



## PUBLIC DISCLOSURE

FEBRUARY 05, 2018

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

THE VALLEY STATE BANK  
RSSD# 420653

110 WEST AVENUE B  
SYRACUSE, KANSAS 67878

Federal Reserve Bank of Kansas City  
1 Memorial Drive  
Kansas City, Missouri 64198

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

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

The Valley State Bank (the bank) has a satisfactory record of meeting the credit needs of its assessment area (AA) in a manner consistent with its resources and operating philosophy.

The bank's average net loan-to-deposit (NLTD) ratio was reasonable considering the characteristics of the bank, performance of local competitors, and credit needs of the community. A substantial majority of loans reviewed were originated inside the bank's AA. The bank's distribution of loans by income level of geographies reflected a reasonable dispersion throughout its AA. Additionally, lending to borrowers of different income levels and to businesses and farms of different revenue sizes was reasonable considering the AA's demographic characteristics and relevant performance context.

**SCOPE OF EXAMINATION**

The bank's Community Reinvestment Act (CRA) performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC's) *Interagency Examination Procedures for Small Institutions*. Four out of the five criteria used to evaluate a small bank's lending performance under the CRA were relevant to this review and are as follows:

- NLTD Ratio
- Lending Inside the AA
- Distribution of Loans by Income Level of Geographies
- Lending to Borrowers of Different Income Levels and to Businesses and Farms of Different Revenue Sizes

The fifth criterion, the bank's responsiveness to complaints under the CRA, was not evaluated since the bank has not received any CRA-related complaints since the previous evaluation.

The evaluation included a full-scope review of the bank's lending performance in its single AA, consisting of Greeley, Wichita, Scott, Hamilton, Kearny, Finney, Stanton, Grant, and Gray Counties in southwest Kansas and Prowers County in Colorado. The evaluation was performed with consideration given to contextual information about the bank and its AA, such as asset size, economic and demographic characteristics, and competition. Conclusions regarding the four performance criteria were based on data compiled from the bank's major product lines, which included agricultural, commercial, and residential real estate loans. Major product lines were determined through discussions with bank management, a review of the June 30, 2017 Reports of Condition and Income (Call Report), and a review of outstanding loan originations since the previous CRA evaluation conducted on January 27, 2014.

The evaluation included statistically derived samples of 53 small farm loans from a universe of 72 loans, 51 small business loans from a universe of 68 loans, and 66 residential real estate loans from a universe of 98 loans. All originations were within the time period of January 1, 2016 to December 31, 2016. As defined under the CRA, small business loans included those

with loan amounts of \$1 million (MM) or less, while small farm loans included those with loan amounts of \$500,000 or less. Greater weight was placed on the bank's small farm and small business loan performance as these represent the bank's largest products by dollar volume of originations.

The bank's average NLTD ratio was calculated based on a 15-quarter average since the previous evaluation and compared to similarly situated financial institutions that operate within the AA. Only loans made inside the bank's AA were analyzed with respect to the geographic and borrower distribution analyses. The geographic distribution analysis evaluated the bank's lending amongst the various census tracts by income levels of the AA, with emphasis on lending in low- and moderate-income (LMI) census tracts. Geographies were classified based on the 2016 FFIEC's census tract definitions and the 2006-2010 American Community Survey (2010 ACS) five-year estimate data. The borrower distribution analysis evaluated the bank's lending to borrowers of different income levels and to businesses and farms of different revenue sizes. Emphasis was placed on lending to LMI borrowers and to small farms and small businesses with gross annual revenues of \$1MM or less. Borrower income levels were calculated based on the 2016 FFIEC's Estimated Median Family Income (MFI) Reports. For evaluative purposes, the bank's lending was compared with area demographic data including the 2010 ACS five-year estimate data and 2016 Dun & Bradstreet (D&B) data.

To further augment the evaluation, information from two interviews with members of the communities within the bank's AA was used to ascertain the credit needs of the communities, the responsiveness of banks in the area to meeting those credit needs, and local economic conditions. One community member was a representative from an organization that offers neighborhood planning services in the area; the interview provided insight into local housing conditions. Additionally, a community member interview conducted by the Federal Reserve Bank of Kansas City (Reserve Bank) within the past year was referenced to gain perspective on business development in the area. This contact was a representative of an organization that focuses on promoting and developing new business in the area.

