

PUBLIC DISCLOSURE

June 12, 2023

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Harrison Bank
Certificate Number: 31223

220 Federal Drive NW
Corydon, Indiana 47112

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Chicago Regional Office

300 South Riverside Plaza, Suite 1700
Chicago, Illinois 60606

This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION RATING

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

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The Lending Test is rated Satisfactory.

- The loan-to-deposit (LTD) ratio is less than reasonable given the institution's size, financial condition, and assessment area (AA) credit needs.
- A substantial majority of loans are inside the institution's AA.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.
- The distribution of loans reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels (including low- and moderate-income), and businesses and farms of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the Lending Test rating.

The Community Development Test is rated Satisfactory.

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

DESCRIPTION OF INSTITUTION

First Harrison Bank (FHB) is headquartered in Corydon, Indiana approximately 130 miles south of Indianapolis near the Indiana/Kentucky state line. The bank is wholly owned by First Capital, Inc., a one-bank holding company also based in Corydon, Indiana. The bank has no affiliates or subsidiaries that originate loans and has not completed any merger or acquisition-related activity since the prior evaluation. FHB received a "Satisfactory" rating at its previous FDIC CRA Performance Evaluation dated June 1, 2020, based on the Intermediate Small Institution CRA Examination Procedures.

The bank operates 18 full-service banking locations across four Indiana counties and one Kentucky county. Clark, Floyd, Harrison, and Washington Counties are all located in Southern Indiana, while Bullitt County is located in Northern Kentucky. All five counties are part of the Louisville/Jefferson County, Kentucky-Indiana Metropolitan Statistical Area (MSA). The bank did

not open or close any office locations during the review period. The following table provides additional information on the branch locations.

Office Locations				
Address	City	County	ATM	Tract Income Level
220 Federal Drive	Corydon	Harrison	Yes	Middle
7735 Highway 62	Charlestown	Clark	Yes	Upper
9849 Highway 150	Greenville	Floyd	Yes	Upper
5100 State Road 64	Georgetown	Floyd	Yes	Upper
4303 Charlestown Crossing	New Albany	Floyd	Yes	Middle
710 Main Street	Palmyra	Harrison	Yes	Middle
391 Old Capital Plaza NE	Corydon	Harrison	Yes	Middle
8095 Highway 135	New Salisbury	Harrison	Yes	Middle
3131 Grant Line Road	New Albany	Harrison	Yes	Moderate
4609 Williamsburg Station Road	Floyds Knobs	Floyd	Yes	Upper
2744 Allison Lane	Jeffersonville	Clark	Yes	Middle
1312 Jackson Street	Salem	Washington	Yes	Middle
2420 Barron Avenue	Lanesville	Harrison	Yes	Middle
1612 Highway 44 East	Shepherdsville	Bullitt	Yes	Middle
130 South Buckman Street	Shepherdsville	Bullitt	Yes	Middle
550 John Harper Highway	Shepherdsville	Bullitt	Yes	Middle
100 South Bardstown Road	Mt. Washington	Bullitt	Yes	Middle
140 South Poplar Street	Lebanon Junction	Bullitt	Yes	Moderate

Source: Bank Records, 2020 U.S. Census Data

The bank offers traditional loan products including residential, commercial, agricultural, and consumer loans, primarily focusing on home mortgage and commercial loans. Deposit products include checking, savings, and money market accounts, and certificates of deposit. Alternative banking services include online and mobile banking, bill pay, and ATMs. FHB maintains a web site at <https://www.firstharrison.com>.

During the review period, FHB participated in the Small Business Administration’s Paycheck Protection Program (PPP), which provided loans to businesses during the COVID-19 pandemic to cover wages and other operating expenses. From June 1, 2020 through the close of 2020, the bank originated 66 PPP loans totaling \$1.2 million. In 2021, the bank originated 425 PPP loans totaling \$16.5 million.

