



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

October 01, 2012

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Britton & Koontz Bank, National Association  
Charter Number 13722

500 Main Street  
Natchez, MS 39120

Office of the Comptroller of the Currency

3838 North Causeway Boulevard, Suite 2890  
Metairie, LA 70002-8105

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 Test is rated: Satisfactory.**

Major factors supporting the assigned ratings are as follows:

- Britton & Koontz Bank's average loan-to-deposit ratio of 76.68 percent for the evaluation period is satisfactory in light of competition and financial constraints.
- The majority of loans (by number of loans and dollars) originated by the institution during the period of review were extended to borrowers within its assessment area (AA).
- The distribution of residential RE loans in the Baton Rouge, LA Metropolitan Statistical Area (MSA) is reasonable by both income and geography based on an analysis of Home Mortgage Disclosure Act (HMDA) data. The distribution of commercial loans by revenues in Baton Rouge is considered excellent and is reasonable by geography.
- The distribution by income and geography of HMDA reportable residential RE loans in Adams County, MS is considered reasonable. The distribution of commercial loans by revenues in Adams County is considered excellent, while distribution by geography is considered reasonable.
- B&K has demonstrated adequate responsiveness to meeting the needs of its AAs by exhibiting an adequate level of community development lending, investments, and services.

B&K's CRA performance was considered satisfactory at the prior CRA examination dated February 1, 2010.

## **Scope of Examination**

This assessment of Britton & Koontz Bank, National Association's (B&K) CRA performance was conducted using the Interagency Intermediate Small Bank CRA procedures, dated July 2007. These procedures require the analysis of the bank's lending of primary products as well as that of community development lending, investments, and services.

Our analysis of the bank's CRA performance is based primarily on the distribution by income and geography of various bank products since the February 2010 CRA examination. All HMDA related loans as well as a random sample of 60 commercial loans made between January 1, 2010 and December 31, 2011 were utilized to determine distribution by income and geography. A separate data integrity review was

not performed prior to the commencement of this activity. Data integrity was assessed through the geocoding and manual gathering of income data from loan files.

This examination did not cover all of B&K's assessment areas. While data from all areas was included for the purposes of computing the ratio of loans made within the bank's AA and the overall loan-to-deposit ratio, the bank's AAs of Adams County, MS and Baton Rouge, LA were selected to assess the degree of compliance with the spirit and intent of the CRA. The Warren County, MS AA was not assessed for adequacy due to B&K's small presence in the county (only 2.04 percent of deposit market share).

Community leaders in both the Adams County, MS AA and Baton Rouge, LA AA were consulted to obtain feedback on the area's demographics, perceived credit needs, and financial institution responsiveness to identified needs.

## **Description of Institution**

B&K is an intrastate, nationally chartered bank headquartered in Natchez, MS. B&K operates in Mississippi and Louisiana, more specifically, the Mississippi counties of Adams and Warren (whose principal cities include Natchez and Vicksburg, respectively) and East Baton Rouge Parish (whose principal city includes Baton Rouge). B&K operates eight (8) full service branches, including its headquarters and two (2) branches in Natchez, two (2) branches in Vicksburg, and three (3) branches in Baton Rouge. The bank also operates a Loan Production Office (LPO) in Central, LA (East Baton Rouge Parish). B&K has not opened or closed any branches since the 2010 CRA examination. The Central LPO was opened since the 2010 CRA examination.

As of June 30, 2012, B&K held assets totaling approximately \$340 million and had a Tier I leverage (capital) ratio of 11.77 percent, which bettered its national peer average of 9.60 percent. B&K is wholly owned by B&K Capital Corporation, a one (1) bank holding company.

B&K's business focus is that of a commercial and real estate (RE) lender, but the bank offers a wide variety of products to serve the diverse needs of its communities. The bank has more of a retail focus in Mississippi (especially Natchez) as its communities have fewer residents and competitors, but more facilities per capita. In Baton Rouge, the focus is more on commercial lending as the bank faces significant competition with a greater number of branches. There has been no change in philosophy or business focus since the previous CRA examination.

As of June 30, 2012, loans accounted for 49 percent of bank assets. B&K's broad loan mix based on this period's Call Report is as follows:

<b>Table 1 - B&amp;K Loans by Type – June 30, 2012 Call Report</b>		
<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
1-4 Family RE	61,395	36.41
Commercial & Industrial Loans*	102,306	60.67
Consumer Loans	4,295	2.55
<b>Total</b>	<b>168,626</b>	<b>100.00%</b>
* Commercial and Industrial loans also include commercial RE		

Source: Call Report data

## Selection of Areas for Full-Scope Review

B&K has three (3) AAs:

- Adams County, MS.
- Warren County, MS.
- The southern portion of the Baton Rouge, LA MSA, which is located in East Baton Rouge Parish, LA.

The Adams County, MS AA was selected for a full scope review due to it being the headquarters of the bank and its largest market. The Baton Rouge AA was selected for a full scope review due to its location in an MSA and having more of a focus on commercial lending. Overall performance ratings are weighted more heavily towards the results of activities within Adams County. As previously noted, a full scope review of activities within the Warren County, MS AA was not performed due to the small presence that B&K has in the market.