## DESCRIPTION OF INSTITUTION

The bank's main office is located in Syracuse, Kansas. The bank's second branch office is located in Garden City, Kansas, which is approximately 40 miles to the east of Syracuse, Kansas. The bank operates two automated teller machines (ATMs), one at each branch location. The ATM at the main office is cash-only, while the Garden City Branch ATM is full service. The bank is wholly owned by Valley Bancorp, Inc., Syracuse, Kansas, a shell-bank holding company. The bank does not have any affiliates or subsidiaries.

The bank reported total loans of \$94.4MM and total deposits of \$93.6MM on its June 30, 2017 Call Report. Based on the June 30, 2017 Federal Deposit Insurance Corporation (FDIC) Market Share Report, the bank ranks 10th out of 22 institutions operating in its AA, with a 4.2 percent deposit market share. The bank offers a number of loan and deposit products and services to meet the credit needs of its AA and is primarily an agricultural and commercial

lender; however, residential real estate lending has emerged as an additional focus for the bank. Table 1 illustrates the distribution of the bank's loan portfolio by product type as of June 30, 2017.

TABLE 1  
THE VALLEY STATE BANK'S LOAN PORTFOLIO  
AS OF JUNE 30, 2017

Loan Type	Amount \$(000)	Percent of Total
Agricultural	44,649	47.3
Commercial	29,898	31.7
Residential Real Estate	14,258	15.1
Consumer	4,950	5.2
Other	625	0.7
<b>Gross Loans</b>	<b>94,380</b>	<b>100.0</b>

There are no known legal, financial, or other factors impeding the bank's ability to meet the credit needs of the communities it serves. The bank received a Satisfactory rating at its previous CRA evaluation conducted by the Reserve Bank on January 27, 2014.

#### DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank has one AA that includes the entirety of Prowers County, Colorado, and the entireties of Hamilton, Greeley, Stanton, Wichita, Kearny, Grant, Scott, Finney, and Gray Counties in southwest Kansas, which are all rural in nature. Of the 27 total census tracts, 1 is low-income, 2 are moderate-income, 18 are middle-income, and 6 are upper-income. The bank revised its delineated AA since the prior CRA evaluation to include all census tracts within Prowers County in Colorado. The information below primarily focuses on demographic data for the southwest Kansas counties as the bank does not have a strong presence in Colorado.

#### *Population Trends and Characteristics*

According to the 2010 ACS, the AA had a population of 80,481. The population in Finney County, Kansas (36,776), home of the bank's second branch office, comprises the largest share of the total AA population at 45.7 percent. Garden City, located in Finney County, is the largest city in the AA, with a population of 26,658 or 72.5 percent of the county population. The second most populous county in the AA is Prowers County, Colorado, with 12,551 residents, comprising 15.6 percent of the AA population. Only 3.3 percent of the AA population resides in Hamilton County, home of the bank's main office. When comparing the 2010 ACS population of the AA to that from the 2015 ACS, the AA population has remained fairly stable. The 2010 ACS median age in the AA revealed a younger demographic in Finney County at 30.2 years compared to the other AA counties that ranged between 32.8 years in Grant County to 46.6 years in Greeley County. The median age in Hamilton County where the bank's main branch is located was 33.5 years.

### *Income Characteristics*

Based on 2010 ACS data, the MFI in the AA was \$55,015, which was above the statewide MFI of rural Kansas at \$52,419, but below rural Colorado at \$57,817. The highest earning county in the AA was Scott County at \$65,000, while the lowest was Hamilton County with \$37,813. Of the total families in the AA, the percentage of families that were considered LMI was 35.9 percent, which is slightly below the statewide percentages of rural Kansas and rural Colorado at 37.2 percent and 38.7 percent, respectively; however, Hamilton County had a notably higher percentage of LMI families at 54.8 percent. Additionally, the percentage of families below the poverty level in the AA was 9.5 percent, which aligned closely with the percentages for rural statewide Kansas and Colorado at 9.2 percent and 9.1 percent, respectively. However, Prowers County, Colorado, which contains the AA's sole low-income census tract, had a significantly higher poverty rate than the other counties in the AA at 18.7 percent.

### *Housing Characteristics*

While the median housing value for the AA was \$90,937, Finney County had the highest median housing value in the AA at \$102,100. These figures are below the median housing value for Kansas as a whole at \$122,600, but higher than the statewide rural Kansas median housing value of \$81,447. The AA's higher affordability ratio<sup>1</sup> of 52.2 percent as compared to the state of Kansas at 40.3 percent indicates that housing is generally more affordable in the AA when compared to the state of Kansas as a whole. However, the affordability ratio for statewide rural Kansas is similar to the AA at 51.0 percent.