According to the bank’s Call Report dated March 31, 2023, the bank’s assets totaled approximately \$1.1 billion and included total loans of \$573.5 million and total securities of \$476.1 million. Deposits totaled \$1.0 billion. Since the previous evaluation, total assets rose by 37.3 percent, total deposits rose by 42.9 percent, and total loans increased by 21.8 percent. The increase in deposits stemmed partly from government stimulus programs in response to the COVID-19 pandemic. The following table illustrates the bank’s loan portfolio distribution.

Loan Portfolio Distribution as of 3/31/2023		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	68,293	11.9
Secured by Farmland	5,050	.9
Secured by 1-4 Family Residential Properties	181,718	31.7
Secured by Multifamily (5 or more) Residential Properties	39,642	6.9
Secured by Nonfarm Nonresidential Properties	156,809	27.3
Total Real Estate Loans	451,512	78.7
Commercial and Industrial Loans	63,401	11.1
Agricultural Production and Other Loans to Farmers	1,617	.3
Consumer Loans	52,383	9.1
Obligations of State and Political Subdivisions in the U.S.	4,508	.8
Other Loans	54	.1
Lease Financing Receivable (net of unearned income)	-	-
Less: Unearned Income	-	-
Total Loans	573,475	100.0
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that would limit FHB’s ability to meet the credit needs of its AA.

DESCRIPTION OF ASSESSMENT AREAS

The CRA requires each financial institution to define one or more AAs within which to evaluate its CRA performance. FHB’s AA remains unchanged since the prior evaluation. It consists of five counties all within the Louisville-Jefferson County Kentucky-Indiana MSA. FHB’s AA does not arbitrarily exclude low- and moderate-income areas, does not reflect illegal discrimination, and otherwise meets the requirements of the CRA regulations.

Economic and Demographic Data

FHB’s AA consists of the entirety of Clark, Floyd, Harrison and Washington Counties in Indiana and all of Bullitt County in Kentucky. As noted earlier, these counties are all located in the Louisville/Jefferson County Kentucky-Indiana multi-state MSA, and the bank has offices in both states. For this reason, the AA is evaluated as one area. According to the 2020 U.S. Census, the AA consists of 85 total census tracts with the following income designations:

- 2 low-income tracts
- 18 moderate-income tracts
- 50 middle-income tracts
- 14 upper-income tracts
- 1 tract with no income designation

The following table details select demographic characteristics of the AA.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	85	2.4	21.2	58.8	16.5	1.2
Population by Geography	351,630	1.5	18.1	58.2	22.3	0.0
Housing Units by Geography	145,617	1.5	20.1	59.5	18.8	0.0
Owner-Occupied Units by Geography	99,588	0.6	15.5	60.5	23.4	0.0
Occupied Rental Units by Geography	29,994	4.6	32.4	56.2	6.8	0.0
Vacant Units by Geography	16,035	1.4	26.0	59.2	13.3	0.0
Businesses by Geography	31,607	1.5	20.4	54.8	23.4	0.0
Farms by Geography	1,344	0.6	13.9	64.1	21.4	0.0
Family Distribution by Income Level	88,507	18.9	20.6	23.6	37.0	0.0
Household Distribution by Income Level	0	0.0	0.0	0.0	0.0	0.0
Median Family Income MSA - 31140 Louisville/Jefferson County, KY-IN MSA		\$77,584	Median Housing Value			\$159,346
			Median Gross Rent			\$803
			Families Below Poverty Level			7.0%
<i>Source: 2020 U.S. Census and 2022 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

According to 2020 U.S. Census data, there are 145,617 housing units within the AA. Of these, 68.4 percent are owner-occupied, 20.6 percent are rental units, and 11.0 percent are vacant.

D&B data from 2022 shows the AA contains 31,607 non-farm businesses. Of those businesses, 93.1 percent have revenues of less than \$1.0 million, 65.1 percent employ four or fewer employees, and 96.3 percent operate from a single location. The largest industries in the AA are services (33.9 percent); finance and insurance (11.3 percent); and retail trade (10.3 percent). Major employers in the AA include Caesars Southern Indiana, NYX New Albany, Clark Memorial Health and Shoe Sensation Inc. in Indiana. Major employers in Bullitt County are Amazon and Magna Seating of America, Inc.