Refer to the Scope section under each State analysis for additional details regarding how the areas were selected.

## Ratings

The bank's overall rating is a blend of the ratings from each state in which B&K has operations. The Adams County, MS AA was more heavily weighted based on it being the bank's largest market (by deposit share) and the area in which its headquarters is located. The Baton Rouge, LA AA was also included in the ratings reconciliation, and was more focused on commercial lending. To determine a rating for lending performance in both AAs, we reviewed residential RE loans (HMDA loans) and loans to small businesses.

## Conclusions with Respect to Performance Criteria

B&K's performance under the lending test is satisfactory. The bank's loan-to-deposit ratio is satisfactory and the majority of loans made during the period of analysis were made within its AAs. As noted in the Scope section of this PE, the loan-to-deposit and in/out ratios were computed with bank-wide data. Additional information obtained from the full scope reviews of the bank's lending in its AAs was also used to determine the overall lending test rating.

### Loan-to-Deposit Ratio

- B&K's average loan-to-deposit ratio of approximately 76 percent for the evaluation period is considered satisfactory in light of the bank's size, competition, and financial condition.

The ten quarters that have elapsed since B&K's most recent CRA examination (February 2010) resulted in an average loan-to-deposit ratio of 75.88 percent. The overall average loan-to deposit ratio reflects a decline from the 89.74 percent average noted in the 2010 CRA PE. Lower loan demand over the current evaluation period is attributable to declining national and local economic conditions, along with internal financial concerns.

B&K's average loan-to-deposit ratio compared favorably to those banks operating in both Adams and Warren Counties and slightly less than average of all banks with operations in Baton Rouge.

Table 2 below denotes the asset size and average loan-to-deposit ratios of institutions with headquarters in or near B&K's AA.

Table 2 – Loan-to-Deposit Ratios of Select Competitors		
Institution	Assets (000s) (as of 6/30/12)	Average LTD Ratio
Britton & Koontz Bank, N.A.	\$340,469	75.78%
First National Bankers Bank	\$867,691	146.48%
Investar Bank	\$316,157	96.05%
American Gateway Bank	\$401,630	85.95%
Trustmark National Bank	\$9,780,656	82.10%
United Mississippi Bank	\$279,714	80.71%
Fidelity Bank	\$129,020	80.26%
Guaranty Bank & Trust Company	\$565,805	78.24%
Business First Bank	\$644,682	77.81%
River Hills Bank	\$271,729	73.85%
Iberia Bank	\$12,027,716	73.35%
MidSouthBank, NA	\$1,394,088	67.02%
Concordia Bank and Trust Company	\$501,622	59.43%

Source: FFIEC Uniform Bank Performance Reports

## Lending in Assessment Area

- The majority of loans (by both number of loans and dollars) originated by the institution during the period of review were extended to borrowers within its AAs.

Table 3 denotes the distribution of B&K's major loan products between January 1, 2010 and December 31, 2011. As reflected in the table, the majority of B&K's loans are made within its AAs.

Table 3 - Lending in Overall Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	291	66.44	147	33.56	438	45,153	64.95	24,362	35.05	69,515
Home Improvement	89	85.58	15	14.42	104	1,068	93.28	77	6.72	1,145
Refinancing	320	69.57	140	30.43	460	55,804	69.08	24,974	30.92	80,778
Commercial	43	71.67	17	28.33	60	10,659	48.32	11,402	51.68	22,061
Totals	700	69.86	302	30.14	1,002	102,025	67.37	49,413	32.63	151,438

Source: HMDA Data, Loan Samples

Since the 2010 CRA examination, the ratio of loans made inside the bank's AAs has decreased from 80.27 percent to 69.86 percent reflected above. The decrease is due primarily to the growth of the bank's mortgage loan department, which has enjoyed success in obtaining volume from areas adjacent to its AAs, such as census tracts north of Florida Boulevard in Baton Rouge, which forms the northern boundary of its Baton Rouge AA, as well as surrounding municipalities. Commercial loans within the AAs have declined as the bank has made loans to in-AA customers for use outside of the AA, as well as cultivating relationships with customers who reside or operate outside of the bank's AAs.

## Fair Lending or Other Illegal Credit Practices Review

The OCC's September 2012 onsite examination included an assessment of fair lending risk present in B&K's operations. The OCC found no evidence of discrimination or other illegal practices that would be 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 Community development test is rated: Satisfactory.**

Major factors that support the assigned rating include the following:

- The distribution of residential loans by customer income is satisfactory. Lending to businesses of different sizes is excellent.
- The geographic distribution of both residential RE and commercial loans reflects a reasonable dispersion within the AA.
- B&K's community development performance demonstrates an adequate responsiveness to community development needs of its AA.

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN MISSISSIPPI

The state of Mississippi includes both Adams County and Warren County, which comprise two (2) of the three (3) geographic regions denoted by B&K as its AAs. Adams County is the home of B&K and includes the principal city of Natchez. Adams County has historically been B&K's largest market, housing three (3) of the bank's eight (8) branches. Warren County includes the principal city of Vicksburg, which includes two (2) of the bank's branches. Combined, Mississippi is B&K's largest market in terms of bank facilities and market share.

