



Office of the  
Comptroller of the Currency  
Washington, DC 20219

# INTERMEDIATE SMALL BANK

## PUBLIC DISCLOSURE

April 2, 2018

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Savings Bank  
Charter Number 708547

201 North 3rd Street  
Beresford, SD 57004

Office of the Comptroller of the Currency  
Sioux Falls Field Office  
4900 South Minnesota Avenue, Suite 300  
Sioux Falls, SD 57108

**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, and should not 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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## **Overall CRA Rating: This institution is rated Satisfactory.**

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

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

- First Savings Bank's (FSB's) net loan-to-deposit (LTD) ratio is more than reasonable when considering the bank's size, financial condition, and the credit needs of the assessment areas (AAs).<sup>1</sup>
- A substantial majority of the bank's loans are originated inside FSB's AAs.<sup>2</sup>
- The borrower distribution of loans to businesses and farms of different sizes and households of different income levels reflects excellent penetration of AA demographics.
- The geographic distribution of loans to census tracts (CTs) of different income levels reflects reasonable dispersion of AA demographics.
- There were no conspicuous lending gaps identified within FSB's AAs.
- FSB's community development (CD) activities are satisfactory. CD loans, investments, and donations over the evaluation period totaled \$26 million or 24 percent of tier one capital and 4 percent of total assets as of December 31, 2017. This includes \$25.8 million in CD loans, two investment securities totaling \$568 thousand, and \$10 thousand in qualified donations.
- Access to financial services for low- and moderate-income individuals is adequate. One branch is located in a low-income CT, four are located in moderate-income CTs, and six are located in distressed or underserved middle-income CTs.

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<sup>1,2</sup>The net loan-to-deposit ratio and percentage of loans and other lending-related activity in the assessment area only apply to the institution overall. No discussion of these performance criteria applies to sections of the performance evaluation relating to states and multistate metropolitan areas.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the Metropolitan Area (MA)/AA.

**Census Tract:** A small subdivision of metropolitan and other densely populated counties. CT boundaries do not cross county lines; however, they may cross the boundaries of MAs. CTs generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. CTs are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under Housing and Urban Development Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's AAs or outside the AAs provided the bank has adequately addressed the CD needs of its AAs.

**Community Reinvestment Act (CRA):** The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

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

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-

couple family or other family, which is further classified into 'male householder' (a family with a male householder' and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

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

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area (MSA) to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn, loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

**Home Mortgage Loans:** Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

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

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

**Median Family Income:** The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Metropolitan Area:** Any metropolitan statistical area (MSA) or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The MSA comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

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

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

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other Products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

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

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

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

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

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

**Tier One Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

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

## Description of Institution

FSB is a multi-state stock thrift financial institution headquartered in Beresford, South Dakota. As of December 31, 2017, FSB had \$711 million in total assets. FSB is wholly owned by Beresford Bancorporation, Inc., a one-bank holding company located in Britton, South Dakota. Including the main branch in Beresford, FSB operates 22 branches and 15 automated teller machines (ATMs) in six states. Thirteen of the ATMs are located at FSB branches and two additional ATMs are located offsite at other locations. FSB does not operate any deposit-taking ATMs.

State	Number of Branches	Number of ATMs
South Dakota	10	4
New Mexico	6	6
Texas	3	3
Arizona	1	1
Nebraska	1	1
Nevada	1	0

Management has designated nine AAs across these six states. The AAs meet the requirements of the regulation and do not arbitrarily exclude low- or moderate-income CTs. FSB opened one branch and closed one branch during the evaluation period as one branch was moved from Las Vegas to Henderson, NV, effective November 2016. The bank acquired deposits of one institution since the previous CRA evaluation. There have been no other significant changes to FSB’s corporate structure.

FSB offers traditional loan and deposit products and services to its customers along with offering credit cards to a nationwide market. The bank’s business strategy varies based on the market of individual branch locations. The business strategy of branches located in MAs is primarily commercial/business focused. As of December 31, 2017, gross loans accounted for 78 percent of total assets and tier one capital totaled \$110 million, or 15.43 percent of average assets.

Loan Type	Percent of Total Loans
Commercial	49%
Credit Cards	22%
One-to-Four Family	12%
Agriculture	9%
Multi-Family	7%
Other Consumer	1%

Source: Call Report as of 12/31/2017

FSB’s credit card portfolio totaled \$122 million, or 17 percent of total assets and 22 percent of total loans as of December 31, 2017. We did not include credit card lending in our analysis when determining primary loan products or calculating the breakdown of lending within each AA by number and dollar volume of loans because credit cards represent a national product. Instead, our analysis and conclusions are based on products offered to the bank’s local markets. We did consider the marketing strategy of the credit card product when concluding on services provided under the CD test.

There are no known legal, financial, or other factors impeding the bank's ability to meet the credit needs of its AAs. FSB received a Satisfactory rating in its CRA examination dated August 17, 2015.

## **Scope of the Evaluation**

### **Evaluation Period/Products Evaluated**

FSB was evaluated under the Intermediate Small Bank CRA examination procedures, which includes a Lending Test and a CD Test. The Lending Test evaluates the bank's record of meeting the credit needs of its AAs through its lending activities. The CD Test evaluates the bank's record of responding to the CD needs of its AAs through CD lending and providing qualified investments, donations, and services.

The Lending Test covers FSB's performance from April 1, 2015 to November 30, 2017. To determine the bank's primary loan products, we analyzed both the number and dollar of loans originated and purchased (collectively, originated or originations) during the evaluation period by loan product type. We completed this analysis for each AA based on where the branch loans were originated. Agriculture, commercial, and consumer loan types were determined to be the primary loan products in FSB's individual AAs, which is representative of the bank's lending strategy since the last CRA examination. Refer to Appendix A for a list of primary products identified in each AA.

To evaluate lending performance, we selected a random sample of 20 loans originated during the evaluation period for each primary loan product type in each AA, with the exception of the Lake Havasu MSA AA, and used that information in the lending analysis. To evaluate whether the bank made loans to borrowers in their AAs, we reviewed the initial sample of 20 loans from each primary product in each AA. To analyze borrower and geographic distribution within the AAs, we sampled additional loans, as needed, to reach 20 loans originated to borrowers located within the specific AA for each primary product. We based lending performance conclusions on a smaller loan sample in the Lake Havasu MSA AA because management did not originate 20 loans per primary product type during the evaluation period. Loan sample data was compared to 2010 U.S. Census data and 2016 Small Business Loan data.

The CD Test covers FSB's performance from August 18, 2015 to January 2, 2018.

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

In each state where the bank has an office, at least one AA within that state was selected for a full-scope review. Refer to Appendix A and the "Scope of Evaluation" section under each State Rating section for more information. Appendix A includes a summary list of which AAs received full scope and limited scope reviews.

### **Ratings**

The bank's overall rating is a blend of state ratings. The rating for the State of South Dakota was weighted more heavily than the other states because this state accounts for the largest

portion of FSB's branches, deposit activity, and loan volume. The rating for the State of New Mexico was given the second most weight, followed by Nevada and Texas. We gave Nebraska and Arizona ratings the least amount of weight in the overall rating. Refer to Table 3 for further detail.

The state ratings are based primarily on those areas that received full-scope reviews. Refer to the "Scope of Evaluation" section under each State Rating section for details regarding how the areas were weighted in arriving at the respective ratings.

<b>Table 3 – FSB's AA Impact</b>			
State	Percent of Branches	Percent of Deposits	Percent of Loans Originated by \$
South Dakota	45%	40%	40%
New Mexico	27%	27%	13%
Nevada	5%	20%	22%
Texas	13%	7%	16%
Nebraska	5%	2%	8%
Arizona	5%	4%	1%

Source: Bank loan reports; FDIC market share report as of June 30, 2017

## **Discriminatory or Other Illegal Credit Practices Review**

Pursuant to 12 CFR 195.28(c), in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

## Conclusions with Respect to Performance Criteria

FSB's performance under the Lending Test is Satisfactory. FSB's LTD ratio is more than reasonable. A substantial majority of FSB's loans are originated to borrowers located inside its AAs.

### Loan-to-Deposit Ratio

FSB's LTD ratio is more than reasonable given the bank's size, financial condition, and the AAs credit needs. The LTD ratio is calculated on a bank-wide basis. FSB's average quarterly LTD ratio was 88 percent for the 10 quarters since the last CRA examination between September 30, 2015 and December 31, 2017. The ratio ranged from a quarterly low of 82 percent to a quarterly high of 94 percent.

The bank's LTD ratio compares favorably to other community banks of similar size (total assets between \$500 million and \$900 million) operating within at least one of FSB's designated AAs. The average LTD ratio for 11 similarly-situated banks was 78 percent for the 10 quarters between September 30, 2015 and December 31, 2017. The ratio ranged from an average quarterly low of 52 percent to an average quarterly high of 100 percent.

### Lending in Assessment Area

FSB originated a substantial majority of its loans to borrowers located inside its AAs during the evaluation period. We reviewed 40 agriculture loans, 144 commercial loans, and 20 consumer loans originated between April 1, 2015 and November 30, 2017 to assess performance with this criteria. The assessment of lending inside versus outside the bank's AAs is calculated on a bank-wide basis, but our sample of loans included loans from each primary product in each AA. The bank originated 93 percent of sampled loans by number and 80 percent of sampled loans by dollar to borrowers within the bank's AAs. The sample of loans included loans from each primary product in each AA but is calculated and analyzed on a bank-wide basis.

Table 4 details the bank's lending within its AAs by number and dollar amount of loans.

<b>Table 4 - Lending in FSB's AAs</b>										
Loan Type	Number of Loans					Dollars of Loans (in 000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agriculture	37	93%	3	8%	40	\$4,228	95%	\$207	5%	\$4,435
Commercial	132	92%	12	8%	144	\$51,484	79%	\$13,816	21%	\$65,300
Consumer	20	100%	0	0%	20	\$305	100%	\$0	0%	\$305
<b>Total</b>	<b>189</b>	<b>93%</b>	<b>15</b>	<b>7%</b>	<b>204</b>	<b>\$56,017</b>	<b>80%</b>	<b>\$14,023</b>	<b>20%</b>	<b>\$70,040</b>

Source: Loan sample

## State Rating

### State of South Dakota

**CRA rating for the State of South Dakota: Satisfactory.**

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

**The Community Development test is rated: Needs to Improve.**

FSB's performance in the State of South Dakota meets the standards for Satisfactory performance.

