Performance in Limited-Scope AAs

Based on limited-scope reviews, The First's performance in Jones County Non-MSA was stronger than the performance in those areas receiving full-scope reviews. During the review period, the bank invested approximately \$6 million into the Jones County Non-MSA AA and had approximately \$10 thousand in contributions. The performance in Pearl River County Non-MSA was considered inconsistent with the performance in those areas receiving full-scope reviews. The bank did not originate any CD

investments in Pearl River County during the review period and only had \$3 thousand in contributions.

### **Extent to Which the Bank Provides CD Services**

#### Hattiesburg MSA

The First provided an outstanding level of CD services throughout the Hattiesburg MSA during this evaluation period.

The First's branch distribution in the AA is satisfactory. No branch has been opened or closed in this AA since the previous CRA examination, and branch locations are readily assessable to all segments of the population. All locations offer full banking services, including loan and deposit products and safe deposit boxes. Each branch has drive-thru facilities as well as an on-premise ATM. Hours of operation are generally in-line with bank competitors, with extended hours offered on Fridays. The First does offer an advantage over most of its competitors in that it is only one of two area banks that offer Saturday banking hours.

The First utilizes technology to deliver its products and services, including, but not limited to Direct Deposit and other ACH transactions, remote deposit capture, telephone and Internet banking. Mobile banking is also offered to users of Apple's iPhone and Google's Android platforms, with the bank's application available for free download in either the Apple or Google online application store. Later in 2017, The First will offer Apple Pay, a mobile application that allows an iPhone to be linked to a customer's transaction account, which enables the device to function as an access card. This application utilizes device specific number and transaction codes for each transaction that offers greater account protection than the bank-provided access card. This product is currently in the testing phase.

Over the evaluation period, The First has provided 111 services related to financial literacy to various groups and conducted seven homebuyer ownership counseling sessions. Employees regularly made presentations to local schools, community organizations, and organizations representing public/private partnerships regarding banking, with an emphasis on saving money and maintaining good credit. Homeownership counseling sessions are also conducted with a variety of organizations including the University of Southern Mississippi and Mississippi Home of Your Own.

The First's management and employees participated in a total of 34 services designed to stimulate economic development, stabilize communities, and improve the quality of life of AA residents. In total, these 34 services involved 13 qualified organizations, with specific examples below:

- Southeast Mississippi Community Investment Corporation (SEMCIC) - A nonprofit corporation dedicated to job creation, business creation, and expansion/support of non-traditional business loan seekers, as well as the expansion of job opportunities for low- and moderate-income individuals. This corporation provides gap financing in

part with member banks to provide non-traditional small business financing to new business startups or existing business expansion in the Pine Belt region (Forrest, Lamar Perry Counties, MS). A bank officer is on the organization's Board of Directors.

- Area Development Partnership (ADP) - The ADP is a private, nonprofit organization consisting of business development concerns (Forrest County Development Foundation, Lamar County Chamber of Commerce, and Perry County economic development entities) to unite business organizations and individuals in a chamber of commerce in order to enhance the regional economy through job creation, investment, and providing programs and services to strengthen existing companies in the Pine Belt region. A bank officer is on the partnership's Board of Directors. The SEMCIC activity above is an initiative of the ADP.

### Gulfport-Biloxi MSA

The First provided an outstanding level of CD services throughout the Gulfport-Biloxi AA during this evaluation period.

The First's branch distribution in the AA is satisfactory. The First operates 10 facilities in this AA, with two located in moderate-income CTs. No branches have been opened or closed in this AA since the previous CRA examination. Most branch locations in this AA offer full banking services. However, the Ocean Springs location (Hancock County) does not offer safe deposit boxes. Each branch located in the Gulfport-Biloxi AA have drive-thru facilities as well as an on-premise ATM. Hours of operation are generally in-line with bank competitors, with extended hours offered on Fridays.

Over the evaluation period, The First has provided 87 services related to financial literacy to various groups and conducted 12 homebuyer ownership counseling sessions. Employees regularly made presentations to AA schools, community organizations, and public housing projects regarding banking, focusing on saving money and maintaining good credit. Homeownership counseling sessions are conducted with a partner, such as Mercy Housing and Human Development, a nonprofit organization tasked with improving housing conditions for low- and moderate-income residents. Participants are prospective homeowners who have the opportunity to obtain down payment assistance by going through a related program.