Due to the low volume of deposits and market share provided by the bank's Warren County operations, only a limited scope review of this market was performed. A full scope review of the Adams County AA was performed due to its historical significance to the bank and volume of market share.

#### Adams County, MS

Adams County, MS is located in the southwest corner of Mississippi. The county shares the Mississippi River with the state of Louisiana as a western boundary. Adams County is not a part of a MSA, nor is it contiguous to the bank's other AAs. Natchez is the seat of government for Adams County and is its most populous municipality. The AA complies with the legal requirements of the CRA and does not arbitrarily exclude low or moderate income areas.

Based on the 2000 Census, B&K's Adams County AA consists of nine (9) census tracts, of which one is considered low income area and three (3) are considered moderate income areas. The AA further includes four (4) middle income tracts and one (1) upper income tract. Per U.S. Census data, the four middle income tracts are considered distressed due to the high poverty level of the county.

Table 4 below illustrates select demographic data from the Adams County AA.

Table 4 - Demographic Information for B&K Bank, NA's Assessment Area: Adams County, MS						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Census Tracts	9	11.11%	33.33%	44.44%	11.11%	0.00%
Population by Tract	34,340	11.72%	31.72%	43.61%	12.95%	0.00%
Owner-Occupied Housing by Tract	9,602	37.67%	64.91%	66.03%	71.19%	0.00%
Business by Tract	4,239	7.88%	23.97%	53.69%	14.46%	0.00%
Farms by Tract	93	2.15%	25.81%	59.14%	12.90%	0.00%
Family Distribution by Income Level	9,492	10.58%	31.63%	44.36%	13.43%	0.00%
Median Family Income		\$30,547	Median Housing Value			\$58,495
HUD Adjusted Median Family Income for 2011		\$41,600	Unemployment Rate			8.90%
Households Below Poverty Level		25.64%				
2011 HUD updated MFI						
(*) The NA category consists of Tracts that have not been assigned an income classification.						

Source: CRA Whiz data

The United States Office of Housing and Urban Development's (HUD) updated 2011 non-MSA median family income for the state of Mississippi was \$41,600. 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 less than 119 percent of the median family income. Upper-income is defined as income of 120 percent and over the median family income. Income classification categories are listed in Table 5.

Table 5 – Income Categories – Adams County, MS			
Low	Moderate	Middle	Upper
<\$21,199	\$24,200 – \$33,919	\$33,920 - \$50,879	>\$50,880

Source: US Census data

The economy of Adams County is heavily weighted towards tourism and food services, government, corrections, health care, and retail trade. Major employers include Corrections Corporation of America, Supermarket Operations, Inc., Natchez Regional Medical Center, and various local and state government agencies. As of September 2012, the county's 8.90 percent unemployment rate is higher than that of the United States (7.6 percent), but lower than that of the state of Mississippi (9.2 percent).

During our examination, we conducted an interview with an official representing a local government agency responsible for ensuring the adequacy of housing for city residents.

Information received from this interview indicated a need for affordable housing. The contact was complimentary of B&K's actions to address affordable housing and community development.

## Warren County, MS

Warren County, MS is the second of two (2) of B&K's AAs located in Mississippi. Warren County is also located in the southeast portion of Mississippi, but it is not contiguous to the Adams County AA. The county also shares the Mississippi River with the state of Louisiana as a western boundary. Warren County is not a part of a MSA. Vicksburg is the seat of government for Warren County and is its most populous municipality. The AA complies with the legal requirements of the CRA and does not arbitrarily exclude low or moderate income areas.

Based on the 2000 Census, B&K's Warren County AA consists of eleven (11) census tracts, of which none is considered a low income area and only one (1) is a moderate income area. The county includes no distressed tracts.

Table 6 below illustrates select demographic data from the Warren County AA.

Table 6 - Demographic Information for B&K Bank's Assessment Area: Warren County, MS						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Census Tracts	11	0.00%	9.09%	36.36%	54.55%	0.00%
Population by Tract	49,644	0.00%	6.43%	33.18%	60.39%	0.00%
Owner-Occupied Housing by Tract	12,807	0.00%	25.09%	56.82%	68.69%	0.00%
Business by Tract	6,285	0.00%	10.64%	28.88%	60.48%	0.00%
Farms by Tract	135	0.00%	5.19%	30.37%	64.44%	0.00%
Family Distribution by Income Level	13,331	18.82%	12.82%	16.53%	51.83%	0.00%
Median Family Income		\$42,287	Median Housing Value			\$69,398
HUD Adjusted Median Family Income for 2011		\$41,600	Unemployment Rate			10.10%
Households Below Poverty Level		16.81%				
2011 HUD updated MFI						
(*) The NA category consists of Tracts that have not been assigned an income classification.						

Source: CRA Whiz data

Because Warren County is not included in an MSA, the income categories are the same as those for Adams County. Please refer to the Adams County AA discussion section for details.