Examiners also consider unemployment data when evaluating a bank's ability to lend in its AAs. Data obtained from the U.S. Bureau of Labor Statistics illustrated that unemployment levels throughout the AA rose in 2020 due to the COVID-19 Pandemic and ensuing shutdowns, before beginning to retract in 2021 to pre-pandemic levels. The following table illustrates unemployment rates.

Unemployment Rates				
Area	July 2020	July 2021	July 2022	April 2023
	%	%	%	%
Clark County	8.3	4.3	2.8	2.4
Floyd County	7.5	3.7	2.6	2.1
Harrison County	6.6	3.9	2.7	2.2
Washington County	7.0	4.0	2.7	2.4
Bullitt County	4.3	4.8	3.9	3.0
MSA	16.8	3.9	3.5	2.8
Indiana	7.9	4.7	3.2	2.6
Kentucky	16.2	3.8	4.2	3.2
National Average	3.7	8.3	3.8	3.1

Source: Kentucky Center for Statistics & Indiana unemployment statistics

Examiners used the FFIEC-updated median family income levels to analyze home mortgage loans under the Borrower Profile criterion. The following table illustrates the low-, moderate-, middle, and upper-income parameters for the AA.

Median Family Income Ranges Louisville-Jefferson County, KY-IN MSA (31140)				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2021 (\$75,500)	<\$37,750	\$37,750 to <\$60,400	\$60,400 to <\$90,600	≥\$90,600

Source: FFIEC

Competition

The AA is a highly competitive financial services market. According to FDIC Deposit Market Share data as of June 30, 2022, 20 FDIC-insured institutions have \$7.8 billion in deposits and operate 100 total offices within the AA. FHB ranked 2nd with 14.0 percent of the market share.

There is a high level of competition for small business loans throughout the AA. In 2021, the most recent year for which aggregate data was available, 90 reporting lenders reported 5,384 small business loans totaling more than \$252.7 million. Since FHB is not required to report small business lending and has not elected to do so, the bank does not appear within aggregate data. Therefore, the analysis of small business loans within the Lending Test does not make comparisons to aggregate data.

There is also a high level of competition for home mortgage loans throughout the AA. In 2021, 368 institutions required to report home mortgage loans under the Home Mortgage Disclosure Act (HMDA) reported 21,004 total closed-end mortgage originations and purchases within the AA. FHB ranked 5th, with 3.7 percent of the market share. The top four companies are all non-bank mortgage lenders with a nationwide presence, accounting for 23.8 percent of the market share.

Community Contact

As part of the evaluation process, examiners contact external third parties active in the AA to obtain additional perspective in identifying the credit and community development needs. This information helps determine whether local financial institutions are responsive to these needs and remain aware of the community development opportunities available.

Examiners interviewed a representative of an economic development organization in the AA. The contact identified needs for affordable housing targeted to low- and moderate-income communities, with special focus on workforce housing for population movement into the local area from the Louisville market. The contact believes there is room for additional financial support to develop needed infrastructure.

Credit and Community Development Needs and Opportunities

Considering the information from the community contact, demographic and economic data, and bank management, examiners determined that the primary credit and community development needs revolve around the need for affordable housing for low- and moderate-income residents, both in financing the construction of new units throughout the AA, as well as financing for the housing currently available.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated June 1, 2020, to the current evaluation dated June 12, 2023. Examiners used the Intermediate Small Institution Examination Procedures to evaluate FHB's performance. The Appendix to this evaluation contains explanations of the performance criteria for each test. These procedures include the Small Bank Lending Test and the Community Development Test. Banks must achieve at least a Satisfactory rating under each test to obtain an overall Satisfactory rating. This evaluation does not include any lending activity performed by affiliates.