- The distribution of loans to businesses and farms of different sizes reflects reasonable penetration of AA demographics.
- The geographic distribution of loans to low- and moderate-income geographies reflects reasonable dispersion of AA demographics.
- FSB's CD activities demonstrate poor responsiveness to the CD needs of the AAs.

### Description of Institution's Operations in South Dakota

FSB has three AAs in South Dakota: South Dakota Non-MSA AA, Sioux Falls MSA AA, and Sioux City MSA AA.

#### South Dakota Non-MSA AA

The South Dakota Non-MSA AA includes all of Bon Homme, Brown, Day, Marshall, and Moody Counties in South Dakota. The AA also includes one CT (#9658) in Clay County. FSB operates seven branches in this AA. The branches are located in the towns of Britton, Hecla, Veblen, Waubay, Bristol, Flandreau, and Springfield. FSB does not operate a branch in Clay County; however, the bank's Beresford branch is located less than two miles from the county line.

This AA accounted for 20 percent of the bank's deposits as of June 30, 2017 and 12 percent of the bank's loans originated during the evaluation period. The primary lending product in the South Dakota Non-MSA AA is agriculture loans.

The South Dakota Non-MSA AA includes 17 CTs. In 2017, one CT is a moderate-income CT, 11 are middle-income and five are upper-income. In 2015 and 2016, the AA did not have any low- or moderate-income CTs. Sixty-five thousand people, or 27 thousand households, lived in the AA in 2015. Of the households, 21 percent were low-income, 15 percent were moderate-income, 19 percent were middle-income, and 45 percent were upper-income. Twelve percent of the households in the AA lived below the poverty level. The weighted-average of MFI was \$64,700 in 2017.

Sixty-two percent of the housing units in the South Dakota Non-MSA AA were owner-occupied and 25 percent were renter-occupied in 2015. The weighted-average of median housing cost was \$123,096 and the weighted-average of monthly gross rent was \$576.

The South Dakota Non-MSA AA includes six thousand businesses. Eighty percent of the businesses are non-farm businesses and 73 percent employ fewer than five people.

The economy in the South Dakota Non-MSA AA declined but remained favorable during the evaluation period. According to the Bureau of Labor Statistics (BLS), monthly unemployment rates in 2015 ranged from a low of 2.2 percent in Bon Homme and Brown Counties to a high of 7.0 percent in Day County. In February 2018, unemployment rates in the counties in the AA ranged from a low of 2.9 percent in Bon Homme County to a high of 6.5 percent in Day County. In February 2018, the unemployment rates of the other counties in the AA were 3.6 percent, 3.9 percent, and 5.4 percent. The State of South Dakota unemployment rate was 3.9 percent and the national rate was 4.1 in February 2018. Major employers in the South Dakota Non-MSA AA include the agriculture industry, manufacturing companies, and local government.

Competition in the South Dakota Non-MSA AA is moderate and primarily includes local community banks. As of June 30, 2017, there were 21 institutions with 45 banking offices located in the AA. FSB reported \$114 million of deposits in the South Dakota Non-MSA AA as of June 30, 2017, which ranked the bank seventh in deposit market share with a market share of five percent.

We completed one community contact in the South Dakota Non-MSA AA in conjunction with this examination. The contact was an employee of the City of Flandreau. The contact identified home loans to low-income populations in the city and nearby areas as a credit need in the AA.

### Sioux Falls MSA AA

The Sioux Falls MSA AA includes a portion of the Sioux Falls, SD MSA (#43620). The MSA includes Lincoln, McCook, Minnehaha, and Turner Counties in South Dakota. FSB considers all of Lincoln, Minnehaha, and Turner Counties as its AA. FSB operates two branches in this AA. The branches are located in Sioux Falls and Parker. FSB does not operate a branch in Minnehaha County; however, the bank's Sioux Falls branch is located less than one mile from the county line. The bank's Beresford branch also services Lincoln County as the city of Beresford is located in both Union and Lincoln Counties. The bank's Beresford branch is located less than a half mile from the Lincoln county line.

This AA accounted for four percent of the bank's deposits as of June 30, 2017 and 20 percent of the bank's loans originated during the evaluation period. The primary lending product in the Sioux Falls MSA AA is commercial loans.

The Sioux Falls MSA AA includes 55 CTs. Seventeen of the CTs are moderate-income, 26 are middle-income, and 12 are upper-income. Two-hundred thirty-seven thousand people, or 92 thousand households, lived in the AA in 2015. Of the households, 22 percent were low-income, 18 percent were moderate-income, 19 percent were middle-income, and 41 percent were upper-income. Ten percent of the households in the AA lived below the poverty level. The weighted-average of MFI was \$76,800 in 2017.

Sixty-three percent of the housing units in the Sioux Falls MSA AA were owner-occupied and 31 percent were renter-occupied in 2015. The weighted-average of median housing cost was \$158,153 and the weighted-average of monthly gross rent was \$722.

The Sioux Falls MSA AA includes 18 thousand businesses. Ninety-three percent of the businesses are non-farm businesses and 68 percent employ fewer than five people.

The economy in the Sioux Falls MSA was strong during the evaluation period. Although the unemployment rate increased during the evaluation period, it remains below state and national averages. According to the BLS, the unemployment rate for the Sioux Falls MSA increased from 2.6 percent in July 2015 to 3.4 percent in February 2018. The State of South Dakota unemployment rate was 3.9 percent and the national rate was 4.1 percent in February 2018. Major employers in the Sioux Falls MSA AA include the healthcare industry, a meat processing plant, the local school system, retail stores, and two large banks.

Competition in the Sioux Falls MSA AA is high and includes several large national banks, regional banks, and local community banks. As of June 30, 2017, there were 34 institutions with 136 banking offices located in the Sioux Falls MSA AA. FSB reported \$25 million of deposits in the Sioux Falls MSA AA as of June 30, 2017, which ranked the bank 29th in deposit market share with a market share of less than one percent.

We completed one community contact in the Sioux Falls MSA AA in conjunction with this examination. The contact was the President of an organization that focuses on issue advocacy and economic development in the AA. The contact stated that banks will continue to have opportunities to provide funding and participate in CD as the city continues to grow and expand. The contact did not identify any specific unmet credit needs in the AA.

### Sioux City MSA AA

The Sioux City MSA AA includes a portion of the Sioux City IA-NE-SD multi-state MSA (#43580). The multi-state MSA includes Union County in South Dakota, Woodbury and Plymouth Counties in Iowa, and Dakota and Dixon Counties in Nebraska. FSB operates one branch in this AA. The branch is located in Beresford, South Dakota and is the bank's main branch. Beresford is located on the northern border of Union County, which is the northern most county in the multi-state MSA. FSB includes only one CT in Union County (#201) as its Sioux City MSA AA, which is reasonable given the branch location. Since FSB's operations in the AA are limited to the South Dakota portion of the multi-state MSA, this AA was incorporated into the State of South Dakota rating rather than a rating for the entire multi-state MSA.

The Sioux City AA accounted for 16 percent of the bank's deposits as of June 30, 2017 and eight percent of the bank's loans originated during the evaluation period. Primary lending products in the Sioux City MSA AA are agriculture and commercial loans.

The Sioux City MSA AA includes one CT, which is middle-income. Four thousand people, or two thousand households, lived in the AA in 2015. Of the households, 19 percent were low-income, 15 percent were moderate-income, 19 percent were middle-income, and 47 percent were upper-income. Four percent of the households in the AA lived below the poverty level. The weighted-average of MFI was \$63,400 in 2017.

Seventy-two percent of the housing units in the Sioux City MSA AA were owner-occupied and 18 percent were renter-occupied in 2015. The weighted-average of median housing cost was \$125,600 and the weighted-average of monthly gross rent was \$521.

The Sioux City MSA AA includes 414 businesses. Seventy-eight percent of the businesses are non-farm businesses and 75 percent employ fewer than five people.

The economy in the Sioux City MSA was favorable during the evaluation period. The unemployment rate in Union County increased during the evaluation period but remains in line with state and national averages. According to the BLS, the unemployment rate for Union County increased from 3.2 percent in July 2015 to 4.1 percent in February 2018, which is slightly above the State of South Dakota unemployment rate of 3.9 percent and in line with the national rate of 4.1 in February 2018. Major employers in the Sioux City MSA AA include the healthcare industry, manufacturing companies, and the local school system.

Competition in the Sioux City MSA AA is moderate and primarily includes local community banks. As of June 30, 2017, there were six institutions with 10 banking offices located in Union County. FSB reported \$88 million of deposits in the Sioux City MSA AA as of June 30, 2017, which ranked the bank third in deposit market share with a market share of 19 percent.

We completed one community contact in the Sioux City MSA AA in conjunction with this examination. The contact is an employee of the City of Beresford. The contact identified FSB as being very involved in the community including making donations for CD projects and financing for apartments and government housing. The contact did not identify any specific unmet credit needs in the AA.

## **Scope of Evaluation in South Dakota**

We completed full-scope reviews of the South Dakota Non-MSA and the Sioux Falls MSA AAs and a limited-scope review of the Sioux City MSA AA. The State of South Dakota rating is primarily based on the results of the AAs receiving full-scope reviews. Refer to Appendix A for more information.

The South Dakota Non-MSA represents the bank's primary AA in South Dakota thus we placed the most weight on performance in this AA in arriving at the overall conclusions for South Dakota. The South Dakota Non-MSA AA accounts for 70 percent of FSB's South Dakota locations, 50 percent of South Dakota deposits, and 30 percent of the loans originated in South Dakota during the evaluation period. The Sioux Falls MSA AA includes two branches and accounts for 11 percent of South Dakota deposits and 51 percent of the loans originated in South Dakota during the evaluation period.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN SOUTH DAKOTA**

FSB's performance under the Lending Test in South Dakota is rated Satisfactory. The borrower distribution of loans reflects reasonable penetration among businesses and farms of different sizes. The geographic distribution of business loans to geographies of different income levels reflects reasonable dispersion among CTs of different income levels.

FSB’s performance under the CD Test in South Dakota is rated Needs to Improve. Overall, the volume of CD loans, investments, and services reflects poor responsiveness to CD needs and opportunities of the bank’s AAs in the State of South Dakota.

Performance in the AA that received a limited scope review is consistent with the performance in the AAs that received a full scope review.

**LENDING TEST**

The bank’s performance under the Lending Test in South Dakota is rated Satisfactory.

**Lending to Businesses and Farms of Different Sizes**

The distribution of loans to businesses and farms of different sizes reflects reasonable penetration of AA demographics during the evaluation period.