The economy of Warren County is weighted towards government, gaming, health care, and maritime industries. Major employers in the AA include the U.S. Army Corps of Engineers, Vicksburg-Warren County School District, Ameristar Casinos, and LeTourneau Technologies. As of September 2012, the county's unemployment rate of

10.1 percent was higher than both the U.S. (7.6 percent) and the state of Mississippi (8.9 percent) for the same period.

The FDIC's Market Share Report as of June 30, 2012 reflected that B&K had only 2.04 percent of the Warren County market in terms of deposits. Based on the bank's low market share in Warren County, combined with the selection of Adams County AA for review, a full scope analysis of the bank's CRA performance in this AA was not performed.

## **SCOPE OF EVALUATION IN MISSISSIPPI**

Conclusions regarding B&K's lending performance are based on HMDA related and small business loans originated since the February 2010 CRA examination. For the Community Development Test, the evaluation period runs from the ending date of the prior CRA evaluation period to the start date of the current CRA examination. This evaluation period runs from December 31, 2009 to October 1, 2012. The Community Development test included a review of loans, investments, grants, and donations made in the bank's AAs that meet the definition of community development as well as community development services provided in these AAs.

Both the lending test and community development test ratings were analyzed to arrive at the overall state rating. CRA performance was assessed by performing a full-scope review of the Adams County AA and a limited scope review of activities in the Warren County AA.

In conjunction with this examination, we conducted an interview with a community leader in the Adams County AA. The type of organization that our subject interviewee represented was a government agency charged with ensuring the adequacy and availability of 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.

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

B&K's overall performance in the Adams County AA is satisfactory. Loans originated during this review period are distributed throughout the bank's AA and are reasonably divided among mortgage and small business. Additionally, the bank's community development loans, services, and investments are satisfactory.

### **LENDING TEST**

- The bank's performance under the lending test in Mississippi is rated "Satisfactory".

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

### Residential Lending

The distribution by income for residential RE products is reasonable. While lending to both low and moderate income families was lower than their AA demographic for all HMDA-related products, lending to these groups is adequate, considering that approximately 26 percent of households in the Adams County AA are below the poverty level.

Table 7 - Borrower Distribution of Residential Real Estate Loans in Adams County								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Home Purchase	10.58	4.91	31.63	17.79	44.63	19.63	13.43	57.67
Home Improvement	10.58	20.00	31.63	15.38	44.63	21.54	13.43	43.08
Refinancing	10.58	1.42	31.63	7.09	44.63	17.73	13.43	73.76

Source: HMDA Data, Loan Samples, US Census Data

### Commercial Lending

B&K's distribution of loans to small businesses within the AA is excellent. While demographic information reflects that 29 percent of AA businesses did not report income, all businesses included in our sample contained gross income. Our sample of business loans exceeded the comparator for small businesses in the AA.

Table 8 - Borrower Distribution of Loans to Businesses/Farms in Adams County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unknown	Total
% of AA Businesses	68.06	2.17	29.77	100%
% of Bank Loans in AA by #	71.43	28.57	NA	100%
% of Bank Loans in AA by \$	61.51	38.49	NA	100%

Source: Loan Samples, Dunn and Bradstreet

## Geographic Distribution of Loans

### Residential Lending

B&K's HMDA related loan distribution by geography in Adams County is reasonable, even though lending in low and moderate income geographies is significantly lower than the AA demographic for owner occupied units in these tracts. Lending to both low and moderate income geographies were negatively impacted by the high volume of households below the poverty level (25.64 percent). Further, the median price of a

house in the AA (\$58,495 as of September 2012), does not create a significant volume of ownership opportunities, considering the high percentage of poverty stricken residents in the AA. Because Natchez is a city of historical significance, most residential properties sell at a higher price point than the median price quoted. A search of the Internet website Trulia ([www.trulia.com](http://www.trulia.com)) on October 24, 2012 noted that there were only 10 single family residences selling for the median home value of \$59 thousand or less in the county. Further, B&K has at least three other bank competitors operating in the AA, not counting credit unions and non-bank financial intermediaries that also make mortgage loans. The shortage of homes at an affordable price point, combined with high poverty levels and volume of local competitors, reduces the volume of lending in various geographies.

B&K's lending to middle income tracts normally would not receive credit in a CRA examination. However, each of the four (4) middle income tracts in the Natchez AA is considered distressed due to the area's high level of poverty. Lending for HMDA related purposes in these areas is given credit, as 24 percent of the AA's low income families and approximately 18 percent of moderate income families reside in the AA's middle income tracts.

Table 9 - Geographic Distribution of Residential Real Estate Loans in Adams County AA								
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 Purchasing	37.67	1.84	64.91	8.59	66.03	32.52	71.19	57.06
Home Improvement	37.67	6.15	64.91	33.85	66.03	35.38	71.19	24.62
Refinancing	37.67	0.71	64.91	9.22	66.03	46.10	71.19	43.97

Source: Loan Samples, Dunn and Bradstreet

### Commercial Lending

Commercial lending by geography is satisfactory in the Natchez AA. Lending to businesses in low and moderate income geographies reflect a reasonable dispersion throughout Adams County. Lending in middle income geographies is especially strong, exceeding its census demographic measure.