Activities Reviewed

Examiners determined that the bank's major product lines are home mortgage and small business loans. This conclusion considered the loan portfolio composition, the number and dollar volume of loans originated during the evaluation period, and the bank's business strategy. Although FHB is not subject to the CRA data collection requirements, it voluntarily collected the data for small business and small farm loans, applying the large bank CRA data specifications. This data was not reported by FHB, as it was not required to do so. While small farm lending does not constitute a major product focus, it is presented in this evaluation because the bank collected the data. Examiners did not consider consumer lending, as it is not a major product line and does not represent a significant portion of the bank's loan portfolio. Examiners placed more emphasis on home mortgage loans in the overall conclusions and rating, as they represent the highest volume of

originations during the evaluation period and the largest component of the bank’s loan portfolio. Small business lending received the second greatest weight and small farm lending received very little weight. Bank records indicate that the lending focus and product mix remained relatively consistent throughout the evaluation period.

Examiners considered all home mortgage loans that the bank reported on its 2020, 2021, and 2022 HMDA Loan Application Registers. In these three years combined, FHB originated 2,859 home mortgage loans totaling \$461.8 million. Examiners used aggregate HMDA data, as well as census demographic data, to compare the bank’s performance. The aggregate data consists of all reporters subject to HMDA data collection requirements in the AA. In general, the aggregate data helps better illustrate market demand and lending opportunities. As lending performance was consistent through the three years reviewed, examiners presented only the most recent year for which aggregate data is available in the Geographic Distribution and Borrower Profile tables, later in this evaluation.

Examiners also analyzed the universe of small business loans that the bank originated in 2020, 2021, and 2022. In these three years combined, FHB originated 1,169 small business loans totaling \$110.5 million, which included 490 PPP loans totaling \$16.0 million. Note that the previous evaluation included all PPP loans originated up to the June 1, 2020 start date; therefore, examiners only considered PPP loans originated on or after June 1, 2020. D&B data provided a standard of comparison for the small business loans. Excluding PPP loans, lending performance was consistent among the years; therefore, examiners presented only the most recent year for which D&B data is available in the Geographic Distribution and Borrower Profile tables, later in this evaluation.

While this evaluation includes the number and dollar volume of loans, examiners emphasized performance by number of loans, because it is a better indicator of the number of individuals, businesses, and farms served.

For the Community Development Test, examiners considered data provided by bank management for community development loans, qualified investments, and community development services.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

The Lending Test performance is “Satisfactory” based upon AA Concentration, Geographic Distribution, and Borrower Profile.

Loan-to-Deposit Ratio

The LTD ratio is less than reasonable (considering seasonal variations and taking into account lending-related activities) given the institution’s size, financial condition, and AA credit needs. The bank’s ratio, calculated from Call Report data, averaged 52.5 percent over the past 12 calendar quarters from June 30, 2020, to March 31, 2023. This ratio represents a decline from 60.8 percent at the last evaluation. The ratio fluctuated during the review period, ranging from a high of 62.4 percent on June 30, 2020, to a low of 46.8 percent on December 31, 2021. FHB sells a large volume of mortgages on

the secondary market each year. From 2020 to 2021, the sold mortgages equaled 1,493 loans totaling \$267,775,000. The addition of the sold loans (using the loan amounts at origination) to net loans as of March 31, 2023, results in a net LTD ratio of 80.3 percent. While this calculation does not reflect amortization of the loans, it illustrates that the LTD ratio does not reflect all of the bank’s lending activity.

Examiners compared FHB’s performance to seven similarly-situated bank (SSBs), selected based on their asset size, geographic location, and lending focus. As shown in the following table, all of the SSBs had higher LTD ratios than FHB. All of the SSBs are headquartered within 200 miles of FHB and sell loans on the secondary market. Examiners assessed the SSBs’ levels of mortgage loan sales and found them to be comparable to FHB; therefore, FHB’s net LTD ratio remained lower by comparison even when considering the sales activities.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 3/31/2023 \$(000s)	Average Net LTD Ratio (%)
First Harrison Bank	1,129,754	52.5
Similarly-Situated Institution #1	710,568	56.2
Similarly-Situated Institution #2	1,164,339	75.4
Similarly-Situated Institution #3	1,731,466	81.2
Similarly-Situated Institution #4	1,511,166	68.9
Similarly-Situated Institution #5	908,482	92.3
Similarly-Situated Institution #6	723,839	59.4
Similarly-Situated Institution #7	712,247	66.6
<i>Source: Reports of Condition and Income 6/30/2020 through 3/31/2023</i>		

