PUBLIC DISCLOSURE

February 12, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Florence Bank
Certificate Number: 23293

85 Main Street
Florence, Massachusetts 01062

Division of Banks	Federal Deposit Insurance Corporation
1000 Washington Street, 10th Floor	350 Fifth Avenue, Suite 1200
Boston, Massachusetts 02118	New York, New York 10118

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 Division of Banks or the Federal Deposit Insurance Corporation concerning the safety and soundness of this financial institution.

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INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory** by the Federal Deposit Insurance Corporation (FDIC) and **High Satisfactory** by the Commonwealth of Massachusetts Division of Banks (Division). FDIC regulations do not include a High Satisfactory rating. 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.

Florence Bank's Community Reinvestment Act (CRA) performance under the Lending Test and Community Development Test supports the overall rating. Examiners did not identify any evidence of discriminatory or other illegal credit practices. The following points summarize the bank's Lending Test and Community Development Test performance.

The Lending Test is rated Satisfactory by the FDIC and High Satisfactory by the Division.

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- The bank made a majority of its home mortgage and small business loans in the assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects reasonable penetration of loans among individuals of different income levels and businesses 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 Outstanding by the FDIC and the Division.

- The institution demonstrated excellent responsiveness to the community development needs of its assessment area 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 assessment area.

SCOPE OF EVALUATION

General Information
This performance evaluation, conducted jointly by the FDIC and the Division, covers the period from the prior evaluation dated November 3, 2014 to the current evaluation dated February 12, 2018. Examiners used the Interagency Intermediate Small Institution Examination Procedures to evaluate Florence Bank's CRA performance. These procedures include two tests: the CRA Small Bank Lending Test and the Community Development Test.

The Lending Test considered the institution's performance according to the following criteria.

- Loan-to-deposit ratio
- Assessment area concentration
- Geographic distribution
- Borrower profile
- Response to CRA-related complaints

The Community Development Test considered the following factors.

- Number and dollar amount of community development loans, qualified investments, and community development services
- The responsiveness of such activities to the community development needs of the assessment area

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.

Loan Products Reviewed
Examiners determined that the bank's major product lines are home mortgage and small business loans. This conclusion considered the bank's business strategy and the number and dollar volume of loans originated during the evaluation period.

The bank's record of originating home mortgage loans contributed more weight to overall conclusions due to the larger loan volume when compared to small business lending during the most recent calendar year. Other product lines such as small farm and consumer loans were not considered due to the small portion of the loan portfolio represented by these loan types.

The evaluation considered all home mortgage loans reported on the bank's 2016 and 2017 Home Mortgage Disclosure Act (HMDA) loan application registers (LARs). The bank reported 411 loans totaling $89.7 million in 2016 and 438 loans totaling $98.9 million in 2017. The bank's 2016 lending was compared to 2010 United States (U.S.) Census demographic data. For 2017 lending, the evaluation used demographic data from the 2015 American Community Survey (ACS) for comparative purposes and performance context.

The bank collects but does not report its small business loan data. Examiners reviewed small business loans originated in the period January 1, 2016, through December 31, 2017. The bank originated 110 small business loans totaling $21.2 million in 2016 and 101 loans totaling $15.4 million in 2017. The evaluation compared bank small business lending to D&B business demographic data for 2016 and 2017.

The evaluation emphasized 2016 lending performance when determining Lending Test conclusions, as this is the most recent year for which aggregate data is available. Additionally, while Lending Test tables present the number and dollar volume of loans, examiners emphasized performance by number of loans because the number of loans better indicates the number of individuals and businesses served.

For the Community Development Test, bank management provided data on community development loans, qualified investments, and community development services since the prior CRA evaluation dated November 3, 2014.

DESCRIPTION OF INSTITUTION

Background

Florence Bank is headquartered in Florence, Massachusetts and operates in Hampshire, Hampden, and Franklin counties. The bank was established in 1873. Florence Bank is owned by Florence Bank Holding Co, Inc., a one-bank holding company also headquartered in Florence. The institution received a High Satisfactory rating from the Division and a Satisfactory rating from the FDIC at the previous Performance Evaluation dated November 3, 2014, based on Interagency Intermediate Small Institution Examination Procedures.