The First's management and employees participated in a total of 48 services designed to stimulate economic development, stabilize communities, and improve the quality of life of AA residents. In total, these 48 services involved 16 qualified organizations, with specific examples below:

- Greater Biloxi Economic Development Foundation - A nonprofit organization whose purposes are listed as development, redevelopment or renewal, and other activities aimed at combating community deterioration, attracting new industry, or retaining industry in an area. The organization operates a small business incubator that

assists with management services and office space. A bank executive serves on the foundation's Board of Directors.

- Gulf Coast Renaissance Corporation - GCRC is a CDFI focused on bridging the affordable housing gap and promoting community and economic development in low-income communities in MS. The institution provides mortgage and business financing to first-time homeowners and to businesses for startup and other purposes as long as the business creates or retains jobs. A bank officer is on the corporation's Board of Directors.

## **Responsiveness to CD Needs**

### Hattiesburg MSA

The First has demonstrated an outstanding level of responsiveness to CD needs throughout the Hattiesburg MSA. Products and services offered meet the needs of all individuals and geographies, regardless of income level. Additionally, the bank's management and staff members are involved in a variety of organizations throughout the AA that foster CD.

### Gulfport-Biloxi MSA

The First has demonstrated an outstanding level of responsiveness to CD needs throughout the Gulfport-Biloxi-Pascagoula MSA. Products and services offered meet the needs of all individuals and geographies, regardless of income level. Additionally, the bank's management and staff members are involved in a variety of organizations throughout the AA that foster CD.

## **Conclusions for Areas Receiving Limited-Scope Reviews**

Based on the limited-scope reviews, the bank's performance under the service test in the Pearl River County and Jones County Non-MSA is not inconsistent with the bank's outstanding performance under the service test.

## **State Rating**

### **State of Alabama**

**CRA Rating for Alabama: Satisfactory.**

**The Lending test is rated: Satisfactory.**

**The CD test is rated: Satisfactory.**

Major factors that support the assigned rating include the following:

- The bank's dispersion of loans by borrower income level and revenue of businesses is reasonable.

- The geographic distribution of residential and small business loans reflects a reasonable dispersion within the AAs.
- The First’s CD performance demonstrates satisfactory responsiveness to the CD needs of its AAs.

**DESCRIPTION OF INSTITUTION’S OPERATIONS IN ALABAMA**

The bank operates in two AAs in the state of Alabama including Baldwin County, which is part of the Daphne-Fairhope-Foley MSA, and the Mobile MSA which consists of Mobile County. Each of these AAs are described in detail below.

Daphne-Fairhope-Foley MSA

The Daphne-Fairhope-Foley MSA consists of the entire County of Baldwin, Alabama, which includes the major cities of Daphne, Fairhope, Foley, Gulf Shores, and Orange Beach. The AA meets regulatory guidelines by including whole geographies and not arbitrarily excluding low- and moderate-income areas. The AA is made up of 31 CTs (five moderate-income, 20 middle-income, and six upper-income). There are no low-income CTs in the AA. See the table below for further details regarding the bank’s AA.

Demographic Information of Daphne-Fairhope-Foley MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
<b>Census Tracts</b>	31	0.00%	16.13%	64.52%	19.35%	0.00%
<b>Population by Tract</b>	182,265	0.00%	14.94%	63.79%	21.27%	0.00%
<b>Housing Units</b>	101,093	0.00%	12.36%	63.10%	24.54%	0.00%
<b>Owner-Occupied Housing by Tract</b>	53,309	0.00%	15.14%	60.08%	24.78%	0.00%
<b>Family Distribution by Income Level</b>	50,195	19.39%	18.64%	21.54%	40.43%	0.00%
<b>Median Family Income</b>		\$59,788	<b>Median Housing Value</b>			\$215,330
<b>FFIEC Adjusted Median Family Income for 2017</b>		\$61,500	<b>Unemployment Rate</b>			3.60%
<b>Households Below Poverty Level</b>		11.02%				
2012 FFIEC updated census data						
(*) The NA category consists of Tracts that have not been assigned an income classification.						