Assessment Area Concentration

A substantial majority of loans and other lending-related activities are in the institution’s AA. For the products reviewed, a substantial majority of home mortgage and small farm loans by number and dollar volume, and a majority of small business loans were within the institution’s AA. Refer to the following table.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2020	847	86.9	128	13.1	975	150,768	89.2	18,303	10.8	169,071
2021	776	80.7	185	19.3	961	127,518	78.1	35,823	21.9	163,341
2022	773	83.7	150	16.3	923	103,016	79.6	26,382	20.4	129,398
Subtotal	2,396	83.8	463	16.2	2,859	381,302	82.6	80,508	17.4	461,810
Small Business										
2020	199	80.2	49	19.8	248	18,939	76.6	5,788	23.4	24,727
2021	526	77.7	151	22.3	677	32,335	72.2	12,470	27.8	44,805
2022	140	57.4	104	42.6	244	25,909	63.3	15,023	36.7	40,932
Subtotal	865	74.0	304	26.0	1,169	77,183	69.9	33,281	30.1	110,464
Small Farm										
2020	21	100.0	0	0.0	21	2,477	100.0	0	0.0	2,477
2021	17	89.5	2	10.5	19	1,708	95.1	88	4.9	1,796
2022	21	80.8	5	19.2	26	1,797	61.9	1,106	38.1	2,903
Subtotal	59	89.4	7	10.6	66	5,982	83.4	1,194	16.6	7,176
Total	3,320	81.1	774	18.9	4,094	464,467	80.2	114,983	19.8	579,450
<i>Source: Bank Data</i>										

Geographic Distribution

The geographic distribution of home mortgage, small business, and small farm loans reflects reasonable dispersion throughout the AA.

Home Mortgage Loans

The distribution of home mortgage loans reflects reasonable dispersion throughout the AA. As shown in the following table, the bank's performance in low- and moderate-income tracts was consistent with aggregate performance. Lending was also reasonable in comparison to the owner-occupied housing levels in the low- and moderate-income census tracts.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2021	1.4	1.7	10	1.3	1,760	1.4
Moderate						
2021	11.7	10.0	79	10.2	9,854	7.7
Middle						
2021	65.5	61.7	575	74.1	92,108	72.2
Upper						
2021	21.3	26.5	112	14.4	23,797	18.7
Not Available						
2021	0.0	0.0	0	0.0	0	0.0
Totals						
2021	100.0	100.0	776	100.0	127,518	100.0
<i>Source: 2015 ACS; Bank Data, 2021 HMDA Aggregate Data</i>						

Small Business Loans

The distribution of small business loans reflects reasonable dispersion throughout the AA. The following table shows the distribution of small business loans within the AA, and includes comparative data for the distribution of businesses by tract income level. Based on 2020 Census data, the AA contains only two low-income tracts. These tracts contain 1.5 percent of all AA businesses. FHB originated 1 loan within the low-income tracts, representing 0.7 percent of all small business lending in 2022. This performance is less than, but comparable to the 1.5 percent of businesses located within the low-income geographies.

Lending in the moderate-income census tracts is also reasonable, as the bank's lending is slightly less than, but comparable to the business population.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low					
2022	1.5	1	0.7	225	0.9
Moderate					
2022	20.4	26	18.6	4,173	16.1
Middle					
2022	54.8	76	54.3	11,801	45.5
Upper					
2022	23.4	37	26.4	9,710	37.5
Not Available					
2022	0.0	0	0.0	0	0.0
Totals					
2022	100.0	140	100.0	25,909	100.0

Source: 2022 D&B Data; Bank Data

Small Farm Loans

The geographic distribution of small farms loans was reasonable as shown in the following table. The bank did not originate any small farm loans within low-income tracts. This is reasonable performance considering that only 0.6 percent of farms operate in low-income tracts. In the moderate-income census tracts, lending slightly exceeded the farm population, reflecting reasonable performance.