South Dakota Non-MSA AA

The distribution of agriculture loans to farms of different income levels reflects reasonable penetration of the AA’s demographics. Eighty percent of FSB’s agriculture loans sampled by number and 57 percent of their agriculture loans sampled by dollar were to farms with gross annual revenue less than \$1 million. This exceeds the aggregate peer comparator by number and meets the aggregate peer comparator by dollar volume of loans for the AA.

Table 5 includes the data used to evaluate the borrower distribution of the bank’s agriculture loans.

<b>Table 5 - Borrower Distribution of Agriculture Loans in South Dakota Non-MSA AA</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of Bank Loans in AA by #	80%	20%	0%	100%
% of Bank Loans in AA by \$	57%	43%	0%	100%
% of Aggregate Peer Businesses/Farm Loans by #	59%	41%	0%	100%
% of Aggregate Peer Businesses/Farm Loans by \$	58%	42%	0%	100%

Source: 2016 Peer Small Business Data, loan sample

Sioux Falls MSA AA

The distribution of commercial loans to businesses of different income levels reflects excellent penetration of the AAs demographics. Seventy-five percent of FSB’s commercial loans sampled by number and 85 percent of their commercial loans sampled by dollar were to businesses with gross annual revenue less than \$1 million. This significantly exceeds the aggregate peer comparator for number of loans for the AA.

Table 6 includes the data used to evaluate the borrower distribution of the bank’s commercial loans.

<b>Table 6 - Borrower Distribution of Commercial Loans in Sioux Falls MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of Bank Loans in AA by #	75%	25%	0%	100%
% of Bank Loans in AA by \$	85%	15%	0%	100%
% of Aggregate Peer Businesses/Farm Loans by #	50%	50%	0%	100%
% of Aggregate Peer Businesses/Farm Loans by \$	44%	56%	0%	100%

Source: 2016 Peer Small Business Data, loan sample

Sioux City MSA AA

The distribution of commercial loans to businesses of different income levels reflects reasonable penetration of the AAs demographics. Ninety-five percent of FSB’s commercial loans sampled by number and 67 percent of their commercial loans sampled by dollar were to businesses with gross annual revenue less than \$1 million. This exceeds the aggregate peer comparator by number and meets the aggregate peer comparator by dollar volume of loans for the AA.

Table 7 includes the data used to evaluate the borrower distribution of the bank’s commercial loans.

<b>Table 7 - Borrower Distribution of Commercial Loans in Sioux City MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of Bank Loans in AA by #	95%	5%	0%	100%
% of Bank Loans in AA by \$	67%	33%	0%	100%
% of Aggregate Peer Businesses/Farm Loans by #	57%	43%	0%	100%
% of Aggregate Peer Businesses/Farm Loans by \$	63%	37%	0%	100%

Source: 2016 Peer Small Business Data, loan sample

The distribution of agriculture loans to farms of different income levels reflects reasonable penetration of the AA’s demographics. Eighty-five percent of FSB’s agriculture loans sampled by number and 48 percent of their agriculture loans sampled by dollar were to farms with gross annual revenue less than \$1 million. This exceeds the aggregate peer comparator by number for the AA.

The distribution of loans by dollar to farms with gross annual revenue less than \$1 million is skewed by three large loans to one borrower with revenue over \$1 million. These loans were the annual renewal of the borrower’s operating line. The three loans were the largest loans in the sample and accounted for \$1.2 million in dollar volume or 52 percent of agricultural loans sampled in the bank’s AA.

Table 8 includes the data used to evaluate the borrower distribution of the bank’s agriculture loans.

<b>Table 8 - Borrower Distribution of Agriculture Loans in Sioux City MSA AA</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of Bank Loans in AA by #	85%	15%	0%	100%
% of Bank Loans in AA by \$	48%	52%	0%	100%
% of Aggregate Peer Businesses/Farm Loans by #	57%	43%	0%	100%
% of Aggregate Peer Businesses/Farm Loans by \$	63%	37%	0%	100%

Source: 2016 Peer Small Business Data, loan sample

**Geographic Distribution of Loans**

The distribution of commercial loans to CTs of different income levels reflects reasonable dispersion of AA demographics during the evaluation period.

South Dakota Non-MSA AA

A geographic analysis of the South Dakota Non-MSA AA was not completed because it would not be meaningful. There were no low- to moderate-income CTs in 2015 or 2016. In 2017, one CT is moderate-income, which represents six percent of CTs. There are only five farms in the moderate-income CT, which limits the opportunity to lend. In addition, the CT was only moderate-income for one year of the evaluation period.

Sioux Falls MSA AA

The distribution of commercial loans to CTs of different income levels reflects reasonable dispersion of the AAs demographics. Thirty-five percent of FSB’s commercial loans sampled by number and 50 percent of their commercial loans sampled by dollar were to businesses located in moderate-income CTs. This is within a reasonable range of the aggregate peer comparator for number of loans for the AA and exceeds aggregate peer comparator for the dollar volume of loans for the AA.

The distribution of loans by dollar to businesses located in moderate-income CTs is skewed by one large loan in our sample. Of the 20 loans sampled, seven were made to moderate-income CTs. However, one of the seven loans accounted for two-thirds of the dollar volume of loans to moderate-income CTs thus we placed more weight on the dispersion by number of loans.

Table 9 includes the data used to evaluate the geographic distribution of the bank’s commercial loans.

<b>Table 9 - Geographic Distribution of Commercial Loans in Sioux Falls MSA AA</b>				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of Bank Loans in AA by #	0%	35%	65%	0%
% of Bank Loans in AA by \$	0%	50%	50%	0%
% of Aggregate Peer Businesses/Farm Loans by #	0%	31%	46%	23%
% of Aggregate Peer Businesses/Farm Loans by \$	0%	39%	43%	18%

Source: 2016 Peer Small Business Data, loan sample

Sioux City MSA AA

There are no low- or moderate-income CTs in the Sioux City MSA AA. A geographic analysis of this AA was not completed because it would not be meaningful.

**Responses to Complaints**

Neither the bank nor the OCC received any CRA-related complaints during the evaluation period.

**COMMUNITY DEVELOPMENT TEST**

The bank’s performance under the CD Test in South Dakota is rated Needs to Improve. CD activities demonstrate poor responsiveness to CD needs and opportunities in the bank’s AAs. CD loans and investments totaled \$1.2 million. Members of management and employees provided qualified service hours to five community organizations during the evaluation period.

**Number and Amount of Community Development Loans**

Management originated a weak number of CD loans in the State of South Dakota during the evaluation period. The Bank made four CD loans totaling \$669 thousand in the State of South Dakota during the evaluation period.

South Dakota Non-MSA AA

Management provided a weak level of CD loans to the South Dakota Non-MSA AA during the evaluation period. No CD loans were originated in this AA during the evaluation period.

Sioux Falls MSA AA

Management provided an adequate level of CD loans to the Sioux Falls MSA AA during the evaluation period. Management originated four qualified CD loans in the AA totaling \$669 thousand. These loans included two Small Business Administration (SBA) 504 loans and two loans providing affordable housing to low- and moderate-income individuals.

Sioux City MSA AA

Management provided a weak level of CD loans to the Sioux City MSA AA during the evaluation period. No CD loans were originated in this AA during the evaluation period.

**Number and Amount of Qualified Investments**

Management provided an adequate level of CD investments to the State of South Dakota during the evaluation period. Management purchased two bonds in prior evaluation periods with outstanding balances totaling \$568 thousand. Management made 11 qualified donations totaling \$6,150 in the State of South Dakota during the evaluation period.

South Dakota Non-MSA AA

Management provided an adequate level of CD investments to the South Dakota Non-MSA AA during the evaluation period. Management purchased one bond in a prior evaluation period that remains on the bank's books. The bond totals \$203 thousand and supports affordable housing in a distressed middle-income CT.

Management made seven qualified donations totaling \$4,600 during the evaluation period. Two donations support an organization that provides economic development assistance to small businesses. Five donations support organizations that provide community services to low- and moderate-income individuals.

Sioux Falls MSA AA

Management provided an adequate level of CD investments to the Sioux Falls MSA AA during the evaluation period. Management purchased one bond in a prior evaluation period that remains on the bank's books. The bond totals \$365 thousand and supports a school district where more than 50 percent of the students qualify for free or reduced cost lunches.

Management made three qualified donations totaling \$1,450 during the evaluation period. The donations support organizations that provide community services to low- and moderate-income individuals.

Sioux City MSA AA

Management provided a weak level of CD investments to the Sioux City MSA AA during the evaluation period. Management made one qualified donation totaling \$100 during the evaluation period. The donation supports an organization that provides community services to low- and moderate-income individuals.

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

Management provided an adequate number of CD services to the State of South Dakota during the evaluation period. The availability of services to low- and moderate-income individuals is adequate. No bank branches in South Dakota are located in low- or moderate-income CTs; however, six branches are located in distressed or underserved middle-income

CTs. The availability of services in those branches is consistent with the availability in branches located in other middle- or upper-income CTs.

#### South Dakota Non-MSA AA

Management provided an adequate number of CD services to the South Dakota Non-MSA AA during the evaluation period. One employee provided qualified service hours to an organization that promotes economic development by financing small businesses during the evaluation period. Three employees provided qualified service hours to an organization that provides community services to low- and moderate-income children.

Six of the seven branches in the South Dakota Non-MSA AA are located in distressed or underserved middle-income CTs, which generally increases access to financial services to low- and moderate-income individuals.

#### Sioux Falls MSA AA

Management provided an adequate number of CD services to the Sioux Falls MSA AA during the evaluation period. Three members of management provided qualified service hours to two organizations that provide community services to low- and moderate-income individuals.

#### Sioux City MSA AA

Management provided a weak number of CD services to the Sioux City MSA AA during the evaluation period. One member of management provided qualified service hours to one organization that provides community services to low- and moderate-income individuals.

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

FSB demonstrated poor responsiveness to CD needs and opportunities in the State of South Dakota. Sioux Falls is the largest city in the State of South Dakota. There are numerous opportunities for CD participation in the Sioux Falls MSA AA.

We considered the limited CD opportunities in the Sioux City MSA AA and the South Dakota Non-MSA AA during the evaluation period in our analysis. Neither of these AAs had low- or moderate-income CTs in 2015 and 2016. The South Dakota Non-MSA AA had one moderate-income CT in 2017, however this was only for one year therefore limiting CD opportunities in moderate-income CTs. Additionally, both AAs are primarily rural areas that do not offer the traditional community service and affordable housing organizations typically found in MAs.

## State Rating

### State of New Mexico

**CRA Rating for the State of New Mexico: Satisfactory.**

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

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

FSB's performance in the State of New Mexico meets the standards for Satisfactory performance.