The FFIEC updated 2017 median family income for the AA was \$61,500. Low-income is defined as less than 50 percent of the median family income. Moderate-income is defined as 50 percent to 80 percent of the median family income. Middle-income is defined as 80 percent to less than 119 percent of the median family income. Upper-income is defined as income of 120 percent and over the median family income. The

following table depicts Income Categories:

Income Categories – Daphne-Fairhope-Foley MSA			
Low	Moderate	Middle	Upper
<\$30,750	\$30,750 – \$49,200	\$49,201- \$73,185	>\$73,800

Source: US Census data

Based on 2016 business demographic data, there were 12,976 non-farm businesses in the AA. Of these, 10,825 (83.42 percent) of the businesses had revenues of less than \$1 million, 667 (5.14 percent) had revenues greater than \$1 million, and 1,485 (11.44 percent) did not report revenue information. Primary employers include Baldwin County Board of Education (education), South Baldwin Regional Medical Center (healthcare), Walmart (retail), and Vulcan (construction materials). The other major industries include retail, food preparation, and transportation services. The AA’s unemployment rate as of May 2017 was 3.60 percent. This figure compares favorably to a national average of 4.16 percent during the same period.

Competition among financial institutions in the AA remains strong, with the bank competing with several large national and regional banks. According to the June 30, 2016 FDIC Summary of Deposit Market Share report, The First commands 4.86 percent of the deposit market share within the AA, ranking the institution 8th out of 21 institutions within the AA. The First’s primary competitors are Regions Bank (12 offices, 20.22 percent market share), Compass Bank (5 offices, 11.08 percent market share), and Wells Fargo Bank (7 offices, 10.64 percent market share).

Mobile MSA

The Mobile MSA consists of all of Mobile County, which is part of the Mobile County MSA, which includes the major cities of Mobile (the county seat), Bayou La Batre, Chickasaw, Citronelle, Creola, Prichard, and Saraland. The AA meets regulatory guidelines by including whole geographies and not arbitrarily excluding low- and moderate-income areas. The AA is made up of 114 CTs (12 low-income, 34 moderate-income, 41 middle-income, 26 upper-income, and one in which information was not available).

See the table below for further details regarding the bank’s AA, which is based on 2010 census data.



Demographic Information of Mobile MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
<b>Census Tracts</b>	114	10.53%	29.82%	35.96%	22.81%	0.88%
<b>Population by Tract</b>	412,992	6.34%	23.70%	39.08%	30.70%	0.18%
<b>Housing Units</b>	175,753	6.95%	24.95%	38.36%	29.74%	0.00%
<b>Owner-Occupied Housing by Tract</b>	104,815	4.02%	19.63%	40.72%	35.63%	0.00%
<b>Family Distribution by Income Level</b>	104,324	23.24%	16.81%	19.49%	40.46%	0.00%
<b>Median Family Income</b>		\$49,900	<b>Median Housing Value</b>			\$124,328
<b>FFIEC Adjusted Median Family Income for 2017</b>		\$55,100	<b>Unemployment Rate</b>			5.00%
<b>Households Below Poverty Level</b>		18.72%				
2012 FFIEC updated census data						
(*) The NA category consists of Tracts that have not been assigned an income classification.						

The FFIEC updated 2017 median family income for the AA was \$55,100. Low-income is defined as less than 50 percent of the median family income. Moderate-income is defined as 50 percent to 80 percent of the median family income. Middle-income is defined as 80 percent to less than 119 percent of the median family income. Upper-income is defined as income of 120 percent and over the median family income. The following table depicts Income Categories:

Income Categories – Mobile MSA			
Low	Moderate	Middle	Upper
<\$27,550	\$27,550– \$44,080	\$44,081- \$65,569	>\$66,120

Source: US Census data

Based on 2016 business demographic data, there were 21,661 non-farm businesses in the AA. Of these, 16,964 (78.32 percent) of the businesses had revenues of less than \$1 million, 1,565 (7.22 percent) had revenues greater than \$1 million, and 3,132 (14.46 percent) did not report revenue information. Primary employers include Mobile County Public Schools, the University of South Alabama, Infirmary Health System, and Austal Littoral combat ships. The AA’s unemployment rate as of May 2017 was 5.0 percent. This figure compares unfavorably to a national average of 4.16 percent during the same period.

Competition among financial institutions in the AA remains strong, with the bank competing with several large national and regional banks. According to the June 30, 2016 FDIC Summary of Deposit Market Share report, The First commands 0.80 percent of the deposit market share within the AA, ranking the institution 15th out of 21 institutions within the AA. The First’s primary competitors are Regions Bank (26 offices, 33.56 percent market share), Compass Bank (12 offices, 14.94 percent market share), PNC Bank, National Association (15 offices, 10.41 percent market share), Whitney

Bank (6 offices, 10.00 percent market share), and Wells Fargo Bank (13 offices, 9.19 percent market share).