Operations

Florence Bank operates ten full-service branches in its assessment area in the western part of Massachusetts. Branches are located in Florence, Northampton (2), Hadley, Williamsburg, Easthampton, Amherst, Belchertown, Granby, and West Springfield. In August 2017, the bank opened the West Springfield branch in Hampden County. The other nine full-service branches are located in Hampshire County. Florence Bank did not close any branches and no merger or acquisition activities occurred since the previous evaluation. The bank also operates eight remote deposit-taking automated teller machines (ATMs) located throughout its assessment area, including one in Franklin County.

Florence Bank offers loan products including commercial, home mortgage, and consumer loans, primarily focusing on residential lending. The bank provides a variety of deposit services including checking, savings, money market deposit accounts, and certificates of deposit. The bank also offers investment advisory and trust services. Alternative banking services include internet and mobile banking, electronic bill pay, and 28 bank-owned ATMs.

Ability and Capacity

Assets totaled approximately $1.3 billion as of December 31, 2017, and included total loans of $1.0 billion. Deposits totaled $1.3 billion. Residential lending comprises the largest share of the portfolio at 71.4 percent. The loan portfolio is illustrated in the following table.

Loan Portfolio Distribution as of 12/31/2017		
Loan Category	**$(000s)**	**%**
Construction, Land Development, and Other Land Loans	37,531	3.7
Secured by Farmland	0	0.0
Secured by 1-4 Family Residential Properties	694,630	67.6
Secured by Multi-Family (5 or more) Residential Properties	39,505	3.8
Secured by Non-farm Non-residential Properties	219,257	21.3
Total Real Estate Loans	**990,923**	**96.4**
Agricultural Production and Other Loans to Farmers	0	0.0
Commercial and Industrial Loans	36,663	3.6
Consumer	273	0.0
Obligations of States and Political Subdivisions in the United States	0	0.0
Other Loans	169	0.0
Lease Financing Receivables (net of unearned income)	0	0.0
Gross Loans	***1,028,028***	***100.0***
Less: Unearned Income	(0)	(0.0)
Total Loans and Leases	**1,028,028**	**100.0**
Source: 12/31/2017 Call Report		

Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet assessment area credit needs.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define an assessment area within which its CRA performance will be evaluated. Florence Bank's assessment area comprises all of Hampshire County and portions of Hampden and Franklin Counties. Hampshire and Hampden Counties are part of the Springfield, MA Metropolitan Statistical Area (MSA), and although not in an MSA, Franklin County is part of the Greenfield Town, MA Micropolitan Statistical Area. The three counties collectively comprise the Springfield-Greenfield Town, MA Combined Statistical Area.

The following describes the bank's 2016 assessment area and the current assessment area. The demographic characteristics of the assessment areas vary as it relates to low- and moderate-income individuals and census tracts, as well as small businesses due to an assessment area expansion and use of 2015 ACS data in 2017.

In 2016, Florence Bank's assessment area consisted of the following communities.

- **Hampshire County (Springfield, MA MSA)**: Amherst, Belchertown, Chesterfield, Cummington, Easthampton, Goshen, Granby, Hadley, Hatfield, Huntington, Middlefield, Northampton, Pelham, Plainfield, South Hadley, Southampton, Ware, Westhampton, Williamsburg, and Worthington.

- **Franklin County (MA Non-MSA):** Ashfield, Buckland, Conway, Deerfield, Greenfield, Leverett, Montague, New Salem, Sunderland, Shelburne, Shutesbury, and Sunderland.

Due to opening a branch in West Springfield, MA, the bank expanded its assessment area in 2017 to include the following communities.

- **Hampden County (Springfield, MA MSA)**: Agawam, Chicopee, Hampden, Holyoke, East Longmeadow, Longmeadow, Ludlow, Southwick, Springfield, West Springfield, and Wilbraham.