- The distribution of loans to households of different income levels and businesses of different sizes reflects excellent penetration of AA demographics.
- The geographic distribution of loans to low- and moderate-income geographies reflects excellent dispersion of AA demographics.
- FSB's CD activities demonstrate adequate responsiveness to the CD needs of the AAs.

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN NEW MEXICO

FSB has two AAs in New Mexico: New Mexico Non-MSA AA and Las Cruces MSA AA.

#### New Mexico Non-MSA AA

The New Mexico Non-MSA AA includes all of Grant, Lincoln, Luna, Otero, and Sierra Counties in New Mexico. FSB operates five branches in this AA. The branches are located in the towns of Alamogordo, Ruidoso, Truth or Consequences, Deming, and Silver City.

This AA accounted for 25 percent of the bank's deposits as of June 30, 2017 and 11 percent of the bank's loan originations during the evaluation period. Primary lending products in the New Mexico Non-MSA AA are commercial and consumer loans.

The New Mexico Non-MSA AA includes 39 CTs. Two CTs are low-income, 13 are moderate-income, 19 are middle-income, and five are upper-income. One-hundred fifty-one thousand people, or 58 thousand households, lived in the AA in 2015. Of the households, 28 percent were low-income, 17 percent were moderate-income, 17 percent were middle-income, and 38 percent were upper-income. Twenty-one percent of the households in the AA lived below the poverty level. The weighted-average of MFI was \$52,300 in 2017.

Forty-nine percent of the housing units in the New Mexico Non-MSA AA were owner-occupied and 21 percent were renter-occupied in 2015. The weighted-average of median housing cost was \$122,504 and the weighted-average of monthly gross rent was \$720.

The New Mexico Non-MSA AA includes seven thousand businesses. Ninety-five percent of the businesses are non-farm businesses and 69 percent employ fewer than five people.

The economy in the New Mexico Non-MSA AA improved but remained unfavorable during the evaluation period. According to the BLS, monthly unemployment rates in 2015 ranged from a low of 4.9 percent in Lincoln County to a high of 22.6 percent in Luna County at its peak. Unemployment rates slowly improved in each county during the evaluation period. In February 2018, unemployment rates in the counties in the AA ranged from a low of 5.1 percent in Otero County to a high of 17.5 percent in Luna County. In February 2018, the unemployment rates of the other counties in the AA were 5.2 percent, 5.5 percent, and 9.2 percent. The State of New Mexico unemployment rate was 5.5 percent and the national rate was 4.1 percent in February 2018. Major employers in the New Mexico Non-MSA AA include the United States Air Force, healthcare industry, state and federal government, and Wal-Mart. Employment in Luna County includes agricultural and packaging positions that are often temporary in nature and therefore the unemployment rate varies by season, but remains high.

Competition in the New Mexico Non-MSA AA is moderate and primarily includes local community banks and regional banks. As of June 30, 2017, there were 17 institutions with 48 banking offices located in the AA. FSB reported \$144 million of deposits in the New Mexico Non-MSA AA as of June 30, 2017, which ranked the bank fifth in deposit market share with a market share of eight percent.

We completed one community contact in the New Mexico Non-MSA AA in conjunction with this examination. The contact was the Communications Director of an organization that provides services for seniors in the AA. The contact identified FSB as being active in the community. The contact did not identify any specific unmet credit needs in the AA.

### Las Cruces MSA AA

The Las Cruces MSA AA includes all of the Las Cruces MSA (#29740). The MSA includes Dona Ana County in New Mexico. FSB operates one branch in this AA. The branch is located in Las Cruces, New Mexico.

This AA accounted for two percent of the bank's deposits as of June 30, 2017 and two percent of the bank's loan originations during the evaluation period. The primary lending product in the Las Cruces MSA AA is commercial loans.

The Las Cruces MSA AA includes 41 CTs. Three of the CTs are low-income, 16 are moderate-income, 13 are middle-income, and nine are upper-income. Two-hundred and fourteen thousand people, or 75 thousand households, lived in the AA in 2015. Of the households, 25 percent were low-income, 17 percent were moderate-income, 16 percent were middle-income, and 42 percent were upper-income. Twenty-five percent of the households in the AA lived below the poverty level. The weighted-average of MFI was \$46,900 in 2017.

Fifty-eight percent of the housing units in the Las Cruces MSA AA were owner-occupied and 31 percent were renter-occupied in 2015. The weighted-average of median housing cost was \$143,830 and the weighted-average of monthly gross rent was \$710.

The Las Cruces MSA AA includes nine thousand businesses. Ninety-six percent of the businesses are non-farm businesses and 68 percent employ fewer than five people.

The economy in the Las Cruces MSA improved but remained unfavorable during the evaluation period. According to the BLS, the unemployment rate in the Las Cruces MSA improved from 8.0 percent in July 2015 to 6.7 percent in February 2018. This is above the State of New Mexico unemployment rate of 5.5 percent and the national rate of 4.1 percent in February 2018. Major employers in the Las Cruces MSA AA include the public school system, a state university, and a missile range.

Competition in the Las Cruces MSA AA is moderate and includes several large national banks as well as local community banks. As of June 30, 2017, there were 18 institutions with 46 banking offices located in the Las Cruces MSA AA. FSB reported \$12 million of deposits in the Las Cruces MSA AA as of June 30, 2017, which ranked the bank 17th in deposit market share with a market share less than one percent.

## **SCOPE OF EVALUATION IN NEW MEXICO**

We completed a full-scope review of the New Mexico Non-MSA AA and a limited-scope review of the Las Cruces MSA AA. The State of New Mexico rating is primarily based on the results of the AA receiving a full-scope review. Refer to Appendix A for more information.

The New Mexico Non-MSA represents the bank's primary AA in New Mexico. The New Mexico Non-MSA AA accounts for 83 percent of FSB's New Mexico locations, 92 percent of New Mexico deposits, and 84 percent of the loans originated in New Mexico during the evaluation period.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN NEW MEXICO**

FSB's performance under the Lending Test in New Mexico is rated Outstanding. The borrower distribution of loans reflects excellent penetration among households of different income levels and businesses of different sizes. The geographic distribution of business and consumer loans to geographies of different income levels reflects excellent dispersion among CTs of different income levels.

FSB's performance under the CD Test in New Mexico is rated Satisfactory. Overall, the volume of CD loans and services reflects adequate responsiveness to CD needs and opportunities of the bank's AAs. The volume of CD investments is poor.

Performance in the Las Cruces MSA AA, which received a limited scope review, was inconsistent with FSB's performance in the New Mexico Non-MSA AA, which received a full scope review. The geographic distribution of business loans in the Las Cruces MSA AA reflected reasonable dispersion among CTs of different income levels whereas the geographic distribution of business and consumer loans to geographies of different income levels reflected excellent dispersion among CTs of different income levels in the New Mexico Non-MSA AA. Borrower distribution of loans in both AAs reflected excellent penetration. The bank's performance under the CD Test in the Las Cruces MSA AA reflects very poor responsiveness to the AAs CD needs and opportunities. We placed more weight on performance in the New Mexico Non-MSA AA in overall conclusions for ratings for New Mexico given the full scope review and it is the bank's primary AA in New Mexico as noted above.

## LENDING TEST

The bank’s performance under the Lending Test in New Mexico is rated Outstanding.

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

The distribution of commercial loans to businesses of different sizes and consumer loans to households of different income levels reflects excellent penetration of AA demographics during the evaluation period.

#### New Mexico Non-MSA AA

The distribution of commercial loans to businesses of different income levels reflects excellent penetration of the AAs demographics. One-hundred percent of FSB’s commercial loans sampled by number and dollar were to businesses with gross annual revenue less than \$1 million. This significantly exceeds the aggregate peer comparators for the AA.

Table 10 includes the data used to evaluate the borrower distribution of the bank’s commercial loans.

<b>Table 10 - Borrower Distribution of Commercial Loans in New Mexico Non-MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%
% of Aggregate Peer Businesses/Farm Loans by #	49%	51%	0%	100%
% of Aggregate Peer Businesses/Farm Loans by \$	45%	55%	0%	100%

Source: 2016 Peer Small Business Data, loan sample

The distribution of consumer loans to households of different income levels reflects excellent penetration of the AA’s demographics. Twenty-five percent of AA households are low-income. Management originated 20 percent of their consumer loans sampled by number to these households. Eighteen percent of AA households are moderate-income. Management originated 40 percent of their consumer loans sampled by number to these households. This significantly exceeds the comparators for the AA.

Table 11 includes the data used to evaluate the borrower distribution of the bank’s consumer loans.

<b>Table 11 - Borrower Distribution of Consumer Loans in New Mexico Non-MSA AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	25%	20%	18%	40%	18%	15%	39%	25%

Source: 2010 U.S. Census data, loan sample

Las Cruces MSA AA

The distribution of commercial loans to businesses of different income levels reflects excellent penetration of the AAs demographics. Ninety-five percent of FSB’s commercial loans sampled by number and 94 percent of their commercial loans sampled by dollar were to businesses with gross annual revenue less than \$1 million. This significantly exceeds the aggregate peer comparators for the AA.

Table 12 includes the data used to evaluate the borrower distribution of the bank’s commercial loans.

<b>Table 12 - Borrower Distribution of Commercial Loans in Las Cruces MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of Bank Loans in AA by #	95%	5%	0%	100%
% of Bank Loans in AA by \$	94%	6%	0%	100%
% of Aggregate Peer Businesses/Farm Loans by #	45%	55%	0%	100%
% of Aggregate Peer Businesses/Farm Loans by \$	38%	62%	0%	100%

Source: 2016 Peer Small Business Data, loan sample

**Geographic Distribution of Loans**

The distribution of commercial and consumer loans to CTs of different income levels reflects excellent penetration of AA demographics during the evaluation period.

New Mexico Non-MSA AA

The distribution of commercial loans to CTs of different income levels reflects excellent dispersion of the AAs demographics. Forty-five percent of FSB’s commercial loans sampled by number and 59 percent of their commercial loans sampled by dollar were to businesses located in moderate-income CTs. This significantly exceeds the aggregate peer comparator for number and dollar volume of loans for the AA. The bank did not originate any commercial loans to low-income CTs.

Table 13 includes the data used to evaluate the geographic distribution of the bank’s commercial loans.