We conducted an interview with a community leader in the Mobile MSA AA. The type of organization represented was initially community-based. The organization's goal is to assist with affordable housing and financial education. The community leader communicated the need for affordable housing within the AA. She had a positive view of the bank.

## **SCOPE OF EVALUATION IN ALABAMA**

The Daphne-Fairhope-Foley MSA received a full-scope review, while the Mobile MSA received a limited-scope review. We focused on the Daphne-Fairhope-Foley MSA because it derived the greatest volume of deposits and loans.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN ALABAMA**

The First's overall performance in the State of Alabama is reasonable. The bank's performance was satisfactory under both the Lending and CD Tests.

### **LENDING TEST**

The bank's performance under the lending test in the state of Alabama is rated Satisfactory.

The distribution of loans within the state of Alabama reflects a reasonable penetration among individuals of different income levels and businesses of different sizes, given the bank's product offerings and economic conditions.

### **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

#### Daphne-Fairhope-Foley MSA

The distribution of borrowers reflects reasonable penetration among businesses of different sizes, while the distribution of home loans to borrowers of different incomes is considered poor.

#### Home Mortgage

The level of lending to both low- and moderate-income borrowers is significantly below the demographic comparables and is considered poor. The following table shows the distribution of home loan products among borrowers of different income levels.

<b>Borrower Distribution of Home Mortgage Loans in Daphne-Fairhope-Foley MSA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Mortgage	19.4	2.8	18.6	4.7	21.6	15.1	40.4	64.2

Source: CRA WIZ DATA and demographic data

**Small Business Loans**

The distribution of business loans reflects reasonable penetration among businesses of different sizes. The bank’s performance is below the percentages of businesses with gross annual revenues of less than \$1 million. However, considering the strong competition amongst several large, national banks, The First’s percentages represent a reasonable penetration. Although the 12 percent of unreported businesses could potentially be additional small businesses, we have no reason to believe that the non-reporters are a disproportionate amount of small businesses. The table below discusses the distribution of small business loans in the AA.

<b>Borrower Distribution of Loans to Businesses in Daphne-Fairhope-Foley MSA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	83.4	5.1	11.5	100%
% of Bank Loans in AA by #	60.0	40.0	0.00	100%
% of Bank Loans in AA by \$	75.37	24.63	0.00	100%

Source: Sampled Data; Dunn and Bradstreet data

**Geographic Distribution of Loans**

**Daphne-Fairhope-Foley MSA**

The geographic distribution of residential mortgage loans reflects a poor dispersion of borrowers of different geographies, and a reasonable dispersion of small businesses located in different geographies. There are no low-income CTs within this AA.

**Home Loans**

The bank’s geographic distribution of residential loans in moderate-income CTs is significantly below the AA census characteristics and reflects poor penetration.

Geographic Distribution of Home Mortgage Loans in Daphne-Fairhope-Foley MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner	% of Number of Loans
Home Mortgage	0.0	0.00	15.1	0.9	60.1	65.1	24.8	34.0

Source: CRA WIZ DATA and demographic data

**Small Business Loans**

The bank’s geographic distribution of small business loans in moderate-income CTs exceeds census characteristics and is considered excellent.

Geographic Distribution of Loans to Businesses in Daphne-Fairhope-Foley MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Small Business	0.0	0.0	9.8	15.0	69.4	75.0	20.8	10.0

Source: Sampled Data; Dunn and Bradstreet data

**Performance in Limited-Scope AAs**

Based on a limited-scope review, the bank’s performance under the lending test in the Mobile MSA AA is not inconsistent with the bank’s satisfactory performance regarding the borrower distribution and geographic distribution tests in the full-scope area reviewed.

**Responses to Complaints**

No CRA-related complaints were made against the bank in the AAs during the evaluation period.

**CD TEST**

The bank’s performance under the CD test in the state of Alabama is rated Satisfactory.

The First has demonstrated adequate responsiveness to CD needs in its AA given the bank’s size, financial condition, and known CD opportunities.