The following sections separately discuss demographic and economic information for the 2016 assessment area and the current assessment area.

Economic and Demographic Data

2016 Assessment Area

The bank's 2016 assessment area includes 48 census tracts in Hampshire and Franklin Counties. The area remained unchanged since the previous evaluation. These tracts reflect the following income designations according to 2010 U.S. Census:

- 1 low-income tract,
- 5 moderate-income tracts,
- 22 middle-income tracts,
- 18 upper-income tracts, and
- 2 census tracts with no income designation (Amherst and Hampshire Colleges).

The following table illustrates select demographic characteristics of the 2016 assessment area.

Demographic Information of the 2016 Assessment Area						
Demographic Characteristics	**#**	**Low % of #**	**Moderate % of #**	**Middle % of #**	**Upper % of #**	**NA* % of #**
Geographies (Census Tracts)	48	2.1	10.4	45.8	37.5	4.2
Population by Geography	206,319	5.9	9.1	42.1	41.6	1.4
Housing Units by Geography	84,611	0.1	11.4	47.3	41.2	0.1
Owner-Occupied Units by Geography	53,539	0.0	6.0	47.5	46.5	0.0
Occupied Rental Units by Geography	25,893	0.2	21.7	45.6	32.3	0.2
Vacant Units by Geography	5,179	0.2	15.8	53.6	30.4	0.0
Businesses by Geography	13,933	1.3	13.2	44.8	40.1	0.7
Family Distribution by Income Level	47,262	16.7	15.1	19.5	48.7	0.0
Household Distribution by Income Level	79,432	22.4	14.3	16.9	46.4	0.0
Median Family Income MSA - 44140 Springfield, MA MSA		$65,262	Median Housing Value			$260,628
Median Family Income MA Non-MSAs		$68,821	Median Gross Rent			$854
			Families Below Poverty Level			7.0%

Source: 2010 U.S. Census, 2016 D&B Data, and FFIEC Estimated Median Family Income
Due to rounding, totals may not equal 100.0
(*) The NA category consists of geographies that have not been assigned an income classification.

Approximately 7.0 percent of families are below poverty level, which poses home mortgage lending challenges, as these families face difficulties qualifying for a home mortgage loan. Furthermore, the lack of owner-occupied units in the low-income tract results in greater emphasis on moderate-tract lending when determining Geographic Distribution performance.

According to the 2010 U.S. Census, there were 84,611 housing units in the assessment area. Of these, 63.3 percent were owner-occupied, 30.6 percent were occupied rental units, and 6.1 percent were vacant. The median home sales price was $260,628. According to updated information from The Warren Group, the average sales price of a home in Franklin and Hampshire Counties was $205,000 in 2016.

According to 2016 D&B data, the assessment area had 13,933 non-farm businesses. The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by gross annual revenue (GAR) level. GARs for these businesses are below.

- 83.1 percent have $1 million or less.
- 5.3 percent have more than $1 million.
- 15.7 percent have unknown revenues.

Service industries represent the largest portion of businesses at 50.4 percent; followed by retail trade (13.0 percent); construction (7.9 percent); and finance, insurance, and real estate (6.3 percent). Additionally, 73.3 percent of area businesses have four or fewer employees, and 87.6 percent operate from a single location.

2017 Assessment Area

The bank's 2017 assessment area includes 143 census tracts in Hampden, Hampshire, and Franklin Counties. These tracts reflect the following income designations according to the 2015 ACS:

- 25 low-income tracts,
- 23 moderate-income tracts,
- 47 middle-income tracts,
- 44 upper-income tracts, and
- 4 census tracts with no income designation (UMass Amherst, Amherst College, Hampshire College, and Smith College)