<b>Table 13 - Geographic Distribution of Commercial Loans in New Mexico Non-MSA AA</b>				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of Bank Loans in AA by #	0%	45%	50%	5%
% of Bank Loans in AA by \$	0%	59%	39%	2%
% of Aggregate Peer Businesses/Farm Loans by #	4%	17%	50%	29%
% of Aggregate Peer Businesses/Farm Loans by \$	8%	13%	42%	37%

Source: 2016 Peer Small Business Data, loan sample

The distribution of consumer loans to CTs of different income levels reflects excellent dispersion of the AA's demographics. One percent of AA households live in low-income CTs. Management originated 10 percent of their consumer loans sampled by number to households in these CTs. Twenty-seven percent of AA households live in moderate-income CTs. Management originated 40 percent of their consumer loans sampled by number to households in these CTs. This significantly exceeds the comparators for the AA.

Table 14 includes the data used to evaluate the geographic distribution of the bank's consumer loans.

<b>Table 14 - Geographic Distribution of Consumer Loans in New Mexico Non-MSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	1%	10%	27%	40%	52%	15%	20%	35%

Source: 2010 U.S. Census data, loan sample

Las Cruces MSA AA

The distribution of commercial loans to CTs of different income levels reflects reasonable dispersion of the AAs demographics. Five percent of FSB's commercial loans sampled by number and two percent of their commercial loans sampled by dollar were to business located in low-income CTs. This is near the aggregate peer comparator for the number and dollar volume of loans for the AA. Twenty-five percent of FSB's commercial loans sampled by number and 33 percent of commercial loans sampled by dollar were to businesses located in moderate-income CTs. This is within a reasonable range of the aggregate peer comparator for number and dollar volume of loans for the AA.

Table 15 includes the data used to evaluate the geographic distribution of the bank's commercial loans.

<b>Table 15 - Geographic Distribution of Commercial Loans in Las Cruces MSA AA</b>				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of Bank Loans in AA by #	5%	25%	20%	50%
% of Bank Loans in AA by \$	2%	33%	16%	49%
% of Aggregate Peer Businesses/Farm Loans by #	7%	28%	17%	48%
% of Aggregate Peer Businesses/Farm Loans by \$	7%	27%	16%	50%

Source: 2016 Peer Small Business Data, loan sample

**Responses to Complaints**

Neither the bank nor the OCC received any CRA-related complaints during the evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

The bank's performance under the CD Test in New Mexico is rated Satisfactory. CD activities demonstrate adequate responsiveness to CD needs and opportunities in the bank's AA. CD loans and investments totaled \$2.6 million. Members of management provided qualified service hours to four community organizations during the evaluation period.

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

Management originated an adequate number of CD loans in the State of New Mexico during the evaluation period. The CD loans are concentrated in the New Mexico Non-MSA AA and are small business loans for CD purposes.

#### New Mexico Non-MSA AA

Management provided an adequate level of CD loans to the New Mexico Non-MSA AA during the evaluation period. Management originated two SBA 504 loans totaling \$2.6 million in this AA during the evaluation period.

#### Las Cruces MSA AA

Management provided a weak level of CD loans to the Las Cruces MSA AA during the evaluation period. No CD loans were originated in this AA during the evaluation period.

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

Management provided a weak level of CD investments to the State of New Mexico during the evaluation period.

#### New Mexico Non-MSA AA

Management provided a weak level of CD investments to the New Mexico Non-MSA AA during the evaluation period. Management made nine qualified donations totaling \$2,295 during the evaluation period. The donations support organizations that provide community services to low- and moderate-income children.

#### Las Cruces MSA AA

Management provided a weak level of CD investments to the Las Cruces MSA AA during the evaluation period. Management made one qualified donation totaling \$200 during the evaluation period. The donation supports an organization that provides community services to low- and moderate-income individuals.

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

Management provided an adequate number of CD services to the State of New Mexico during the evaluation period. The availability of services to low- and moderate-income individuals is adequate. One branch is located in a low-income CT and two branches are located in

moderate-income CTs. The availability of services in those branches is consistent with the availability in branches located in middle- or upper-income CTs.

#### New Mexico Non-MSA AA

Management provided an adequate number of CD services to the New Mexico Non-MSA AA during the evaluation period. One member of management provided qualified service hours to an organization that provides affordable housing. Three members of management provided qualified service hours to an organization that provides community services to low- and moderate-income children. Additionally, a branch employee provided qualified services hours to a separate organization that provides community services to low- and moderate-income children.

Three of the five branches in the New Mexico Non-MSA AA are located in low- or moderate-income CTs, which increases access to financial services to low- and moderate-income individuals. The availability of services in these branches is consistent with the availability in branches located in middle- or upper-income CTs.

#### Las Cruces MSA AA

Management provided a weak number of CD services to the Las Cruces MSA AA during the evaluation period. One employee provided qualified service hours to one community organization during the evaluation period. The organization provides affordable housing to low- and moderate-income individuals.

The availability of services to low- and moderate-income individuals is adequate. The Las Cruces branch is located in an upper-income CT; however, management makes banking services available to all customers via non-traditional methods such as mobile and internet banking, which increases the availability of services to all individuals.

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

FSB demonstrated adequate responsiveness to CD needs and opportunities in the State of New Mexico.

## State Rating

### State of Nevada

**CRA Rating for the State of Nevada: Satisfactory.**

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

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

FSB's performance in the State of Nevada meets the standards for Satisfactory performance.

- The distribution of loans to businesses of different sizes reflects excellent penetration of AA demographics.
- The geographic distribution of loans to low- and moderate-income geographies reflects excellent dispersion of AA demographics.
- FSB's CD activities demonstrate adequate responsiveness to the CD needs of the AA.

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN NEVADA

FSB has one AA in Nevada. The Las Vegas MSA AA includes all of the Las Vegas-Henderson-Paradise MSA (#29820). The MSA includes Clark County in Nevada. FSB operates one branch in this AA. The branch is located in Henderson, Nevada. The bank moved the branch in November 2016 from Las Vegas to Henderson upon acquiring a branch of another institution.

This AA accounted for 20 percent of the bank's deposits as of June 30, 2017 and 22 percent of the bank's loan originations during the evaluation period. The primary lending product in the Las Vegas MSA AA is commercial loans.

The Las Vegas MSA AA includes 487 CTs. Twenty-eight CTs are low-income, 128 are moderate-income, 181 are middle-income, and 149 are upper-income. The income of one CT is unknown. Two million people, or 724 thousand households, lived in the AA in 2015. Of the households, 23 percent were low-income, 17 percent were moderate-income, 19 percent were middle-income, and 41 percent were upper-income. Fourteen percent of the households in the AA lived below the poverty level. The weighted-average of MFI was \$61,900 in 2017.

Forty-four percent of the housing units in the Las Vegas MSA AA were owner-occupied and 40 percent were renter-occupied in 2015. The weighted-average of median housing cost was \$169,213 and the weighted-average of monthly gross rent was \$1,032.

The Las Vegas MSA AA includes 99 thousand businesses. Ninety-eight percent of the businesses are non-farm businesses and 65 percent employ fewer than five people.

The economy in the Las Vegas MSA improved during the evaluation period. According to the BLS, the unemployment rate in the Las Vegas MSA improved from 6.8 percent in July 2015 to 5.2 percent in February 2018. The Las Vegas MSA unemployment rate remains above the State of Nevada unemployment rate of 5.0 percent and the national rate of 4.1 percent in

February 2018. Major employers in the Las Vegas MSA include casinos, the hotel industry, local government, and the local school and university systems.

Competition in the Las Vegas MSA AA is high and includes large national banks, regional banks, and some community banks. As of June 30, 2017, there were 39 institutions with 342 banking offices located in the Las Vegas MSA AA. FSB reported \$115 million of deposits in the Las Vegas MSA AA as of June 30, 2017, which ranked the bank 23rd in deposit market share with a market share of less than one percent.

We completed one community contact in the Las Vegas MSA AA in conjunction with this examination. The contact was the Senior Economic Development Specialist of an organization that supports economic development in the AA. The contact did not identify any unmet credit needs in the AA. The contact stated that banks have the opportunity to participate in CD and financing programs. The contact also stated that banks will have further opportunities to become involved as the population continues to grow and demand increases for housing and businesses.

## **SCOPE OF EVALUATION IN NEVADA**

We completed a full-scope review of the Las Vegas MSA AA. The State of Nevada rating is based wholly on the results of this review. Refer to Appendix A for more information.

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

FSB's performance under the Lending Test in Nevada is rated Outstanding. The borrower distribution of loans reflects excellent penetration among businesses of different sizes. The geographic distribution of business loans to geographies of different income levels reflects excellent dispersion among CTs of different income levels.

FSB's performance under the CD Test in Nevada is rated Satisfactory. The volume of CD loans reflects excellent responsiveness to CD needs; however, the volume of investments and services reflects very poor responsiveness to CD needs and opportunities in the bank's AA.

## **LENDING TEST**

The bank's performance under the Lending Test in Nevada is rated Outstanding.

### **Lending to Businesses of Different Sizes**

The distribution of commercial loans to businesses of different income levels reflects excellent penetration of the AAs demographics. Ninety percent of FSB's commercial loans sampled by number and 98 percent of their commercial loans sampled by dollar were to businesses with gross annual revenue less than \$1 million. This significantly exceeds the aggregate peer comparators for the AA.

Table 16 includes the data used to evaluate the borrower distribution of the bank’s commercial loans.

<b>Table 16 - Borrower Distribution of Commercial Loans in Las Vegas MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of Bank Loans in AA by #	90%	10%	0%	100%
% of Bank Loans in AA by \$	98%	2%	0%	100%
% of Aggregate Peer Businesses/Farm Loans by #	45%	55%	0%	100%
% of Aggregate Peer Businesses/Farm Loans by \$	32%	68%	0%	100%

Source: 2016 Peer Small Business Data, loan sample

**Geographic Distribution of Loans**

The distribution of commercial loans to CTs of different income levels reflects excellent dispersion of the AAs demographics. Twenty percent of FSB’s commercial loans sampled by number and 16 percent of their commercial loans sampled by dollar were to businesses located in low-income CTs. This significantly exceeds the aggregate peer comparator for number and dollar volume of loans for the AA. Forty percent of FSB’s commercial loans sampled by number and 14 percent of their commercial loans sampled by dollar were to businesses located in moderate-income CTs. This significantly exceeds the aggregate peer comparator for number and is near the aggregate peer comparator by dollar of loans for the AA.

Table 17 includes the data used to evaluate the geographic distribution of the bank’s commercial loans.

<b>Table 17 - Geographic Distribution of Commercial Loans in Las Vegas MSA AA</b>				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of Bank Loans in AA by #	20%	40%	20%	20%
% of Bank Loans in AA by \$	16%	14%	39%	31%
% of Aggregate Peer Businesses/Farm Loans by #	3%	16%	42%	39%
% of Aggregate Peer Businesses/Farm Loans by \$	4%	19%	44%	33%

Source: 2016 Peer Small Business Data, loan sample

**Responses to Complaints**

Neither the bank nor the OCC received any CRA-related complaints during the evaluation period.