**Number and Amount of CD Loans**

**Daphne-Foley-Fairhope MSA**

The First's level of CD lending in the Daphne-Foley-Fairhope MSA was considered excellent. The First originated three loans totaling \$6.44 million in qualified CD loans in the AA during the evaluation period. Specific examples of the CD loans originated during this evaluation period include:

- A \$4,646,549 loan for a 40-unit senior affordable housing facility with low-income housing tax credits (LIHTC) from Alabama Housing Finance Authority's (AHFA).
- A \$1,540,000 loan for the construction of a grocery to support economic development of the AA. The new construction is located in a low-income CT. The store will provide 6-10 available job opportunities. According to Indeed.Com, the jobs were posted at \$8.59-\$12.65 per hour.
- A \$250,000 loan for a security pledge that supports a senior housing facility in Baldwin County. The affordable housing unit targets low- and moderate-income senior residents.

#### Performance in Limited-Scope AAs

Based on limited-scope reviews, the bank's performance under the CD lending test in the Mobile County MSA is not inconsistent with the bank's overall excellent performance under the CD lending test in the area receiving a full-scope review.

#### **Number and Amount of Qualified Investments**

The First demonstrated poor responsiveness with the amount of qualified investments made within the state of Alabama.

#### Daphne-Foley-Fairhope MSA

The First demonstrated poor responsiveness with the amount of qualified investments made during the evaluation period. The bank made 15 charitable contributions totaling \$13 thousand in this MSA. The bank did not make any qualified investments in the Daphne-Foley-Fairhope MSA during the review period.

#### Performance in Limited-Scope AAs

Based on limited-scope reviews, The First's performance in the Mobile MSA was stronger than the performance in the full-scope review. The bank made one qualified investment totaling \$1.6 million and 23 charitable contributions totaling \$19 thousand in the Mobile MSA.

#### **Extent to Which the Bank Provides CD Services**

#### Daphne-Fairhope-Foley MSA

The First provided a satisfactory level of CD services throughout the Daphne-Fairhope-Foley MSA during this evaluation period.

The First's branch distribution in the AA is satisfactory. The First operates seven facilities in this AA, with two being located in moderate-income CTs. No branch has been closed in this AA since the previous CRA examination. However, The First's location in Bay Minette was opened since the previous CRA examination. Most locations of The First in this AA offer full banking services. However, the Bay Minette and Dauphin Island locations do not offer safe deposit boxes, while the Foley location does not offer stand-alone ATMs. Operating hours are generally in-line with bank competitors, with extended hours offered on Fridays.

Over the evaluation period, The First provided 40 services related to financial literacy to various groups and conducted two homebuyer ownership counseling sessions. Employees regularly made presentations to AA schools and community service organizations on banking, which stressed saving money and maintaining good credit. Homeownership counseling sessions were conducted with a partner (Consumer Credit Counseling/Lifeline Services) to educate attendees on the homebuying process, maintaining good credit, and the benefits of homeownership.

The First's management and employees participated in 12 activities and organizations designed to stimulate economic development, stabilize communities, and improve the quality of life of AA residents. Specific examples of this involvement are as follows:

- North Baldwin Infirmary - Local hospital in Bay Minette, AL, serving a community where 26.4 percent of families are at/below the poverty level. A bank officer serves on the hospital's Board of Directors.
- John McClure Snook Youth Club of Foley - A non-profit organization whose mission is to provide youth participants with the opportunity to engage in various programs. This organization serves families and communities of lower Baldwin County, and provides programs that aid/enhance growth and development in education and arts. Students that attend these programs come from four area schools, of which the majority of students are considered low- or moderate-income as reflected in the high percentage of recipients of free/reduced lunches. A bank officer serves on the club's Board of Directors.

### **Responsiveness to CD Needs**

The First has demonstrated a satisfactory level of responsiveness to CD needs throughout the Daphne Fairhope-Foley MSA. Products and services offered meet the needs of all individuals and geographies, regardless of income level. Additionally, the bank's management and staff members are involved in a variety of organizations throughout the AA that foster CD.

### **Conclusions for Areas Receiving Limited-Scope Reviews**

Based on the limited-scope reviews, The First's performance under the Service Test for the Mobile MSA is not inconsistent with the bank's overall rating in the full-scope area. Officers of The First serve on the Board of Directors of community service organizations such as Housing First (affordable housing), Victory Health Partners (healthcare for uninsured, low-income individuals), and Prodissee Pantry (emergency food and disaster relief for low-income families).