As noted in the section above, performance in middle income census tracts is typically not given positive consideration in CRA evaluations. However, each of the middle income census tracts in Adams County is considered distressed due to high levels of poverty. Lending to businesses in these areas helps to stabilize the local economy and benefits all residents, including those considered low and moderate income.

Table 10 - Geographic Distribution of Loans to Businesses in Adams County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA	% of # of Loans	% of AA	% of # of Loans	% of AA	% of # of Loans	% of AA	% of # of Loans
Businesses	7.88	4.76	23.97	19.05	53.69	57.14	14.46	19.05

Source: Loan Samples, Dunn and Bradstreet

## Responses to Complaints

No CRA related complaints were received during our period of review.

## COMMUNITY DEVELOPMENT TEST

The bank's performance under the community development test in Mississippi is rated "Satisfactory."

B&K has demonstrated satisfactory responsiveness to community development needs in its Mississippi communities, given its size, financial condition, and known opportunities. This is particularly true of the bank's Adams County, MS AA, which received a full scope CRA review during this activity.

## Number and Amount of Community Development Loans

B&K made three qualified community development loans totaling \$2.2 million within the Adams County AA during the evaluation period. One of the loans (\$240 thousand) constructed a 10 unit apartment complex for low/moderate income residents with the assistance of the Mississippi Development Authority and the Federal Home Loan Bank through its HOME investment partnership fund program. One loan (\$1.2 million) provided funds to the Adams County Board of Supervisors to fund payroll and operating expenses of the county. The third loan (\$763 thousand) was made to the City of Natchez to purchase RE for commercial development for ultimate resale/lease to a private end user. Affordable housing and economic development were communicated as credit needs within the AA. The AA's unemployment rate has been higher than that of both the state of Mississippi and the United States.

## Number and Amount of Qualified Investments

The bank has provided a satisfactory level of qualified investments in the Adams County AA. During the evaluation period, B&K made \$139 thousand in qualified investments/donations to various entities and organizations. Most of the investments (by number) were to entities associated with affordable housing and economic development, such as Habitat for Humanity and Natchez Now, Inc. The largest qualified investment made during the period (\$100 thousand) was made to Enterprise Corporation of the Delta/Hope Community Credit Union to help provide affordable housing to low/moderate income residents of economically distressed areas along the Mississippi River delta

areas of Mississippi and Louisiana. Donations made during the evaluation period also funded several Habitat for Humanity projects, provided financial assistance to a local church to operate a food bank, and promoted tourism of Natchez, which is a significant economic driver for the AA.

### **Extent to Which the Bank Provides Community Development Services**

B&K provided a satisfactory level of community development services throughout the Adams County AA during this evaluation period. Delivery systems employed by the bank to effect banking services are varied, placing services within reasonable reach of customers of all income levels and geographies. Each banking facility in the AA offers a full range of loan and deposit products. The St. Catherine branch, located on Highway 61 North in Natchez, is located in a low income census tract. Each branch located in Adams County, MS has a lobby and drive-thru facilities, as well as an on-premise ATM. Hours of operation are from 9:00 AM to 4:00 PM during the week with lobby hours being extended to 5:00 PM on Fridays. Drive-thru facilities operate between 7:30 AM and 5:30 PM each day.

B&K also offers 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. Beginning in September 2012, B&K began offering mobile banking for users of Apple iPhone and Google's Android smartphones. This application currently allows customers to view balances and check images as well as transfer funds between accounts.

B&K has also provided a variety of services designed to improve financial literacy and improve the quality of life in its AA. Employees regularly made presentations to elementary and high schools in the AA on banking, which stress saving money and maintaining good credit. Employees have participated in home buyer seminars and fairs, which educate attendees on the mortgage loan process and qualifications necessary to obtain a mortgage loan. Employees have presented at seminars to residents of a Natchez nursing home regarding protecting their identity. In addition, employees participated in an entrepreneurial class at Alcorn State University whereby business plans were critiqued in preparation for possibly applying for a Small Business Administration loan. B&K has also partnered with organizations that provide down payment assistance and other assistance to low and moderate income home buyers.

### **Responsiveness to Community Development Needs**

B&K has demonstrated an adequate level of responsiveness to community development needs throughout the AA. Products and services offered meet the needs of all individuals and geographies, regardless of income level. Additionally, the bank's directorate, management, and staff members are involved in a variety of organizations throughout the AA that foster community development.

## State Rating

### State of Louisiana

**CRA Rating for Louisiana: Satisfactory.**

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

**The Community development test is rated: Satisfactory.**

Major factors that support the assigned rating include the following:

- The distribution of residential loans by customer income is satisfactory. Lending to businesses of different sizes is excellent.
- The geographic distribution of residential RE loans in the AA is weak, but there are mitigating factors. The geographic distribution of commercial loans reflects a reasonable dispersion within the AA.
- B&K's community development performance demonstrates an adequate responsiveness to community development needs of its AA.