**COMMUNITY DEVELOPMENT TEST**

The bank’s performance under the CD Test in Nevada is rated Satisfactory. CD activities demonstrate adequate responsiveness to CD needs and opportunities in the bank’s AA. Management made 17 qualified CD loans totaling \$15.8 million. Management made two

donations totaling \$1,042 and did not provide any qualified service hours to community organizations in the Las Vegas MSA AA during the evaluation period.

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

Management provided an outstanding level of CD loans to the Las Vegas MSA AA during the evaluation period. Management originated 17 qualified CD loans totaling \$15.8 million during the evaluation period. The loans provided affordable housing to low- and moderate-income individuals in the AA.

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

Management provided a weak level of CD investments to the Las Vegas MSA AA during the evaluation period. Management made two qualified donations totaling \$1,042 during the evaluation period. The donations support organizations that provide community services to low- and moderate-income individuals.

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

Management provided a weak number of CD services to the Las Vegas MSA AA during the evaluation period. Bank management and staff did not provide any service hours to qualified CD organizations in this AA during the evaluation period.

The availability of services to low- and moderate-income individuals is adequate. The Henderson branch is located in an upper-income CT; however, management makes banking services available to all customers via non-traditional methods such as mobile and Internet banking, which increases the availability of services to all individuals.

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

FSB demonstrated adequate responsiveness to CD needs and opportunities in the State of Nevada. The Las Vegas MSA AA is located in a large MA. There are numerous opportunities for CD participation in this AA.

## State Rating

### State of Texas

**CRA Rating for the State of Texas: Satisfactory.**

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

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

FSB's performance in the State of Texas meets the standards for Satisfactory performance.

- The distribution of loans to businesses of different sizes reflects excellent penetration of AA demographics.
- The geographic distribution of loans to low- and moderate-income geographies reflects reasonable dispersion of AA demographics.
- FSB's CD activities demonstrate adequate responsiveness to the CD needs of the AA.

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN TEXAS

FSB has one AA in Texas. The El Paso MSA AA includes all of the El Paso MSA (#21340). The MSA includes El Paso County in Texas. FSB operates three branches in this AA. All of the branches are located in El Paso, Texas.

This AA accounted for seven percent of the bank's deposits as of June 30, 2017 and 16 percent of the bank's loan originations during the evaluation period. The primary lending product in the El Paso MSA AA is commercial loans.

The El Paso MSA AA includes 161 CTs. Ten CTs are low-income, 54 are moderate-income, 54 are middle-income, and 42 are upper-income. The income level of one CT is unknown. Eight-hundred thirty-one thousand people, or 260 thousand households, lived in the AA in 2015. Of the households, 25 percent were low-income, 15 percent were moderate-income, 18 percent were middle-income, and 42 percent were upper-income. Twenty-two percent of the households in the AA lived below the poverty level. The weighted-average of MFI was \$45,300 in 2017.

Fifty-six percent of the housing units in the El Paso MSA AA were owner-occupied and 35 percent were renter-occupied in 2015. The weighted-average of median housing cost was \$119,494 and the weighted-average of monthly gross rent was \$763.

The El Paso MSA AA includes 40 thousand businesses. Ninety-nine percent of the businesses are non-farm businesses and 69 percent employ fewer than five people.

The economy in the El Paso MSA improved during the evaluation period. According to the BLS, the unemployment rate in the El Paso MSA improved from 4.9 percent in July 2015 to 4.5 percent in February 2018, which is above the State of Texas unemployment rate of 4.1 percent and the national rate of 4.1 percent in February 2018. Major employers in the

El Paso MSA include the United States Army, the local school system, the local government, and the health care industry.

Competition in the El Paso MSA AA is high and includes large national banks, regional banks, and some community banks. As of June 30, 2017, there were 15 institutions with 90 banking offices located in the El Paso MSA AA. FSB reported \$41 million of deposits in the El Paso MSA AA as of June 30, 2017, which ranked the bank 12th in deposit market share with a market share of less than one percent.

We completed one community contact in the El Paso MSA AA in conjunction with this examination. The contact was the Public Information Officer of an organization that provides affordable housing. The contact did not identify any unmet credit needs in the AA. The contact stated that banks have the opportunity to provide training on mobile banking and using smartphones for personal and business finances to low- or moderate-income individuals.

## **SCOPE OF EVALUATION IN TEXAS**

We completed a full-scope review of the El Paso MSA AA. The State of Texas rating is based wholly on the results of this review. Refer to Appendix A for more information.

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

FSB's performance under the Lending Test in Texas is rated Satisfactory. The borrower distribution of loans reflects excellent penetration among businesses of different sizes. The geographic distribution of business loans to geographies of different income levels reflects reasonable dispersion among CTs of different income levels.

FSB's performance under the CD Test in Texas is rated Satisfactory. The volume of CD loans reflects excellent responsiveness to CD needs; however, the volume of investments and services reflects very poor responsiveness to CD needs and opportunities in the bank's AA.

## **LENDING TEST**

The bank's performance under the Lending Test in Texas is rated Satisfactory.

### **Lending to Businesses of Different Sizes**

The distribution of commercial loans to businesses of different income levels reflects excellent penetration of the AAs demographics. Seventy percent of FSB's commercial loans sampled by number and 81 percent of their commercial loans sampled by dollar were to businesses with gross annual revenue less than \$1 million. This significantly exceeds the aggregate peer comparators for the AA.

Table 18 includes the data used to evaluate the borrower distribution of the bank's commercial loans.

<b>Table 18 - Borrower Distribution of Commercial Loans in El Paso MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of Bank Loans in AA by #	70%	15%	15%	100%
% of Bank Loans in AA by \$	81%	18%	2%	100%
% of Aggregate Peer Businesses/Farm Loans by #	39%	61%	0%	100%
% of Aggregate Peer Businesses/Farm Loans by \$	35%	65%	0%	100%

Source: 2016 Peer Small Business Data, loan sample

### Geographic Distribution of Loans

The distribution of commercial loans to CTs of different income levels reflects reasonable dispersion of the AAs demographics. Fifteen percent of FSB's commercial loans sampled by number and nine percent of their commercial loans sampled by dollar were to businesses located in low-income CTs. This exceeds the aggregate peer comparator for number and dollar of loans for the AA. Thirty percent of FSB's commercial loans sampled by number and 15 percent of their commercial loans sampled by dollar were to businesses located in moderate-income CTs. This meets the aggregate peer comparator by number of loans for the AA.

Although the bank's percentage of lending by dollar volume in moderate-income CTs is below the comparator, the percentage is skewed by one large loan totaling \$6 million, which skews the percentages to the upper-income CT. In the absence of this loan the percentages of loans sampled by dollar volume to low- and moderate-income CTs meet or exceed aggregate peer comparators.

Table 19 includes the data used to evaluate the geographic distribution of the bank's commercial loans.

<b>Table 19 - Geographic Distribution of Commercial Loans in El Paso MSA AA</b>				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of Bank Loans in AA by #	15%	30%	40%	15%
% of Bank Loans in AA by \$	9%	15%	19%	57%
% of Aggregate Peer Businesses/Farm Loans by #	6%	29%	27%	38%
% of Aggregate Peer Businesses/Farm Loans by \$	6%	34%	24%	36%

Source: 2016 Peer Small Business Data, loan sample

### Responses to Complaints

Neither the bank nor the OCC received any CRA-related complaints during the evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

The bank's performance under the CD Test in Texas is rated Satisfactory. CD activities demonstrate adequate responsiveness to CD needs and opportunities in the bank's AA. Management provided \$5.3 million in CD loans and investments in the El Paso MSA AA during the evaluation period. Branch employees provided qualified service hours to one community organization during the evaluation period.

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

Management provided an outstanding level of CD loans to the El Paso MSA AA during the evaluation period. Management originated eight qualified CD loans totaling \$5.3 million during the evaluation period. Three loans were small business loans that benefited low-income CTs. Five loans provided affordable housing to low- and moderate-income individuals.

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

Management provided a weak level of CD investments to the El Paso MSA AA during the evaluation period. Management made one qualified donation totaling \$50 during the evaluation period. The donation supports an organization that provides community services to low- and moderate-income children.

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

Management provided a weak number of CD services to the El Paso MSA AA during the evaluation period. Branch employees provided qualified service hours to one community organization during the evaluation period. The organization provides community services to low- and moderate-income individuals.

The availability of services to low- and moderate-income individuals is excellent. Two of the bank's three branches are located in moderate-income CTs. The availability of services in those branches is consistent with the availability in branches located in middle- or upper-income CTs.

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

FSB demonstrated adequate responsiveness to CD needs and opportunities in the State of Texas. The El Paso MSA AA is located in a large MA. The CD needs in this AA are vast and there are numerous opportunities for CD participation.

## State Rating

### State of Nebraska

**CRA Rating for the State of Nebraska: Satisfactory.**

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

**The Community Development Test is rated: Needs to improve.**

FSB's performance in the State of Nebraska meets the standards for Satisfactory performance.

- The distribution of loans to businesses of different sizes reflects excellent penetration of AA demographics.
- The geographic distribution of loans to low- and moderate-income geographies reflects excellent dispersion of AA demographics.
- FSB's CD activities demonstrate poor responsiveness to the CD needs of the AA.

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN NEBRASKA

FSB has one AA in Nebraska. The Omaha MSA AA includes a portion of the Omaha-Council Bluffs NE-IA multi-state MSA (#36540). The multi-state MSA includes Cass, Douglas, Sarpy, Saunders, and Washington Counties in Nebraska and Harrison, Mills, and Pottawattamie Counties in Iowa. FSB operates one branch in this AA. The branch is located in Omaha, Nebraska. FSB includes all of Douglas and Sarpy Counties in Nebraska as its Omaha MSA AA, which is reasonable given the bank's branch location and the large size of the multi-state MSA. Since FSB's operations in the AA are limited to the Nebraska portion of the multi-state MSA, we provided a State of Nebraska rating rather than a rating for the entire multi-state MSA.

This AA accounted for two percent of the bank's deposits as of June 30, 2017 and eight percent of the bank's loan originations during the evaluation period. The primary lending product in the Omaha MSA AA is commercial loans.