## **State Rating**

### **State of Louisiana**

**CRA Rating for Louisiana: Satisfactory.**

**The Lending test is rated: Satisfactory.**

**The CD test is rated: Satisfactory.**

Major factors that support the assigned rating include the following:

- The bank did not make a sufficient number of mortgage or small business loans to allow for a meaningful analysis.
- The First's CD performance demonstrates satisfactory responsiveness to the CD needs of its AAs.

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN LOUISIANA**

The First operates in three AAs in the state of Louisiana including the Baton Rouge MSA, Washington Parish Non-MSA, and the Assumption Parish Non-MSA. Each of these AAs are described in detail below, with the Non-MSA Parishes of Washington and Assumption being combined as those area demographics are identical.

#### Washington and Assumption Parish Non-MSA

The combined Washington and Assumption Parish Non-MSA includes the Bogalusa Micropolitan Statistical Area as well as the New Orleans-Metairie-Bogalusa Combined Statistical Area. The parish seat for Assumption Parish is Napoleonville while the parish seat for Washington Parish is Franklinton. The AA meets regulatory guidelines by including whole geographies and not arbitrarily excluding low- and moderate-income areas. There are 11 census tracts in this AA. There are 11 CTs (five are moderate-income and six are middle-income). There are no low- or upper-income CTs in the AA. However, during 2017, the CT demographics changed. Currently, the AA consists of the following CTs: one low-income, two moderate-income, seven middle-income, and one upper-income. The First has one branch in the Louisiana Non-MSA. See the table below for further details regarding the bank's AA.

Demographic Information of Washington Parish Non-MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Census Tracts	11	0.00%	45.45%	54.55%	0.00%	0.00%
Population by Tract	47,168	0.00%	36.7%	63.3%	0.00%	0.00%
Housing Units	20,632	0.00%	37.2%	62.8%	0.00%	0.00%
Owner-Occupied Housing by Tract	12,863	0.00%	32.0%	68.0%	0.00%	0.00%
Family Distribution by Income Level	11,942	29.0%	18.4%	17.4%	35.2%	0.00%
Median Family Income		\$43,816	Median Housing Value			\$85,963
FFIEC Adjusted Median Family Income for 2016		\$46,900	Unemployment Rate			6.00%
Households Below Poverty Level		22.1%				
2012 FFIEC updated census data						
(*) The NA category consists of Tracts that have not been assigned an income classification.						

The FFIEC updated 2017 median family income for the AA was \$46,900. Low-income is defined as less than 50 percent of the median family income. Moderate-income is defined as 50 percent to 80 percent of the median family income. Middle-income is defined as 80 percent to less than 119 percent of the median family income. Upper-income is defined as income of 120 percent and over the median family income. The following table depicts Income Categories: The following table depicts income classification categories:

Income Categories – Washington Parish Non-MSA			
Low	Moderate	Middle	Upper
<\$23,450	\$23,450 – \$37,520	\$37,520 - \$55,811	>\$56,280

Source: US Census data

Based on 2016 business demographic data, there were 5,017 non-farm businesses in the AA. Of these, 4,511 (89.91 percent) of the businesses had revenues of less than \$1 million, 137 (2.73 percent) had revenues greater than \$1 million, and 396 (7.89 percent) did not report revenue information. Primary employers in Washington Parish, Louisiana include Temple Inland (pulp and paper), Bogalusa School System (education), and LSU-Washington/St Tammany Regional Medical Center (healthcare). The AA’s unemployment rate as of May 2017 was 6.0 percent. This figure compares unfavorably to a national average of 4.16 percent during the same period.

Competition among financial institutions in the AA remains strong, with the bank competing with several large national and regional banks. According to the June 30, 2016 FDIC Summary of Deposit Market Share report, The First commands 6.25 percent of the deposit market share within the AA, ranking the institution 6th out of 6 institutions within the AA. The First’s primary competitors are Citizens Bank (4 offices, 30.71



percent market share), Whitney Bank (2 offices, 23.27 percent market share), and Capital One (3 offices, 18.00 percent).

A community contact stated that Washington Parish is a very rural community and property has aged, with the median age of housing being 36 years old. In addition, renters make up over 20 percent of the Parish population. Between 15 and 20 percent of housing in Washington Parish is vacant, unoccupied, and in need of repairs before occupying. The community contact indicated a need for banking services and affordable housing.