Demographic Information of the 2017 Assessment Area						
Demographic Characteristics	**#**	**Low % of #**	**Moderate % of #**	**Middle % of #**	**Upper % of #**	**NA* % of #**
Geographies (Census Tracts)	143	17.5	16.1	32.9	30.8	2.8
Population by Geography	640,390	14.5	15.7	33.7	33.3	2.8
Housing Units by Geography	260,764	14.2	16.4	36.7	32.6	0.1
Owner-Occupied Units by Geography	149,502	4.9	12.8	38.6	43.7	0.0
Occupied Rental Units by Geography	92,192	27.8	21.1	34.5	16.3	0.3
Vacant Units by Geography	19,070	21.5	22.0	31.8	24.3	0.4
Businesses by Geography	37,137	14.0	15.4	32.9	36.9	0.8
Family Distribution by Income Level	152,004	24.9	15.9	18.1	41.1	0.0
Household Distribution by Income Level	241,694	27.4	14.8	15.6	42.3	0.0
Median Family Income – 44140 Springfield, MA MSA		$67,381	Median Housing Value			$210,265
Median Family Income MA Non-MSA		$73,868	Median Gross Rent			$860
			Families Below Poverty Level			12.1%

Source: 2010 U.S. Census & 2015 ACS and 2017 D&B Data
Due to rounding, totals may not equal 100.0
(*) The NA category consists of geographies that have not been assigned an income classification.

The percentage of owner-occupied housing units in low-income tracts increased in the new 2017 assessment area, signifying lending opportunities. However, the percentage of families below the poverty level also increased significantly to 12.1 percent. The elevated poverty level reflects barriers to lending among low- and moderate income individuals, particularly in Hampden County.

In 2017, there were 260,274 housing units in the assessment area. Of these, 57.3 percent were owner occupied, 35.4 percent were occupied rental units, and 6.1 percent were vacant. The 2017 assessment area had a median sales price of $210,265 according to the U.S. Census. The inclusion of Hampden County in 2017 resulted in an average home sales price of $200,233 according to The Warren Group.

According to 2017 D&B data, there were 37,137 non-farm businesses in the assessment area. Gross annual revenues (GARs) for these businesses are below.

- 81.6 percent have $1 million or less.
- 6.5 percent have more than $1 million.
- 11.9 percent have unknown revenues.

Service industries again represent the largest portion of businesses at 46.1 percent; followed by retail trade (14.7 percent); construction (7.9 percent); and finance, insurance, and real estate (8.7 percent). Additionally, 69.2 percent of area businesses have four or fewer employees, and 86.7 percent operate from a single location.

Data obtained from the U.S. Bureau of Labor and Statistics indicates that the 2017 year-end unemployment rate was 3.5 percent statewide. However, the rate varied from 5.1 percent for Hampden County, 3.4 percent for Franklin County, and 3.4 percent for Hampshire County. Unemployment rates remained constant throughout the evaluation period.

According to Moody's Analytics, the Springfield MSA's economy has excelled even as the overall economy in the US and in the Northeast has slowed. Healthcare primarily drove job growth, followed by construction and professional services. Housing prices in the area have increased, and residential building has increased. Top employers in the region include the University of Massachusetts at Amherst, Baystate Health, and Big Y Supermarkets. MassMutual announced it would move 1,600 finance jobs from Hartford into Springfield. Additionally, MGM Springfield has promised to bring 3,000 new jobs into the area in 2018.

The 2016 and 2017 FFIEC-updated median family income level is used to analyze home mortgage loans under the Borrower Profile criterion. The low-, moderate-, middle- and upper-income categories are presented in the following table. These categories are based on FFIEC-updated median family incomes in the Springfield, MA MSA and statewide Non-MSA area.