The Omaha MSA AA includes 199 CTs. Twenty-eight CTs are low-income, 43 are moderate-income, 72 are middle-income, and 56 are upper-income. Seven-hundred and seven thousand people, or 271 thousand households lived in the AA in 2015. Of the households, 24 percent were low-income, 16 percent were moderate-income, 18 percent were middle-income, and 42 percent were upper-income. Twelve percent of the households in the AA lived below the poverty level. The weighted-average of MFI was \$75,000 in 2017.

Fifty-nine percent of the housing units in the Omaha MSA AA were owner-occupied and 34 percent were renter-occupied in 2015. The weighted-average of median housing cost was \$154,606 and the weighted-average of monthly gross rent was \$840.

The Omaha MSA AA includes 43 thousand businesses. Ninety-seven percent of the businesses are non-farm businesses and 67 percent employ fewer than five people.

The economy in the Omaha MSA was favorable during the evaluation period. According to the BLS, the unemployment rate in the Omaha MSA remained unchanged at 3.1 percent in July 2015 and February 2018. This is slightly above the State of Nebraska unemployment rate of 2.8 percent but below the national rate of 4.1 percent in February 2018. Major employers in the Omaha MSA include the United States Air Force, the healthcare industry, and the public school system.

Competition in the Omaha MSA AA is high and includes large national banks, regional banks, and local community banks. As of June 30, 2017, there were 36 institutions with 228 banking offices located in the Omaha MSA AA. FSB reported \$13 million of deposits in the Omaha MSA AA as of June 30, 2017, which ranked the bank 34th in deposit market share with a market share of less than one percent.

We completed one community contact in the Omaha MSA AA in conjunction with this examination. The contact was the Senior Director of a business development organization. The contact identified home and commercial real estate as the primary credit needs in the AA. The contact stated that credit needs are being met and the perception of banks in the area is favorable. The contact further stated that local banks are providing financing for current business development projects in the area.

## **SCOPE OF EVALUATION IN NEBRASKA**

We completed a full-scope review of the Omaha MSA AA. The State of Nebraska rating is based wholly on the results of this review. Refer to Appendix A for more information.

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

FSB's performance under the Lending Test in Nebraska is rated outstanding. The borrower distribution of loans reflects excellent penetration among businesses of different sizes. The geographic distribution of business loans to geographies of different income levels reflects excellent dispersion among CTs of different income levels.

FSB's performance under the CD Test in Nebraska is rated Needs to Improve. Overall, the volume of CD loans, investments, and services reflects poor responsiveness to CD needs and opportunities of the bank's AA.

### **LENDING TEST**

The bank's performance under the Lending Test in Nebraska is rated Outstanding.

#### **Lending to Businesses of Different Sizes**

The distribution of commercial loans to businesses of different income levels reflects excellent penetration of the AAs demographics. Eighty-five percent of FSB's commercial loans sampled by number and 55 percent of their commercial loans sampled by dollar were to businesses with gross annual revenue less than \$1 million. This significantly exceeds the aggregate peer comparators for the AA.

Table 20 includes the data used to evaluate the borrower distribution of the bank’s commercial loans.

<b>Table 20 - Borrower Distribution of Commercial Loans in Omaha MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of Bank Loans in AA by #	85%	15%	0%	100%
% of Bank Loans in AA by \$	55%	45%	0%	100%
% of Aggregate Peer Businesses/Farm Loans by #	41%	59%	0%	100%
% of Aggregate Peer Businesses/Farm Loans by \$	34%	66%	0%	100%

Source: 2016 Peer Small Business Data, loan sample

**Geographic Distribution of Loans**

The distribution of commercial loans to CTs of different income levels reflects excellent dispersion of the AAs demographics. Thirty percent of FSB’s commercial loans sampled by number and thirty percent of their loans sampled by dollar were to businesses located in low-income CTs. Thirty-five percent of FSB’s commercial loans sampled by number and 42 percent of their commercial loans sampled by dollar were to businesses located in moderate-income CTs. This significantly exceeds the aggregate peer comparators for the AA.

Table 21 includes the data used to evaluate the geographic distribution of the bank’s commercial loans.

<b>Table 21 - Geographic Distribution of Commercial Loans in Omaha MSA AA</b>				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of Bank Loans in AA by #	30%	35%	25%	10%
% of Bank Loans in AA by \$	30%	42%	17%	10%
% of Aggregate Peer Businesses/Farm Loans by #	6%	14%	39%	41%
% of Aggregate Peer Businesses/Farm Loans by \$	8%	14%	46%	32%

Source: 2016 Peer Small Business Data, loan sample

**Responses to Complaints**

Neither the bank nor the OCC received any CRA-related complaints during the evaluation period.

**COMMUNITY DEVELOPMENT TEST**

The bank’s performance under the CD Test in Nebraska is rated Needs to Improve. CD activities demonstrate poor responsiveness to CD needs and opportunities in the bank’s AA. Management originated four qualified CD loans totaling \$1.5 million; however, only made only two donations totaling \$500 in the Omaha MSA AA during the evaluation period. Additionally, management did not provide any qualified service hours to community organizations during the evaluation period.

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

Management provided an adequate level of CD loans to the Omaha MSA AA during the evaluation period. Management originated four qualified CD loans totaling \$1.5 million during the evaluation period. The loans provided affordable housing to low- and moderate-income individuals in the AA.

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

Management provided a weak level of CD investments to the Omaha MSA AA during the evaluation period. Management made two qualified donations totaling \$500 during the evaluation period. The donations support organizations that provide community services to low- and moderate-income individuals.

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

Management provided a weak number of CD services to the Omaha MSA AA during the evaluation period. Bank staff did not provide any service hours to qualified CD organizations during the evaluation period.

The availability of services to low- and moderate-income individuals is adequate. The Omaha branch is located in a middle-income CT; however, management makes banking services available to all customers via non-traditional methods such as mobile and Internet banking, which increases the availability of services to all individuals.

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

FSB demonstrated poor responsiveness to CD needs and opportunities in the State of Nebraska. The Omaha MSA AA is located in a large MA. There are numerous opportunities for CD participation in this AA.

## State Rating

### State of Arizona

**CRA Rating for the State of Arizona: Satisfactory.**

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

**The Community Development Test is rated: Needs to Improve.**

FSB's performance in the State of Arizona meets the standards for Satisfactory performance.

- The distribution of loans to businesses of different sizes reflects excellent penetration of AA demographics.
- The geographic distribution of loans to low- and moderate-income geographies reflects reasonable dispersion of AA demographics.
- FSB's CD activities demonstrate very poor responsiveness to the CD needs of the AA.

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN ARIZONA

FSB has one AA in Arizona. The Lake Havasu MSA AA includes all of the Lake Havasu City-Kingman MSA (#29420). The MSA includes Mohave County in Arizona. FSB operates one branch in this AA. The branch is located in Lake Havasu City, Arizona.

This AA accounted for four percent of the bank's deposits as of June 30, 2017 and one percent of the bank's loan originations during the evaluation period. The primary lending product in the Lake Havasu MSA AA is commercial loans.

The Lake Havasu MSA AA includes 43 CTs. Seven CTs are moderate-income, 28 are middle-income, and eight are upper-income. There are no low-income CTs in the AA. Two-hundred and three thousand people, or 81 thousand households, lived in the AA in 2015. Of the households, 22 percent were low-income, 18 percent were moderate-income, 19 percent were middle-income, and 41 percent were upper-income. Seventeen percent of the households in the AA lived below the poverty level. The weighted-average of median family income was \$46,000 in 2017.

Forty-eight percent of the housing units in the Lake Havasu MSA AA were owner-occupied and 24 percent were renter-occupied in 2015. The weighted-average of median housing cost was \$135,042 and the weighted-average of monthly gross rent was \$788.

The Lake Havasu MSA AA includes 12 thousand businesses. Ninety-eight percent of the businesses are non-farm businesses and 73 percent employ fewer than five people.

The economy in the Lake Havasu MSA improved but remained unfavorable during the evaluation period. Unemployment rates remain above national and state averages. According to the BLS, the unemployment rate in the Lake Havasu MSA improved from 8.5 percent in July 2015 to 6.1 percent in February 2018. This is above the State of Arizona unemployment rate of 4.9 percent and the national rate of 4.1 percent in February 2018. Major employers in

the Lake Havasu MSA include the local school system, local government, and the healthcare industry.

Competition in the Lake Havasu MSA AA is moderate and includes large national banks and regional banks. As of June 30, 2017, there were 11 institutions with 40 banking offices located in the Lake Havasu MSA AA. FSB reported \$20 million of deposits in the Lake Havasu MSA AA as of June 30, 2017, which ranked the bank 10th in deposit market share with a market share of less than one percent.

We completed one community contact in the Lake Havasu MSA AA in conjunction with this examination. The contact was the Executive Director of an organization that provides economic development for the city and training and network opportunities for local business owners and entrepreneurs. The contact stated there are no obvious unmet credit needs in the area. The contact also stated there is a potential gap for micro-lending to small businesses to bridge the gap between a start-up and growing business. The contact stated the greatest need is financial education for small businesses.

## **SCOPE OF EVALUATION IN ARIZONA**

We completed a full-scope review of the Lake Havasu MSA AA. The State of Arizona rating is based wholly on the results of this review. Refer to Appendix A for more information.

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

FSB's performance under the Lending Test in Arizona is rated Satisfactory. The borrower distribution of loans reflects excellent penetration among businesses of different sizes. The geographic distribution of business loans to geographies of different income levels reflects reasonable dispersion among CTs of different income levels.

FSB's performance under the CD Test in Arizona is rated Needs to Improve. Overall, the volume of CD loans, investments, and services reflects very poor responsiveness to CD needs and opportunities of the bank's AA.

## **LENDING TEST**

The bank's performance under the Lending Test in Arizona is rated Satisfactory.

During the evaluation period the Bank originated a total of seven loans, of which four were commercial loans. All loans were originated in the second half of 2017, with no loans originated in 2015 and 2016. While loan volume is low, recent volume demonstrates increased efforts to lend in the community. Our lending test sample included the four commercial loans originated during the evaluation period. Given the low number of loans originated in the AA during the evaluation period, we placed less weight on the distribution by number.

### **Lending to Businesses of Different Sizes**

The distribution of commercial loans to businesses of different income levels reflects excellent penetration of the AAs demographics. One hundred percent of FSB's commercial loans by

number and dollar were to businesses with gross annual revenue less than \$1 million. This significantly exceeds aggregate peer comparators for the AA.

Table 22 includes the data used to evaluate the borrower distribution of the bank’s commercial loans.