Geographic Distribution of Small Farm Loans					
Tract Income Level	% of Farms	#	%	\$(000s)	%
Low					
2022	0.6	0	0.0	0	0.0
Moderate					
2022	13.9	3	14.3	82	4.6
Middle					
2022	64.1	18	85.7	1,715	95.4
Upper					
2022	21.4	0	0.0	0	0.0
Not Available					
2022	0.0	0	0.0	0	0.0
Totals					
2022	100.0	21	100.0	1,797	100.0

Source: 2022 D&B Data

Borrower Profile

The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels (including low- and moderate-income), and businesses and farms of different sizes.

Home Mortgage Loans

The distribution of borrowers, given the demographics of the AA, reflects excellent penetration among low- and moderate-income individuals for home mortgage loans as shown in the following table. Although somewhat below the percentage of low-income families, the lending to low-income borrowers substantially exceeded the aggregate. The aggregate data is a good indicator of loan demand, as it is based upon actual loan activity reported by lenders within the AA. The bank's lending was excellent compared to the aggregate.

Lending to moderate-income borrowers exceeded the aggregate data and was also above the moderate-income family population. Combined with the bank's distribution of loans to low-income borrowers, overall performance is excellent.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2021	19.6	8.6	111	14.3	10,694	8.4
Moderate						
2021	18.7	22.0	208	26.8	27,720	21.7
Middle						
2021	23.5	22.2	203	26.2	32,659	25.6
Upper						
2021	38.2	26.0	208	26.8	46,018	36.1
Not Available						
2021	0.0	21.2	46	5.9	10,428	8.2
Totals						
2021	100.0	100.0	776	100.0	127,518	100.0

Source: 2015 ACS; Bank Data, 2021 HMDA Aggregate

Small Business Loans

The distribution of loans reflects reasonable penetration among businesses of different sizes. As shown in the following table, the bank's lending to businesses with gross annual revenues of \$1 million or less was below to the percentage of businesses. However, the business population represents only the businesses in that revenue range and not the population seeking a loan. Given that smaller businesses tend to seek alternative forms of financing, such as home equity lines of credit or credit cards, it is expected that the bank's performance would trail the percent of businesses reporting revenues of \$1 million and less and is considered reasonable overall.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000					
2022	88.9	96	68.6	14,088	54.4
>\$1,000,000					
2022	3.1	44	31.4	11,821	45.6
Revenue Not Available					
2022	8.0	0	0.0	0	0.0
Totals					
2022	100.0	140	100.0	25,909	100.0

Source: 2022 D&B Data; Bank Data

Small Farm Loans

The small farm loan distribution by gross annual revenues was reasonable. As shown in the following table, all of the bank’s small farm lending was to farm operations with gross annual revenues of \$1 million or less. Nearly all of the farms within the AA are within this revenue category.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000					
2022	98.6	21	100.0	1,797	100.0
>\$1,000,000					
2022	0.9	0	0.0	0	0.0
Revenue Not Available					
2022	0.5	0	0.0	0	0.0
Totals					
2022	100.0	21	100.0	1,797	100.0

Source: 2022 D&B Data; Bank Data

Response to Complaints

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

COMMUNITY DEVELOPMENT TEST

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

Community Development Loans

FHB originated 96 community development loans within the AA totaling \$31.2 million during the evaluation period. This includes 1 PPP loan totaling \$1.7 million. In addition to the loans originated inside of the AA, the bank originated 16 loans totaling \$19.1 million outside of the AA, but within the broader, regional area. Including these loans, total community development loans represent 4.5 percent of total assets and 8.8 percent of total loans as of March 31, 2023. Examiners reviewed the community development lending performance of four SSBs. Performance ranged from 2.6 percent to 7.8 percent of total assets, and 5.4 percent to 11.3 percent of total loans. FHB’s performance was comparable to or exceeded the performance of two SSBs and trailed the performance of two SSBs. The following table presents the bank’s community development lending by year and purpose.