Median Family Income Ranges				
Median Family Incomes	**Low <50%**	**Moderate 50% to <80%**	**Middle 80% to <120%**	**Upper ≥120%**
Springfield, MA MSA Median Family Income (44140)				
2016 ($68,000)	<$34,000	$34,000 to <$54,400	$54,400 to <$81,600	≥$81,600
2017 ($66,600)	<$33,300	$33,300 to <$53,280	$53,280 to <$79,920	≥$79,920
MA Non-MSA Median Family Income (99999)				
2016 ($77,600)	<$38,800	$38,800 to <$62,080	$62,080 to <$93,120	≥$93,120

2017 ($80,000)	<$40,000	$40,000 to <$64,000	$64,000 to <$96,000	≥$96,000
Source: FFIEC				

Competition

The 2016 assessment area is moderately competitive in the market for financial services. According to FDIC Deposit Market Share data as of June 2016, 15 financial institutions operated 72 full-service branches within Franklin and Hampshire Counties. Of these institutions, Florence Bank ranked 1st with an 19.0 percent deposit market share. In 2017, the expanded assessment area resulted in increased competition. Franklin, Hampshire, and Hampden Counties had 20 financial institutions with 209 full-service branches, and Florence Bank ranked 8th with a 6.7 percent share of deposits. Including portions of Hampden County significantly increased the number of bank branches in the assessment area

There is a high level of competition for home mortgage loans among several banks, credit unions, and non-depository mortgage lenders. In 2016, 236 lenders reported a total of 5,283 residential mortgage loans originated or purchased. Florence bank ranked 4th out of this group of lenders, with a market share of 3.1 percent. The top three home mortgage lenders accounted for just 6.7 percent of total market share, reflecting the lack of a dominant lender in the assessment area.

The bank collects but does not report its small business data. CRA aggregate data, however, reflects the level of demand for small business loans. Aggregate data for 2016 shows that 67 institutions reported 4,600 small business loans in the assessment area, indicating a moderate degree of competition for this product.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit and community development needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit and community development opportunities are available.

Examiners performed three community contacts in concert with the evaluation. The first contact focuses primarily on small business development and workforce development training. The contact identified a need for downtown redevelopment, particularly in areas like Ware severely by the foreclosure crisis. These smaller municipalities face a unique challenge in that they are too small to qualify for some development initiatives (i.e. Gateway communities) but have a demonstrated need to build their workforce and business environment. The contact suggested that credit programs focused on bringing properties up to code would be helpful, along with financing for vocational certifications in response to the needs presented by area manufacturers. The contact felt that community banks were very invested in the community through financial literacy and increasing access to credit for many individuals.

The second community contact focuses on home ownership and financial literacy for low- and moderate-income individuals throughout the assessment area. The contact explained that there is a tight inventory of homes throughout Hampshire County, with affordable housing representing the smallest share. Additionally, there are groups of moderate-income individuals who do not qualify for affordable rental properties based on predetermined income guidelines. As a result, more affordable housing development represents an urgent need. Technical assistance for small businesses would also be helpful for elder individuals in the area who have not been able to obtain work since the recession, but continue to face increasing costs in the form of property taxes. The organization mentioned that a number of community banks have been very involved, including Florence Bank, providing financial support and hands-on assistance with financial literacy education. The contact suggested that new programs assisting with student loan debt might help retain the young community, who often leave the area in pursuit of a career.

A third community contact representing Springfield stated that affordable housing is a primary need of the area, and products geared toward low- and moderate-income individuals would be helpful in developing the local economy. The organization would like to see more involvement and partnership in the Springfield area, particularly in developing new affordable housing projects.

Credit and Community Development Needs and Opportunities

Considering information from the community contacts, bank management, and demographic and economic data, examiners determined that affordable housing development represents a primary need for the assessment area. Small business loans primarily geared toward redeveloping old or below-code property represents an additional opportunity. Challenges to lending in the area include both the increasing interest rate environment and limited housing stock, particularly in low- and moderate-income areas. Market forces appear to be pricing a large segment of borrowers out of the market, particularly when factoring in rising property taxes.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Florence Bank demonstrated good performance under the Lending Test. Geographic Distribution and Borrower Profile performance primarily support this conclusion.