Baton Rouge MSA

East Baton Rouge Parish is part of the Baton Rouge, LA MSA. Other parishes in the AA include West Baton Rouge, Livingston, and Ascension. The AA is made up of 151 CTs (20 low-income, 34 moderate-income, 55 middle-income, 41 upper-income, and one in which information was not available).

See the table below for further details regarding the bank’s AA, which is based on 2010 census data.

Demographic Information of East Baton Rouge MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
<b>Census Tracts</b>	151	13.25%	22.52%	36.42%	27.15%	0.66%
<b>Population by Tract</b>	802,484	9.82%	17.13%	40.14%	32.91%	0.00%
<b>Housing Units</b>	322,571	9.83%	17.81%	39.40%	32.96%	0.00%
<b>Owner-Occupied Housing by Tract</b>	199,098	5.10%	14.56%	42.46%	37.88%	0.00%
<b>Family Distribution by Income Level</b>	193,430	23.15%	16.81%	18.43%	41.61%	0.00%
<b>Median Family Income</b>		\$60,727	<b>Median Housing Value</b>			\$150,929
<b>FFIEC Adjusted Median Family Income for 2017</b>		\$67,900	<b>Unemployment Rate</b>			4.7%
<b>Households Below Poverty Level</b>		15.60%				
2012 FFIEC updated census data						
(*) The NA category consists of Tracts that have not been assigned an income classification.						

The FFIEC updated 2017 median family income for the AA was \$67,900. Low-income is defined as less than 50 percent of the median family income. Moderate-income is defined as 50 percent to 80 percent of the median family income. Middle-income is defined as 80 percent to less than 119 percent of the median family income. Upper-income is defined as income of 120 percent and over the median family income. The following table depicts Income Categories:

Income Categories – Baton Rouge MSA			
Low	Moderate	Middle	Upper
<\$33,950	\$33,950 – \$54,320	\$54,321- \$80,801	>\$81,480

Source: US Census data

Based on 2016 business demographic data, there were 79,059 non-farm businesses in the AA. Of these, 69,461 (87.86 percent) of the businesses had revenues of less than \$1 million, 3,024 (3.82 percent) had revenues greater than \$1 million, and 6,574 (8.32 percent) did not report revenue information. Primary employers in East Baton Rouge include the Department of State Civil Service, The Shaw Group Inc., and East Baton Rouge Parish. The AA’s unemployment rate as of May 2017 was 4.7 percent. This figure compares unfavorably to a national average of 4.16 percent during the same period.

Competition among financial institutions in the AA remains strong, with the bank competing with several large national and regional banks. According to the June 30, 2016 FDIC Summary of Deposit Market Share report, The First commands only 0.03 percent of the deposit market share within the AA, ranking the institution 28th out of 31 institutions within the AA. The First’s primary competitors are JPMorgan Chase Bank (31 offices, 43.93 percent market share), Capital One (17 offices, 19.41 percent market share), Whitney Bank (20 offices, 10.19 percent), and Regions Bank (7 offices, 4.32 percent market share).

**SCOPE OF EVALUATION IN LOUISIANA**

The Washington Parish Non-MSA received a full-scope review and the Baton Rouge MSA received a limited-scope review. Assumption Parish AA was acquired in early 2017 and consequently, was not analyzed. The ratings for the state of Louisiana are based primarily on results of those areas that received full-scope reviews. We placed more weight on the Washington Parish Non-MSA because it derived the greatest volume of deposits in the state.

The bank did not originate a sufficient number of mortgage or small business loans in the AA to allow for a meaningful analysis. The bank’s low lending penetration was explainable given that the bank only operated with one branch in the AA, and only has four employees at that branch. Of those four employees, one was responsible for generating loan volume but that individual left the bank the bank in 2016. Additionally, only 3.12 percent of the bank’s overall deposits are located in the AA. Lastly, the bank faces stiff competition with larger regional financial institutions and ranks sixth out of six financial institutions with only 6.25 percent market share.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN LOUISIANA**

The bank did not make a sufficient number of loans in the AA to allow for a meaningful analysis. Given the bank's low level of lending and mitigating factors, the bank's overall lending performance is considered satisfactory.

### **LENDING TEST**

The bank did not make a sufficient number of loans to allow for a meaningful analysis.

### **Responses to Complaints**

No CRA-related complaints were made against the bank in the AAs during the evaluation period.

### **CD TEST**

The bank's performance under the CD test in the state of Louisiana is rated satisfactory.