Community Development Loans										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2020 (Partial)	1	105	-	-	15	5,248	-	-	16	5,353
2021	2	2,128	3	1,445	27	7,535	-	-	32	11,108
2022	3	10,500	-	-	40	20,318	-	-	43	30,818
YTD 2023	1	225	-	-	20	2,802	-	-	21	3,027
Total	7	12,958	3	1,445	102	35,903	-	-	112	50,306
<i>Source: Bank Data</i>										

Notable examples of the bank’s community development loans include:

- \$6.4 million to acquire and renovate a hotel, which helped retain 18 low- and moderate-income jobs.
- \$2.0 million participation on a \$10.3 million affordable housing project. The project will provide 87 affordable housing units for senior citizens.
- \$1.4 million to fund the construction and expansion of a business in a low-income tract. The business employs approximately 75 workers, many of whom are low- and moderate-income.

Qualified Investments

FHB’s qualified investments and donations during the evaluation period totaled \$9.5 million, representing 0.8 percent of total assets and 2.0 percent of total securities as of March 31, 2023. Based on the 0.8 percent of qualified investments to total assets, FHB exceeded the performance of two SSBs, was comparable to one, and trailed the performance of a 4th SSB.

As the bank generally met the community development needs of its AA through various activities, examiners considered investments and donations made or retained outside of the AA that affected a broader, regional area. This includes three donations and all ten new investments totaling \$9.3 million. The following table shows the bank’s community development investments and donations.

Qualified Investments and Donations										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	-	-	-	-	-	-	-	-	-	-
2020 (Partial)	-	-	-	-	-	-	4	3,100	4	3,100
2021	-	-	-	-	-	-	2	730	2	730
2022	-	-	-	-	-	-	4	5,455	4	5,455
YTD 2023	-	-	-	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	10	9,285	10	9,285
Qualified Grants & Donations	7	8	146	166	15	43	3	44	171	261
Total	7	8	146	166	15	43	13	9,329	181	9,546
<i>Source: Bank Data</i>										

Notable examples of the bank’s community development investments and donations include:

- A \$3,020,000 bond to purchase land and fund improvements to a middle school where the majority of students qualify for free or reduced cost lunch.
- A \$1,650,000 municipal bond to fund sewage treatment improvements in a nearby area that includes many low- and moderate-income tracts
- Three separate bonds totaling \$2,435,000 to a nearby school district where the majority of students qualify for free or reduced cost lunch. Funds will be used for HVAC improvements and to purchase equipment and technology for students.

Community Development Services

During the evaluation period, FHB employees provided 190 instances of community development services to over 100 organizations. The services frequently involved serving in leadership positions and providing financial expertise to various organizations throughout the AA. FHB’s level of community development services exceeded the performance of all four SSBs. The following table illustrates FHB’s community development services for the evaluation period.

Community Development Services					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2020 (Partial)	1	23	-	2	26
2021	1	48	-	-	49
2022	3	45	3	1	52
YTD 2023	5	52	6	-	63
Total	10	168	9	3	190
<i>Source: Bank Data</i>					

Notable examples of the bank’s community development services include:

- A bank employee served as Treasurer of a community organization that helps provide low- and moderate-income families with affordable housing.
- A bank employee served as a Board member of a nonprofit organization that provides up to 50,000 meals each year to low- and moderate-income individuals in the Clark County area.
- Various bank employees presented Junior Achievement curriculum to area schools, including those where over 50.0 percent of students are eligible for free or reduced lunch.

FHB maintains two banking offices located in moderate-income census tracts, which make services more accessible to residents of those census tracts.

Additionally, the national Cities for Financial Empowerment Fund officially certified FHB's Easy Checking deposit product as meeting Bank On national account standards. The Bank On account standards designate features that ensure low cost, high functionality, and consumer safety. The goal of Bank On is to ensure everyone has access to safe and affordable financial products and services. The bank currently maintains 210 Easy Checking accounts on its books. This product is new since the previous evaluation and was certified in June of 2021.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

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

APPENDICES

INTERMEDIATE SMALL BANK PERFORMANCE CRITERIA

Lending Test

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

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

Community Development Test

The Community Development Test considers the following criteria:

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

GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

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

Community Development Loan: A loan that:

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

Community Development Service: A service that:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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