Loan-to-Deposit Ratio

The LTD ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's LTD ratio, calculated from Call Report data, averaged 90.6 percent over the past 13 calendar quarters from December 31, 2014, to December 31, 2017. The ratio ranged from a low of 89.2 percent as of March 31, 2015 to a high of 93.9 percent as of September 30, 2015. The ratio remained generally stable during the evaluation period. Florence Bank maintained a ratio similar to those of comparable institutions, as shown in the following table. Examiners selected comparable institutions based on their asset size, geographic location, and lending focus.

Loan-to-Deposit Ratio Comparison		
Institution	**Total Assets $(000s)**	**Average LTD Ratio (%)**
Florence Bank	1,330,502	90.6
Greenfield Savings Bank	825,135	103.2
Country Savings Bank	1,587,674	101.1
Easthampton Savings Bank	1,327,876	86.6
Source: Call Report data		

Assessment Area Concentration

The bank made a majority of home mortgage and small business loans, by number and dollar volume, within its assessment area. The percentage of home mortgage and small business loans in the assessment area increased substantially from 2016 to 2017, primarily due to the bank's expansion into Hampden County. The following table illustrates the bank's lending inside and outside of the assessment area.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total	Dollar Amount of Loans $(000s)				Total
	Inside		Outside			Inside		Outside		
	#	%	#	%	#	$	%	$	%	$(000s)
Home Mortgage										
2016	294	71.5	117	28.5	411	62,960	70.2	26,760	29.8	89,720
2017	420	95.9	18	4.1	438	91,019	92.1	7,859	7.9	98,878
Subtotal	**714**	**84.1**	**135**	**15.9**	**849**	**153,979**	**81.6**	**34,619**	**18.4**	**188,598**
Small Business										
2016	77	70.0	33	30.0	110	10,053	47.5	11,124	52.5	21,177
2017	96	95.1	5	5.0	101	13,899	90.3	1,497	9.7	15,396
Subtotal	**173**	**82.0**	**38**	**18.0**	**211**	**23,952**	**65.5**	**12,621**	**34.5**	**36,573**
Total	**887**	**83.7**	**173**	**16.3**	**1,060**	**177,931**	**79.0**	**47,240**	**21.0**	**225,171**
Source: Evaluation Period: 1/1/2016 - 12/31/2017 Bank Data *Due to rounding, totals may not equal 100.0*										

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. The bank's reasonable performance of home mortgage and small business lending supports this conclusion. Examiners focused on the percentage by number of loans in low- and moderate-income census tracts.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the assessment area. Examiners focused on the comparison to aggregate data for 2016.
The bank did not originate any loans in 2016 in low-income census tracts. However, the nominal percentage of aggregate lending and lack of owner-occupied housing in this census tract reflects no lending opportunities. The bank's performance in moderate-income tracts slightly exceeds the aggregate's percentage. The bank's performance also exceeded the percentage of owner-occupied housing.

Market share data from 2016 reflects positively on the bank's performance. The bank ranked 3rd in lending in moderate-income census tracts with a 6.3 percent market share. The two top lenders in the assessment area were Greenfield Savings Bank and Greenfield Cooperative Bank. This market ranking is consistent with the bank's overall market rank of 4th in the assessment area in 2016.

In 2017, the bank's expanded assessment area resulted in a much larger percentage of owner-occupied units in low- and moderate-income areas. The bank originated 6.2 percent of its loans in low-income census tracts, which is above the percentage of owner-occupied units. In moderate-income tracts, the bank increased to 29 originations, but its percentage of loans in moderate-income tracts fell to 6.9 percent. Although below the percentage of owner-occupied units, this performance is reasonable given the bank's recent expansion to Hampden County.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	**% of Owner-Occupied Housing Units**	**Aggregate Performance % of #**	**#**	**%**	**$(000s)**	**%**
Low						
2016	0.0	0.1	0	0.0	0	0.0
2017	4.9	--	26	6.2	5,672	6.2
Moderate						
2016	6.0	7.0	23	7.8	5,006	8.0
2017	12.8	--	29	6.9	4,696	5.2
Middle						
2016	47.5	45.4	116	39.5	23,956	38.1
2017	38.6	--	168	40.0	35,072	38.5
Upper						
2016	46.5	47.6	155	52.7	33,998	54.0
2017	43.7	--	197	46.9	45,579	50.1
Not Available						
2016	0.0	0.0	0	0.0	0	0.0
2017	0.0	--	0	0.0	0	0.0
Totals						
2016	**100.0**	**100.0**	**294**	**100.0**	**62,960**	**100.0**
2017	**100.0**	**--**	**420**	**100.0**	**91,019**	**100.0**
Source: 2010 U.S. Census & 2015 ACS Census; 1/1/2016 - 12/31/2017 Bank Data, 2016 HMDA Aggregate Data, "--" data not available.						