The 63.5 percent of total housing units that are owner-occupied in the AA is comparable to the owner-occupied units in the state of Kansas at 62.6 percent. Rental units account for 24.0 percent of the total housing units in the AA, which is nearly identical to statewide rural Kansas at 24.4 percent. Additionally, the percent of vacant units in the AA, at 12.6 percent, was also similar to the Kansas statewide rural figure of 13.3 percent.

The median age of housing stock in the AA was 38 years, slightly newer than the statewide rural Kansas age of 46 years. The percentage of mobile homes in the AA was higher at 13.7 percent as compared to 8.1 percent for rural areas in Kansas.

### *Employment and Economic Characteristics*

Given the rural composition of the bank's AA, the economy is largely driven by the agriculture industry. Farming and ranching activities are significant contributors to the economy. The importance of livestock in Hamilton County is notable given the economic significance of beef and dairy production in the area. While agriculture is still important in Finney County, it has been emerging as a regional retail hub recently, with many larger retail chains establishing locations in the area. As a result, Garden City has experienced continued economic

<sup>1</sup> The housing affordability ratio is calculated by dividing the median household income by the median housing value. A lower ratio reflects less affordable housing.

development. Major employers in Finney County include Tyson Fresh Meats, USD #457 (Garden City Public School), and St. Catherine Hospital.

As shown in Exhibit 1, unemployment rates in Hamilton County and Finney County, where the bank's branches are located, were below the national and state averages in 2016.

*Interviews with Members of the Community*

Based on an interview with a member of the community, healthy economic conditions have enabled large businesses to thrive in Finney County. Many larger retail chains have come to the area and transformed it into a regional shopping hub over the last few years. Small businesses have also grown in the downtown area of Garden City. There is an abundance of blue collar jobs and opportunities in the retail and service sectors given the presence of Tyson Foods, feed lots, a dairy processing plant for dry milk, and a local community college that offers courses related to the trades.

It was also noted that there is a large immigrant population in Garden City and the population has become increasingly younger. The local residential real estate market moves quickly given the limited stock of moderately priced houses. Additionally, the housing inventory is aging and often requires improvements. There are programs to encourage building by developers and other programs to rebate taxes to homeowners for improvements, but these have not done much to address the availability of affordable housing. As a result of these factors, affordable housing for first-time homebuyers and LMI borrowers can be difficult to obtain.

A second interview with a member of the community indicated that economic conditions in Finney County are extremely strong, while other more rural areas are weaker due to low commodity prices in the agricultural sector. Economic weaknesses include limited housing availability and lack of child care facilities. The contact also noted there is a need in the community to work with young entrepreneurs to start businesses and to encourage youth to return to the area after completing college.

Table 2 summarizes the income-related demographic and economic characteristics of the bank's AA based on 2010 ACS data and 2016 D&B data.

EXHIBIT 1	
ANNUAL UNEMPLOYMENT RATES	
(Not seasonally adjusted)	
Area	2016
Hamilton County	2.7
Finney County	3.2
Kansas	4.2
United States	4.9