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN LOUISIANA

B&K's operations in Louisiana are located in East Baton Rouge Parish, LA. This parish encompasses the MSA of Baton Rouge, LA (BRLA). Baton Rouge is the capital of the state of Louisiana and is the seat of government for the parish. Baton Rouge is the second largest populated city in Louisiana.

Due to the geographical size of both the parish and city, management did not think it could reasonably serve the entire BRLA MSA with its limited facilities. As a result, B&K designated the southern portion of Baton Rouge as its AA, with Florida Boulevard forming the area's northern boundary. The designated AA meets regulatory requirements and does not arbitrarily exclude any low or moderate income area.

Based on the 2000 Census, B&K's BRLA AA consists of 42 census tracts, of which 5 are designated as low income tracts and 5 are designated as moderate income tracts. The majority of tracts (25) in the AA are designated as upper income areas. B&K operates three (3) full service facilities in the AA. The bank also operates a mortgage loan production office elsewhere in the parish (Central, LA), which was opened since the most recent (2010) CRA examination. No branches have been opened or closed since the 2010 CRA examination.

Table 11 below illustrates select demographic data from the BRLA AA.

<b>Table 11 - Demographic Information for B&amp;K Bank's Assessment Area: Baton Rouge, LA MSA (Select Tracts)</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>
<b>Census Tracts</b>	42	11.90%	11.90%	16.67%	59.52%	0.00%
<b>Population by Tract</b>	205,173	8.48%	7.34%	19.48%	64.70%	0.00%
<b>Owner-Occupied Housing by Tract</b>	48,625	22.48%	35.06%	43.03%	63.52%	0.00%
<b>Business by Tract</b>	45,032	3.37%	6.54%	21.87%	68.22%	0.00%
<b>Farms by Tract</b>	611	1.96%	6.22%	19.31%	72.50%	0.00%
<b>Family Distribution by Income Level</b>	50,248	15.03%	12.46%	16.10%	56.41%	0.00%
<b>Median Family Income</b>		\$61,389	<b>Median Housing Value</b>			\$128,178
<b>HUD Adjusted Median Family Income for 2011</b>		\$62,100	<b>Unemployment Rate</b>			6.00%
<b>Households Below Poverty Level</b>		14.41%				
2011 HUD updated MFI						
(*) The NA category consists of Tracts that have not been assigned an income classification.						

Source: CRA Whiz data

The United States Office of Housing and Urban Development's (HUD) updated 2011 MSA median family income for the state of Louisiana was \$62,100. 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 less than 119 percent of the median family income. Upper-income is defined as income of 120 percent and over the median family income. Income classification categories are listed in Table 12 below:

<b>Table 12 – Income Categories – Baton Rouge, LA AA</b>			
<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>
<\$30,299	\$30,300 – \$48,479	\$40,480 - \$72,719	>\$72,720

The economy of Baton Rouge is considered good. The unemployment rate of East Baton Rouge Parish as of September 2012 was 6.0 percent and was lower than the state of Louisiana (7.0 percent) and the United States (7.8 percent).

The economies of Baton Rouge and East Baton Rouge Parish are dominated by petrochemical production, port and maritime industries, medical research, education, and government. Major employers in the BRLA AA include the State of Louisiana (government), Turner Industries (construction and manufacturing), Louisiana State University (education), and ExxonMobil Chemical (petrochemical production).

During our examination, we conducted an interview with an official of an organization charged with creating affordable housing opportunities. Information received from this interview indicated a need for affordable housing, financial literacy, and additional private partnerships in community development activities. The contact expressed a

neutral view of B&K, but stated that the bank was not very visible regarding community development efforts in the AA.

## **SCOPE OF EVALUATION IN LOUISIANA**

Conclusions regarding B&K's lending performance are based on HMDA related and small business loans originated since the February 2010 CRA examination. For the Community Development Test, the evaluation period runs from the ending date of the last CRA evaluation period to the start date of the current CRA examination. This evaluation period runs from December 31, 2009 to October 1, 2012. The Community Development test included a review of loans, investments, grants and donations made in the bank's AA that meet the definition of community development as well as community development services provided in this AA.

Both the lending test and community development test ratings were analyzed to arrive at the overall state rating. CRA performance was assessed by performing a full-scope review of the Baton Rouge AA.

In conjunction with this examination, we conducted an interview with a community leader in the Baton Rouge AA. The type of organization that our subject interviewee represented was a civic organization focused on creating affordable housing solutions for low and moderate income residents. The community leader communicated the need for affordable housing needs within the AA.

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

B&K's overall performance in the Baton Rouge, LA AA is satisfactory. Loans originated during this period of review are adequately distributed through the bank's AA and are reasonably divided among mortgage and small business products. Additionally, B&K's community development loans, services, and investments are satisfactory.

### **LENDING TEST**

- The bank's performance under the lending test in Louisiana is rated "Satisfactory".

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

##### *Residential Lending*

The distribution for residential RE products by income is considered reasonable, even though distribution to low income families is low. During the period of review, B&K made no loans to low income families for home purchase or improvement. The bank

did make loans for home refinance to this group, but the percentage of such loans was significantly lower than their demographic comparator. Lending to moderate income families was better, comparing closer to their demographic comparator.