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area. In 2016, the bank's lending in low-income census tracts was similar to the percentage of businesses. Similarly, the bank's moderate-income tract lending was in line with the percentage of businesses. In 2017, the bank's performance fell below the demographic measures in both low- and moderate-income lending. Similar to home mortgage loans, the bank's expanded assessment area resulted in a greater percentage of businesses loans in low- and moderate-income tracts. The bank's relatively new commercial presence in Hampden County mitigates 2017 performance.

Geographic Distribution of Small Business Loans					
Tract Income Level	**% of Businesses**	**#**	**%**	**$(000s)**	**%**
Low					
2016	1.3	1	1.3	35	0.3
2017	14.0	10	10.4	1,278	9.2
Moderate					
2016	13.2	10	13.0	394	3.9
2017	15.4	7	7.3	1,871	13.5
Middle					
2016	44.8	37	48.1	5,473	54.4
2017	32.9	34	35.4	4,020	28.9
Upper					
2016	40.1	28	36.3	4,126	41.0
2017	36.9	45	46.9	6,730	48.4
Not Available					
2016	0.7	1	1.3	25	0.2
2017	0.8	0	0.0	0	0.0
Totals					
2016	**100.0**	**77**	**100.0**	**10,053**	**100.0**
2017	**100.0**	**96**	**100.0**	**13,899**	**100.0**
Source: 2016 & 2017 D&B Data; 1/1/2016 - 12/31/2017 Bank Data.					

Borrower Profile

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes. The bank's reasonable performance of home mortgage and small business lending supports this conclusion. Examiners focused on the percentage by number of home mortgage loans to low- and moderate-income borrowers and small business loans to businesses with GARs of $1 million or less.

Home Mortgage Loans

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, is reasonable. Examiners focused on the comparison to aggregate data in 2016.

Home mortgage lending to low-income borrowers, at 5.1 percent, is good when compared to the aggregate's 4.3 percent. The 7.0 percent of families in the area with incomes below the poverty level likely would not qualify for a mortgage in an area with a median housing price of over $200,000. This helps explain the difference between bank and aggregate performance in lending to low-income borrowers and the 16.7 percent of families at this income level. The bank's lending to moderate-income borrowers at 17.0 percent exceeded the percentage of moderate-income families as well as aggregate performance.

Market share data further supports the bank's reasonable performance under this criterion. In 2016, the bank ranked 4th in lending to low-income borrowers with a 6.6 percent market share. The bank also ranked 4th in lending to moderate-income borrowers with a 3.5 percent market share.