TABLE 2  
THE VALLEY STATE BANK  
2016 AA DEMOGRAPHICS

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	1	3.7	612	2.9	152	24.8	3,734	18.0
Moderate	2	7.4	1,138	5.5	128	11.2	3,709	17.9
Middle	18	66.7	14,806	71.3	1,411	9.5	4,757	22.9
Upper	6	22.2	4,198	20.2	287	6.8	8,554	41.2
<b>Total AA</b>	<b>27</b>	<b>100.0</b>	<b>20,754</b>	<b>100.0</b>	<b>1,978</b>	<b>9.5</b>	<b>20,754</b>	<b>100.0</b>
Housing Units by Tract	Housing Type by Tract							
	Owner-occupied			Rental		Vacant		
	#	% by tract	% by unit	#	% by unit	#	% by unit	
Low	1,193	538	2.6	45.1	284	23.8	371	31.1
Moderate	2,049	1,190	5.8	58.1	448	21.9	411	20.1
Middle	22,876	14,851	71.9	64.9	5,463	23.9	2,562	11.2
Upper	6,404	4,067	19.7	63.5	1,593	24.9	744	11.6
<b>Total AA</b>	<b>32,522</b>	<b>20,646</b>	<b>100.0</b>	<b>63.5</b>	<b>7,788</b>	<b>23.9</b>	<b>4,088</b>	<b>12.6</b>
Total Businesses by Tract	Businesses by Tract & Revenue Size							
	Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported			
	#	%	#	%	#	%	#	%
Low	184	5.6	162	5.6	18	5.7	4	6.0
Moderate	153	4.6	132	4.5	15	4.7	6	9.0
Middle	2,319	70.4	2,038	70.0	236	74.4	45	67.2
Upper	638	19.4	578	19.9	48	15.1	12	17.9
<b>Total AA</b>	<b>3,294</b>	<b>100.0</b>	<b>2,910</b>	<b>100.0</b>	<b>317</b>	<b>100.0</b>	<b>67</b>	<b>100.0</b>
Percentage of Total Businesses:			88.3		9.6			2.0
Total Farms by Tract	Farms by Tract & Revenue Size							
	Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported			
	#	%	#	%	#	%	#	%
Low	1	0.1	1	0.1	0	0.0	0	0.0
Moderate	92	9.3	85	8.9	7	16.7	0	0.0
Middle	621	62.6	597	62.8	24	57.1	0	0.0
Upper	278	28.0	267	28.1	11	26.2	0	0.0
<b>Total AA</b>	<b>992</b>	<b>100.0</b>	<b>950</b>	<b>100.0</b>	<b>42</b>	<b>100.0</b>	<b>0</b>	<b>0.0</b>
Percentage of Total Farms:			95.8		4.2			0.0

Based on 2010 ACS five-year estimate, 2016 FFIEC's census tract designations, and 2016 D&B data.  
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Net Loan-to-Deposit Ratio

This performance criterion evaluates the bank's average NLTD ratio to determine the reasonableness of lending in light of performance context such as the bank's capacity to lend, the availability of lending opportunities, and the demographic and economic factors present in the AA.

The bank's NLTD ratio was averaged over a 15-quarter period since the previous CRA evaluation and compared to the NLTD ratios of five similarly situated financial institutions. The NLTD ratio is considered reasonable given the bank's size, financial condition, and current local economic conditions. As of June 30, 2017, the bank's NLTD ratio averaged 88.4 percent, which compared favorably to all five similarly situated banks in the AA, whose ratios ranged from 53.0 percent to 84.9 percent over the same time period.

### Assessment Area Concentration

This performance criterion evaluates the percentage of lending extended inside and outside of the AA. The evaluation analyzes both the number and dollar volume of loan originations.

Overall, a substantial majority of the bank's loans for all three products were originated inside the AA by number and dollar amount.

**TABLE 3**  
**LENDING INSIDE AND OUTSIDE THE BANK'S AA**

Bank Loans	Inside				Outside			
	#	\$(000)	#%	\$%	#	\$(000)	#%	\$%
Residential Real Estate	62	9,320	93.9	95.1	4	483	6.1	4.9
Small Farm	51	4,863	96.2	90.0	2	539	3.8	10.0
Small Business	44	2,663	86.3	73.4	7	964	13.7	26.6
<b>Total Loans</b>	<b>157</b>	<b>16,846</b>	<b>92.4</b>	<b>89.5</b>	<b>13</b>	<b>1,986</b>	<b>7.6</b>	<b>10.5</b>

The remaining performance criteria consider only those loans originated inside the AA.

### Distribution by Income Level of Geographies

This performance criterion evaluates the bank's distribution of lending within its AA by income level of census tracts, with emphasis placed on lending in LMI census tracts.

For evaluative purposes, the bank's residential real estate lending was compared to the percent of owner-occupied units in each census tract income category, while the bank's small business and small farm lending was compared to the percent of businesses and farms operating in each census tract income category, respectively.

Overall, the bank's geographic distribution of residential real estate loans, small farm loans, and small business loans was considered reasonable. While the bank did not originate any residential real estate, small farm, or small business loans in the AA's sole low-income tract, this tract is located in the city of Lamar, Colorado, which is approximately 49 miles from the bank's closest branch in Syracuse, Kansas. The bank's distance from the low-income tract within the AA contributes to the absence of lending within this tract. Additionally, bank management stated that there is high competition in the Lamar, Colorado area, given the presence of several other banks with branches. Based on the June 30, 2017 FDIC Market Share Report, the top four banks with a branch office in Lamar, Colorado, account for slightly over 98 percent of the total market share. The bank's lending performance within moderate-income census tracts was comparable to demographic figures for residential real estate loans and significantly exceeded demographic data for small farm and small business loans.