Table 13 - Borrower Distribution of Residential Real Estate Loans in Baton Rouge MSA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Home Purchase	15.03	0.00	12.46	11.48	16.10	18.03	56.41	70.49
Home Improvement	15.03	0.00	12.46	0.00	16.10	0.00	56.41	0.00
Refinancing	15.03	5.26	12.46	13.16	16.10	18.42	56.41	63.16

Source: HMDA Data, Loan Samples, US Census Data

Barriers to distribution among borrowers of different income levels for residential RE products were communicated as follows:

- High overall rate of family poverty in the AA. Demographic information for the Baton Rouge AA reflected that 14.41 percent of the area's 83,924 households (12,093) live below the poverty level. This percentage is considered high.
- Lack of affordability of median housing. The weighted median value of a home in BRLA was reflected at \$128,178. The monthly debt service on a loan of this size amortized over 30 years at 3 percent interest would yield a payment that is \$12 less than the area's weighted average of monthly gross rent of \$540. However, this payment assumes 100 percent financing. In order to have a loan that would conform to average secondary market guidelines, an applicant would typically need a 10 percent down payment. This would equate to a down payment of approximately \$13,000 which is outside the capabilities of many families in this segment. In addition, other costs of ownership such as insurance, property taxes and upkeep can often put home ownership out of the reach of many low and moderate income families.

Management internally used a purchase price of \$48,000 which it considered to be affordable to most AA families. However, even at this price, home sales were low as only 61 home loans at this price point and below were captured in Baton Rouge's aggregate HMDA data for 2010 and 2011. This aggregate data reflected all residential RE purchases, refinancing, and home improvement loans made by financial institutions for both years. The vast majority of these loans were originated by B&K competitors who have more extensive retail networks.

- Number of AA competitors in relation to its market share. Aggregate data from the 2011 HMDA-LAR for the Baton Rouge, LA MSA reflected that a total of 370 institutions received at least one HMDA related application in 2011. Of these institutions, 161 had a headquarters or branch in Baton Rouge. JP Morgan Chase alone has 32 retail locations in the BRLA MSA. The June 30, 2012 FDIC Market Share Report reflected that B&K only had 0.29 percent of the deposit market share in Baton Rouge as of this time period.

*Commercial Lending*

B&K’s distribution of loans to small businesses within its BRLA AA is excellent. While demographic information reflects that 41 percent of AA businesses did not report income, all businesses included in our sample contained gross income. Our sample of business loans exceeded the comparator for small businesses in the AA.

<b>Table 14 - Borrower Distribution of Loans to Businesses/Farms in Baton Rouge MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unknown	Total
% of AA Businesses	56.63	2.27	41.10	100%
% of Bank Loans in AA by #	71.43	28.57	NA	100%
% of Bank Loans in AA by \$	55.63	44.37	NA	100%

*Source: Loan Samples, Dunn and Bradstreet*

**Geographic Distribution of Loans**

*Residential Lending*

B&K’s distribution of residential RE loans by geography in its Baton Rouge AA is poor, but is considered reasonable in light of its size, resources, and others factors of its performance context. Lending in low and moderate income geographies for purchase, home improvement, and residential refinancing loans were all significantly less than the AA demographic for these measures.

<b>Table 15 - Geographic Distribution of Residential Real Estate Loans in Baton Rouge 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 Purchasing	22.48	0.00	35.06	4.92	43.03	11.48	63.52	83.61
Home Improvement	22.48	0.00	35.06	0.00	43.03	0.00	63.52	0.00
Refinancing	22.48	5.26	35.06	2.63	43.03	15.79	63.52	76.32

*Source: Loan Samples, Dunn and Bradstreet*

Barriers to the bank’s distribution of residential RE products by geography were communicated as follows:

- B&K competes in the Baton Rouge MSA (approximately 205,000 residents) with three (3) offices, two of which are located in office parks with limited customer/street visibility. By comparison, JP Morgan Chase services the MSA with 32 branch locations, many of which occupy high visibility facilities along major thoroughfares.
- None of the bank’s three (3) locations are located in a low or moderate income census tract. B&K’s Bluebonnet Boulevard branch is located adjacent to a moderate

income tract (40.11), but lending opportunities/development in this tract is limited due to its close proximity to the Mississippi River.

- High rate of family poverty in low and moderate income tracts of AA. Demographic information from the low and moderate tracts included in the bank’s BRLA AA reflect that 44.82 percent of families residing in low income tracts live below the poverty level, while 26.60 percent of families residing in moderate income tracts live below the poverty level.
- Financial impediments, as described elsewhere in this performance evaluation.

*Commercial Lending*

Data from the geocoding of business loans in the Baton Rouge AA reflects adequate distribution by geography. While no loans were made to businesses located in low income tracts, commercial lending by number in moderate income tracts exceeds the AA demographic. The vast majority of businesses operating in the bank’s BRLA AA are located in upper income tracts.