<b>Table 22 - Borrower Distribution of Commercial Loans in Lake Havasu MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%
% of Aggregate Peer Businesses/Farm Loans by #	45%	55%	0%	100%
% of Aggregate Peer Businesses/Farm Loans by \$	35%	65%	0%	100%

Source: 2016 Peer Small Business Data, loan sample

### Geographic Distribution of Loans

The distribution of commercial loans to CTs of different income levels reflects reasonable dispersion of the AAs demographics. The bank originated one loan to a moderate-income CT totaling five percent of the dollar volume of total loans originated. This meets the comparators for the AA. There are no low-income CTs in the AA.

Table 23 includes the data used to evaluate the geographic distribution of the bank’s commercial loans.

<b>Table 23 - Geographic Distribution of Commercial Loans in Lake Havasu MSA AA</b>				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of Bank Loans in AA by #	0%	25%	50%	25%
% of Bank Loans in AA by \$	0%	5%	85%	10%
% of Aggregate Peer Businesses/Farm Loans by #	0%	5%	88%	7%
% of Aggregate Peer Businesses/Farm Loans by \$	0%	3%	87%	10%

Source: 2016 Peer Small Business Data, loan sample

### Responses to Complaints

Neither the bank nor the OCC received any CRA-related complaints during the evaluation period.

### COMMUNITY DEVELOPMENT TEST

The bank’s performance under the CD Test in Arizona is rated Needs to Improve. CD activities demonstrate very poor responsiveness to CD needs and opportunities in the bank’s AA. Management did not make any CD loans and made only one donation totaling \$85 in the Lake Havasu MSA AA during the evaluation period. Two members of management provided qualified service hours to two community organizations during the evaluation period.

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

Management provided a weak level of CD loans to the Lake Havasu MSA AA during the evaluation period. No CD loans were originated in this AA during the evaluation period.

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

Management provided a weak level of CD investments to the Lake Havasu MSA AA during the evaluation period. Management made one qualified donation totaling \$85 during the evaluation period. The donation supports an organization that provides community services to low- and moderate-income children.

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

Management provided a weak number of CD services to the Lake Havasu MSA AA during the evaluation period. Two members of management provided qualified service hours to two community organizations during the evaluation period. Both organizations provide community services to low- and moderate-income individuals.

The availability of services to low- and moderate-income individuals is adequate. The Lake Havasu branch is located in an upper-income CT; however, management makes banking services available to all customers via non-traditional methods such as mobile and Internet banking, which increases the availability of services to all individuals.

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

FSB demonstrated very poor responsiveness to CD needs and opportunities in the State of Arizona. The Lake Havasu MSA AA is located in a large MA. There are numerous opportunities for CD participation in this AA.

## 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: 4/1/15 to 11/30/2017 Community Development Test: 8/18/2015 to 1/2/2018	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
First Savings Bank (FSB) Beresford, South Dakota	See below.	
<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>
South Dakota Non-MSA AA Sioux Falls MSA #43620 Sioux City MSA #43580	Full-Scope Full-Scope Limited-Scope	Agriculture Loans Commercial Loans Agriculture and Commercial Loans
New Mexico Non-MSA AA Las Cruces MSA #29740	Full-Scope Limited-Scope	Commercial and Consumer Loans Commercial Loans
Nevada Las Vegas MSA #29820	Full-Scope	Commercial Loans
Texas El Paso MSA #21340	Full-Scope	Commercial Loans
Nebraska Omaha MSA #36540	Full-Scope	Commercial Loans
Arizona Lake Havasu MSA #29420	Full-Scope	Commercial Loans

## Appendix B: Summary of Overall and State Ratings

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	<b>Lending Test Rating</b>	<b>Community Development Test Rating</b>	<b>Overall Bank/State Rating</b>
Overall Bank			
First Savings Bank	Satisfactory	Satisfactory	Satisfactory
Ratings by State:			
South Dakota	Satisfactory	Needs to Improve	Satisfactory
New Mexico	Outstanding	Satisfactory	Satisfactory
Nevada	Outstanding	Satisfactory	Satisfactory
Texas	Satisfactory	Satisfactory	Satisfactory
Nebraska	Outstanding	Needs to Improve	Satisfactory
Arizona	Satisfactory	Needs to Improve	Satisfactory

## Appendix C: Community Profiles for Full-Scope Areas

The following tables identify demographic information of the AAs we completed full scope reviews on. Refer to the “Description of Institution’s Operations” sections within the respective state above for additional information regarding each of the AAs we completed a full scope review on.

### State of South Dakota

#### South Dakota Non-MSA AA

Demographic Information for SD Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	17	0.00	5.88	64.71	29.41	0.00
Population by Geography	64,768	0.00	4.25	59.33	36.42	0.00
Owner-Occupied Housing by Geography	18,975	0.00	2.18	57.11	40.71	0.00
Business by Geography	4,659	0.00	11.87	53.12	35.01	0.00
Farms by Geography	1,164	0.00	0.43	57.47	42.10	0.00
Family Distribution by Income Level	16,968	17.21	16.39	23.02	43.38	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	5,701	0.00	5.07	68.88	26.05	0.00
Median Family Income FFIEC Adjusted Median Family Income for 2017 Households Below Poverty Level		60,961 64,700 12%	Median Housing Value Unemployment Rate (2015 ACS US Census)		123,096 1.76%	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2015 ACS U.S. Census and 2017 FFIEC updated MFI.

**State of South Dakota (continued)**

**Sioux Falls MSA AA**

Demographic Information for Sioux Falls MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	55	0.00	30.91	47.27	21.82	0.00
Population by Geography	237,118	0.00	28.43	49.52	22.06	0.00
Owner-Occupied Housing by Geography	61,512	0.00	20.53	53.98	25.49	0.00
Business by Geography	16,540	0.00	37.70	38.54	23.76	0.00
Farms by Geography	1,183	0.00	7.27	71.94	20.79	0.00
Family Distribution by Income Level	60,077	18.91	18.12	24.42	38.55	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	22,244	0.00	40.55	46.51	12.94	0.00
Median Family Income FFIEC Adjusted Median Family Income for 2017 Households Below Poverty Level		72,948 76,800 10%	Median Housing Value Unemployment Rate (2015 ACS US Census)		158,153 2.85%	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2015 ACS U.S. Census and 2017 FFIEC updated MFI.

**State of New Mexico**

**New Mexico Non-MSA AA**

Demographic Information for NM Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	39	5.13	33.33	48.72	12.82	0.00
Population by Geography	150,772	7.50	32.43	45.26	14.82	0.00
Owner-Occupied Housing by Geography	40,660	5.42	27.98	49.77	16.84	0.00
Business by Geography	7,073	6.66	30.78	47.22	15.34	0.00
Farms by Geography	402	2.74	29.60	55.47	12.19	0.00
Family Distribution by Income Level	36,530	24.80	17.92	20.26	37.02	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	15,606	9.36	38.74	42.23	9.67	0.00
Median Family Income FFIEC Adjusted Median Family Income for 2017 Households Below Poverty Level		49,356 52,300 21%	Median Housing Value Unemployment Rate (2015 ACS US Census)		122,504 5.52%	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2015 ACS U.S. Census and 2017 FFIEC updated MFI.

**State of Nevada**

**Las Vegas MSA AA**

Demographic Information for Las Vegas MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	487	5.75	26.28	37.17	30.60	0.21
Population by Geography	2,035,572	5.01	25.28	39.20	30.29	0.21
Owner-Occupied Housing by Geography	380,425	1.90	16.89	41.70	39.49	0.01
Business by Geography	97,730	3.89	22.91	37.91	34.59	0.70
Farms by Geography	1,507	1.92	20.44	42.93	34.64	0.07
Family Distribution by Income Level	465,442	20.67	18.35	20.51	40.47	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	181,615	8.72	35.24	37.84	18.17	0.03
Median Family Income FFIEC Adjusted Median Family Income for 2017 Households Below Poverty Level		59,993 61,900 14%	Median Housing Value Unemployment Rate (2015 ACS US Census)		169,213 7.02%	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2015 ACS U.S. Census and 2017 FFIEC updated MFI.

**State of Texas**

**El Paso MSA AA**

Demographic Information for El Paso MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	161	6.21	33.54	33.54	26.09	0.62
Population by Geography	831,095	3.92	27.32	34.47	34.29	0.00
Owner-Occupied Housing by Geography	159,647	1.85	24.71	33.25	40.19	0.00
Business by Geography	39,186	7.21	27.68	30.69	33.64	0.78
Farms by Geography	519	3.08	33.72	27.17	35.84	0.19
Family Distribution by Income Level	194,964	22.30	17.41	19.12	41.17	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	77,430	6.90	40.62	34.08	18.39	0.00
Median Family Income FFIEC Adjusted Median Family Income for 2017 Households Below Poverty Level		46,033 45,300 22%	Median Housing Value Unemployment Rate (2015 ACS US Census)		119,494 4.84%	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2015 ACS U.S. Census and 2017 FFIEC updated MFI.

## State of Nebraska

### Omaha MSA AA

Demographic Information for Omaha MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	199	14.07	21.61	36.18	28.14	0.00
Population by Geography	706,847	10.48	21.14	36.85	31.53	0.00
Owner-Occupied Housing by Geography	172,022	5.72	18.16	38.41	37.71	0.00
Business by Geography	41,500	6.75	15.88	44.60	32.77	0.00
Farms by Geography	1,328	2.64	11.75	45.03	40.59	0.00
Family Distribution by Income Level	174,986	20.59	17.54	20.68	41.18	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	66,726	18.57	31.08	34.72	15.63	0.00
Median Family Income FFIEC Adjusted Median Family Income for 2017 Households Below Poverty Level		73,632 75,000 12%	Median Housing Value Unemployment Rate (2015 ACS US Census)	154,606 3.84%		

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2015 ACS U.S. Census and 2017 FFIEC updated MFI.

## State of Arizona

### Lake Havasu MSA AA

Demographic Information for Lake Havasu MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	43	0.00	16.28	65.12	18.60	0.00
Population by Geography	203,362	0.00	10.35	71.94	17.72	0.00
Owner-Occupied Housing by Geography	54,220	0.00	9.22	72.31	18.47	0.00
Business by Geography	11,665	0.00	4.74	72.46	22.79	0.00
Farms by Geography	261	0.00	5.36	80.08	14.56	0.00
Family Distribution by Income Level	51,465	18.48	19.29	22.22	40.00	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	19,440	0.00	17.35	69.65	13.00	0.00
Median Family Income FFIEC Adjusted Median Family Income for 2017 Households Below Poverty Level		46,268 46,000 17%	Median Housing Value Unemployment Rate (2015 ACS US Census)	135,042 6.00%		

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2015 ACS U.S. Census and 2017 FFIEC updated MFI.