TABLE 4  
DISTRIBUTION BY INCOME LEVELS OF GEOGRAPHIES  
THE VALLEY STATE BANK AA

Census Tract Income Level	Residential Real Estate Loans				% of Owner Occupied Units <sup>1</sup>
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	2.6
Moderate	4	525	6.5	5.6	5.8
Middle	47	6,484	75.8	69.6	71.9
Upper	11	2,311	17.7	24.8	19.7
Census Tract Income Level	Small Farm Loans				% of Farms <sup>2</sup>
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	0.1
Moderate	24	1,963	47.1	40.4	9.3
Middle	23	2,519	45.1	51.8	62.6
Upper	4	381	7.8	7.8	28.0
Census Tract Income Level	Small Business Loans				% of Businesses <sup>2</sup>
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	5.6
Moderate	9	559	20.5	21.0	4.6
Middle	21	995	47.7	37.4	70.4
Upper	14	1,109	31.8	41.6	19.4

<sup>1</sup> Based on 2010 ACS five-year estimate data and 2016 FFIEC's census tract designations.

<sup>2</sup> Based on 2016 D&B data.

(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

### Residential Real Estate Loans

The bank's geographic distribution of residential real estate loans is reasonable. While the bank did not originate any residential real estate loans in the AA's sole low-income census tract, the percentage of owner occupied units was relatively small at 2.6 percent, as indicated in Table 4. As noted above, the bank's distance from the low-income census tract and high competition near Lamar, Colorado, may have impacted the bank's ability to originate loans in that area. The bank's lending performance in moderate-income census tracts accounted for

6.5 percent by number (5.6 percent by dollar), which was comparable to the demographic figure of 5.8 percent.

While the bank's lending in middle-income census tracts was slightly above the percentage of owner occupied units, residential real estate loans originated in upper-income census tracts was comparable to the demographic data for the AA.

#### Small Farm Loans

The bank's geographic distribution of small farm loans is considered excellent. While the bank did not originate any small farm loans in low-income census tracts, the percentage of farms in low-income census tracts was comparable at 0.1 percent. This reflects that there are fewer opportunities to extend small farm credit in the bank's sole low-income census tract. The bank's small farm lending performance in moderate-income census tracts accounted for 47.1 percent by number (40.4 percent by dollar), which significantly exceeded the 9.3 percent of small farms operating in these areas.

The bank's lending in middle- and upper-income census tracts, at 45.1 percent by number (51.8 percent by dollar) and 7.8 percent by number (7.8 percent by dollar), respectively, was below the percentage of small farms in each of these income tracts.

#### Small Business Loans

The bank's geographic distribution of small business loans is reasonable. The bank did not originate any small business loans in the sole low-income census tract; however, the demographic data shows that 5.6 percent of businesses in the bank's AA are located in low-income census tracts. As noted above, bank management attributed this to competition and distance from the bank's locations. Comparatively, small business loans originated within moderate-income census tracts accounted for 20.5 percent by number (21.0 percent by dollar), which significantly exceeded the demographic figure of 4.6 percent.

In middle-income tracts, the bank originated 47.7 percent of loans by number (37.4 percent by dollar), which was below the 70.4 percent of businesses in those areas. The bank's small business lending within upper-income census tracts, at 31.8 percent by number (41.6 percent by dollar), was above the 19.4 percent of businesses in those same areas.

#### **Distribution by Borrower Income and Revenue Size of Businesses and Farms**

This performance criterion evaluates the bank's lending to borrowers of different income levels, with emphasis placed on lending to LMI individuals as well as to businesses and farms of different revenue sizes, with emphasis placed on lending to those with gross annual revenues of \$1MM or less.

For evaluative purposes, the bank's residential real estate lending was compared to the percentage of families residing in the AA by income level, while the bank's small business and

small farm lending was compared to the percent of businesses and farms within the AA by revenue size. While the bank is not required to report small farm or small business data as a small institution, 2016 aggregate data reported by all large bank CRA-filers in the AA was utilized for additional insight into the credit demand of the area. In addition, the bank's residential lending was compared to 2016 aggregate data reported by all Home Mortgage Disclosure Act (HMDA) reporters in the AA for additional context, even though the bank does not report HMDA data.