B&K does not have any of its Baton Rouge branches located in a low income tract, but one of its branches is adjacent to a moderate income census tract.

<b>Table 16 - Geographic Distribution of Loans to Businesses in Baton Rouge MSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA	% of # of Loans	% of AA	% of # of Loans	% of AA	% of # of Loans	% of AA	% of # of Loans
Businesses	3.37	0.00	6.54	9.52	21.87	14.29	68.22	76.19

*Source: Loan Samples, Dunn and Bradstreet*

**Responses to Complaints**

No CRA related complaints were received during our period of review.

**COMMUNITY DEVELOPMENT TEST**

The bank’s performance under the community development test in Louisiana is rated “Satisfactory.”

B&K has generally demonstrated satisfactory responsiveness to community development needs of its designated Louisiana AA, given its size, financial condition, and known opportunities. However, community development lending within the BRLA AA is considered poor.

## **Number and Amount of Community Development Loans**

During the evaluation period, B&K made no community development loans within the BRLA AA. Management understands that there is significant room for improvement regarding community development lending. While the bank has made numerous loans in its AA for commercial and residential purposes, none were represented as community development loans. Many of the commercial loans provided employment opportunities for all income groups throughout the AA.

Based on the CRA regulation, a bank may receive credit for community development activities made outside of its AA. B&K made five (5) loans totaling \$3.9 million to construct or rehabilitate residential apartment buildings for habitation by low/moderate income individuals. Included in this total is a \$976 thousand loan to construct 31 homes for sale to low/moderate income buyers and a \$114 thousand loan to construct a single family residence in a subdivision with downpayment assistance provided by the Louisiana Recovery Authority. This agency provides economic development and housing assistance to low and moderate income individuals and areas affected by natural disasters. Each of these projects is within the state of Louisiana, with one being in BRLA, but outside of the bank's designated AA.

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

B&K made two (2) qualified investments totaling \$1.1 million in the BRLA AA. A \$2 thousand donation was made as part of a local hospital's fundraising efforts to support breast cancer education and provide cancer screenings in underserved areas of the AA. The largest investment of the period came from the bank's purchase of a GNMA mortgage pool of which 52 percent was comprised of mortgages originated in East Baton Rouge Parish, LA.

## **Extent to Which the Bank Provides Community Development Services**

B&K provided a satisfactory level of community development services throughout the Baton Rouge AA during this evaluation period. Delivery systems employed by the bank to effect banking services are varied, placing services within reasonable reach of customers of all income levels and geographies. Each banking facility in the AA offers a full range of loan and deposit products. However, only the Bluebonnet location offers drive-thru banking. ATMs are located at two (2) of B&K's Baton Rouge locations. Hours of operation of each branch are from 9:00 AM to 5:00 PM each day, with the same hours of operation applicable to the Bluebonnet drive-thru. Hours are generally in line with competitors, though several offer slightly more extended drive-thru hours and Saturday banking.

B&K also offers 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. Beginning in September 2012, B&K began offering mobile banking for

users of Apple's iPhone and Google's Android smartphones. This application currently allows customers to view balances and check images as well as transfer funds between accounts.

B&K has also provided a variety of services designed to improve financial literacy and improve the quality of life in its Baton Rouge AA. The bank participated in the "Bank on Baton Rouge" initiative, a collaborative program with the City of Baton Rouge, bank regulatory agencies, the Federal Reserve Bank of Atlanta, and area financial institutions to educate the unbanked populous on financial subjects. This education encourages them to use commercial banks instead of higher cost, nonbank service providers such as payday lenders and check cashers. Employees represented the bank at a homebuyer's fair sponsored by the Louisiana Housing Finance Agency whereby they provided attendees with information regarding the home purchase process and ownership possibilities. Employees involved with Junior Achievement provided area middle school students with the basics of financial management. Sessions were conducted using an interactive case study involving budgeting, saving, and making financial decisions.

B&K has also partnered with organizations that provide down payment assistance and other assistance to low and moderate income home buyers.

### **Responsiveness to Community Development Needs**

B&K has demonstrated an adequate level of responsiveness to community development needs throughout the AA. Products and services offered meet the needs of all individuals and geographies, regardless of income level. Additionally, the bank's directorate, management, and staff members are involved in a variety of organizations throughout the AA that foster community development.

## Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test: 01/01/2010 to 12/31/2011 Community Development Test: 12/31/2009 to 10/01/2012	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
Britton & Koontz Bank, NA (B&K) Natchez, MS	HMDA purpose (residential RE) and commercial loans	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
None		
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Mississippi Adams County Warren County	Full Scope Limited Scope	NA
Louisiana Baton Rouge MSA #12940	Full Scope	

## Appendix B: Summary of Multistate Metropolitan Area and State Ratings

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Overall Bank:	Lending Test Rating	Community Development Test Rating	Overall Bank/State/Multistate Rating
B&K Bank, N.A.	Satisfactory	Satisfactory	Satisfactory
Mississippi	Satisfactory	Satisfactory	Satisfactory
Louisiana	Satisfactory	Satisfactory	Satisfactory