### **Number and Amount of CD Loans**

#### Washington Parish Non-MSA

The First's level of CD lending in the Washington Parish Non-MSA was considered satisfactory. The First originated one loan totaling \$2.70 million during the evaluation period. The CD loan originated during this evaluation period was for the development of a grocery store located in a moderate-income CT. The development of this store will help to retain 15 jobs and create six new jobs for the local community.

#### Performance in Limited-Scope AAs

Based on a limited-scope review, the bank's performance under the lending test in the Baton Rouge MSA AA is not inconsistent with the bank's overall satisfactory performance under the lending test in Louisiana.

### **Number and Amount of Qualified Investments**

The First demonstrated outstanding responsiveness with the amount of qualified investments made within the state of Louisiana.

#### Washington Parish Non-MSA

The First demonstrated outstanding responsiveness with the amount of qualified investments made during the evaluation period. The bank made two qualified

investments which totaled \$640 thousand and 14 charitable contributions totaling \$5 thousand in the Washington Parish Non-MSA.

#### Performance in Limited-Scope AAs

Based on limited-scope reviews, The First's performance in the Baton Rouge MSA was weaker than the performance in the full-scope area. The bank made one qualified investment totaled \$100 thousand and six charitable contributions totaling \$23 thousand in the Baton Rouge MSA.

### **Extent to Which the Bank Provides CD Services**

#### Washington Parish Non-MSA

The First provided a poor level of CD services throughout the Washington Parish Non-MSA AA during this evaluation period.

The First's branch distribution in the AA is satisfactory. No branch has been opened or closed in this AA since the previous CRA examination. The bank's single location in this AA offers full banking services, including loan and deposit products and safe deposit boxes. This branch also has a drive-thru facility as well as an on-premise ATM. Hours of operation are generally in-line with bank competitors, with extended hours offered on Fridays.

Over the evaluation period, The First provided four services related to financial literacy in the AA. Employees made presentations to several area schools on banking, which stressed saving money and maintaining good credit. The First's management and employees participated in only two activities and organizations designed to stimulate economic development, stabilize communities, and improve the quality of life of AA residents.

### **Responsiveness to CD Needs**

#### Washington Parish Non-MSA

The First demonstrated a poor level of responsiveness to CD needs throughout the AA. Products and services offered generally meet the needs of all individuals and geographies, regardless of income level. However, the volume of these products and services are low. Additionally, the bank's management and staff members are involved in only a limited number of organizations throughout the AA that foster CD.

### **Conclusions for Areas Receiving Limited-Scope Reviews**

Based on the limited-scope reviews, The First's performance under the Service Test for the Baton Rouge MSA is not inconsistent with the bank's overall poor performance under the Service Test.

## Appendix A: Scope of Examination

<b>Time Period Reviewed</b>	Lending Test: 01/01/2015 to 06/30/2017 CD Test: 08/04/2014 to 06/30/2017	
<b>Financial Institution</b>		<b>Products Reviewed</b>
The First, A National Banking Association (The First) Hattiesburg, MS		Residential mortgages, Small Business, and CD
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
None	NA	NA
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Mississippi <ul style="list-style-type: none"> <li>• Hattiesburg</li> <li>• Gulfport/Biloxi</li> <li>• Pearl River County</li> <li>• Jones County</li> </ul> Louisiana <ul style="list-style-type: none"> <li>• Washington Parish</li> <li>• Baton Rouge</li> <li>• Assumption Parish</li> </ul> Alabama <ul style="list-style-type: none"> <li>• Baldwin County</li> <li>• Mobile County</li> </ul> Florida <ul style="list-style-type: none"> <li>• Pensacola County</li> </ul>	Full-Scope Full-Scope Limited-Scope Limited-Scope  Full-Scope Limited-Scope NA  Full-Scope Limited-Scope  NA	Insufficient volume to allow for meaningful analysis          Not analyzed during this evaluation as the bank only recently entered this market.

## Appendix B: Summary of State Ratings

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Overall Bank:	Lending Test Rating	Community Development Test Rating	Overall Bank or Individual State Rating
The First, A National Banking Association	Satisfactory	Satisfactory	Satisfactory
Mississippi	Satisfactory	Satisfactory	Satisfactory
Alabama	Satisfactory	Satisfactory	Satisfactory
Louisiana	Satisfactory	Satisfactory	Satisfactory
Florida	NA	NA	NA