Overall, the borrower distribution rating for residential real estate, small farm, and small business loans was reasonable considering relevant performance context, demographic figures, and aggregate lending performance. While the bank's residential real estate, small farm, and small business lending was below the respective demographic figures for each product, the bank's lending compared more favorably to the aggregate lending performance of other lenders in the AA.

**TABLE 5**  
**DISTRIBUTION BY INCOME LEVEL OF BORROWER AND**  
**REVENUE SIZE OF FARMS AND BUSINESSES**  
**THE VALLEY STATE BANK AA**

Borrower Income Level	Residential Real Estate Loans				% of Families <sup>1</sup>
	#	\$(000)	#%	\$%	
Low	4	259	6.5	2.8	18.0
Moderate	8	733	12.9	7.9	17.9
Middle	22	3,015	35.5	32.3	22.9
Upper	28	5,313	45.2	57.0	41.2
Farm Revenue	Farm Loans				% of Farms <sup>2</sup>
	#	\$(000)	#%	\$%	
\$1MM or Less	42	3,616	82.4	74.3	95.8
Over \$1MM	9	1,247	17.6	25.6	4.2
Income Not Known	0	0	0.0	0.0	0.0
Business Revenue by Size	Business Loans				% of Businesses <sup>2</sup>
	#	\$(000)	#%	\$%	
\$1MM or Less	25	1,696	56.8	63.7	88.3
Over \$1MM	19	968	43.2	36.3	9.6
Income Not Known	0	0	0.0	0.0	2.0

<sup>1</sup> Based on 2010 ACS five-year estimate data.

<sup>2</sup> Based on 2016 D&B data.

(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

### Residential Real Estate Loans

The bank's borrower distribution of residential real estate loans is reflected in Table 5 and was considered reasonable. The bank's lending performance to low-income borrowers at 6.5 percent by number (2.8 percent by dollar) was below the percentage of low-income families in the AA at 18.0 percent; however, the bank's lending was comparable to the aggregate HMDA data of lenders in the AA, at 5.8 percent by number (2.9 percent by dollar). The bank's lending to moderate-income borrowers, at 12.9 percent by number (7.9 percent by

dollar) was below aggregate HMDA performance, at 22.7 percent by number (17.1 percent by dollar), as well as the percentage of moderate-income families in the AA at 17.9 percent.

A community contact indicated that there is a lack of affordable housing in the area, which can make it difficult for LMI borrowers to purchase a home within their price range. Without special credit programs such as down payment assistance or first time homebuyer programs, there may be a lower demand for residential real estate loans to borrowers within this segment. Additionally, bank management noted that while housing may be more affordable in rural areas of the AA, there are often limited job opportunities and less available housing in those areas.

The bank's lending to middle- and upper-income borrowers, at 35.5 percent by number (32.3 percent by dollar) and 45.2 percent by number (57.0 percent by dollar), respectively, was above demographic figures and aggregate HMDA lending data.

#### Small Farm Loans

The bank's distribution of lending to farms of different revenue sizes was considered reasonable. As shown in Table 5, the bank's loan originations totaled 82.4 percent by number and 74.3 percent by dollar to farms with gross annual revenues of \$1MM or less. Although the bank's performance was below the demographic figure of 95.8 percent (percentage of small farms in the AA by revenue size), the bank performed more favorably when compared to aggregate CRA lending in the AA, at 23.5 percent by number (62.0 percent by dollar). Bank management noted that the location in Syracuse faces more competition for farm loans.

#### Small Business Loans

The bank's distribution of lending to businesses of different revenue sizes is reflected in Table 5 and was considered reasonable. The bank's lending to businesses with gross annual revenues of \$1MM or less, at 56.8 percent by number (63.7 percent by dollar), was below the percentage of businesses in the AA in this revenue category at 88.3 percent. However, the bank's performance exceeded aggregate CRA data at 39.8 percent by number (29.4 percent by dollar). A member of the community indicated that small businesses are growing in the more populous areas and continued growth is expected given the younger population. This suggests a continued or possibly increasing demand for credit to small businesses going forward.

### **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

An evaluation of the bank's fair lending activities was conducted during the examination to determine compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No evidence of discriminatory or illegal credit practices inconsistent with helping to meet community credit needs was identified.