In 2017, the bank's lending to low-income borrowers fell to 3.1 percent and lending to moderate-income borrowers fell to 11.4 percent. Bank management attributed the decrease in lending for these categories to increased competition and a challenging interest rate environment. Additionally, the expanded assessment area includes Springfield, Chicopee, and Holyoke, areas with large concentrations of low-income borrowers. The bank's recent inclusion of these municipalities in its assessment area mitigates its performance.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	**% of Families**	**Aggregate Performance % of #**	**#**	**%**	**$(000s)**	**%**
Low						
2016	16.7	4.3	15	5.1	1,481	2.4
2017	24.9	--	13	3.1	1,350	1.5
Moderate						
2016	15.1	15.8	50	17.0	7,775	12.3
2017	15.9	--	48	11.4	7,084	7.8
Middle						
2016	19.5	23.8	70	23.8	13,845	22.0
2017	18.1	--	81	19.3	15,747	17.3
Upper						
2016	48.7	46.2	138	46.9	34,265	54.4
2017	41.1	--	202	48.1	49,306	54.2
Not Available						
2016	0.0	9.9	21	7.1	5,594	8.9
2017	0.0	--	76	18.1	17,532	19.3
Totals						
2016	**100.0**	**100.0**	**294**	**100.0**	**62,960**	**100.0**
2017	**100.0**	**--**	**420**	**100.0**	**91,019**	**100.0**
Source: 2010 U.S. Census & 2015 ACS Census; 1/1/2016 - 12/31/2017 Bank Data, 2016 HMDA Aggregate Data, "--" data not available.						

Small Business Loans

The distribution of small business loans reflects reasonable penetration to businesses with GARs of $1 million or less. The following table demonstrates the bank's distribution of small business loans by GAR level. In 2016, 50.6 percent of loans were originated to businesses with GARs of $1 million or less. This fell below the percentage of businesses at this revenue level. In 2017, the bank's performance increased to 52.1 percent but again fell below the percentage of businesses at this revenue level.

Florence Bank does not report its small business lending activities and, therefore, examiners did not compare the bank's performance to aggregate data. However, aggregate data reflects the level of demand for small business loans to businesses with GARs of $1 million or less. In 2016, aggregate data revealed that reporting lenders originated less than half of their small business loans to businesses with GAR of $1 million or less. Many small businesses use other financing methods, including credit cards and residential real estate-secured loans, to meet business funding needs. This helps explain the difference between the bank's performance and business demographic data.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	**% of Businesses**	**#**	**%**	**$(000s)**	**%**
<=$1,000,000					
2016	83.1	39	50.6	5,290	52.6
2017	81.6	50	52.1	6,101	43.9
>1,000,000					
2016	5.3	38	49.4	4,763	47.4
2017	6.5	46	47.9	7,798	56.1
Revenue Not Available					
2016	11.7	0	0.0	0	0.0
2017	12.0	0	0.0	0	0.0
Totals					
2016	**100.0**	**77**	**100.0**	**10,053**	**100.0**
2017	**100.0**	**96**	**100.0**	**13,899**	**100.0**
Source: 2016 & 2017 D&B Data; 1/1/2016 - 12/31/2017 Bank Data.					

Response to Complaints

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

COMMUNITY DEVELOPMENT TEST

Florence Bank demonstrated excellent responsiveness to the community development needs of its assessment area 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

Florence Bank originated 14 community development loans totaling approximately $43.1 million during the evaluation period. This level of activity represents 3.5 percent of average total assets and 4.6 percent of average total loans since the prior CRA evaluation. Of total community development loans, seven totaling $26.5 million were used to create affordable housing and four totaling $13.7 million were used to promote economic development in the assessment area and the neighboring cities. These loans demonstrate the bank's responsiveness to the community development needs identified by a community contact.

The bank's community development lending includes six loans totaling $9.6 million outside the assessment area to entities that serve a broader statewide area that includes the assessment area. These loans will not directly benefit the assessment area. As the bank has been responsive to the community development needs of its assessment area, examiners considered these six loans under the Community Development Test. The following table illustrates the bank's community development lending activity by year and purpose.

Community Development Lending										
Activity Year	**Affordable Housing**		**Community Services**		**Economic Development**		**Revitalize and Stabilize**		**Totals**	
	#	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**
2014	1	9,600	-	-	-	-	-	-	**1**	**9,600**
2015	2	5,513	1	1,500	1	426	-	-	**4**	**7,439**
2016	1	350	-	-	1	1,000	1	2,500	**3**	**1,350**
2017	3	11,018	1	1,500	2	12,274	-	-	**6**	**24,792**
Total	**7**	**26,481**	**2**	**3,000**	**4**	**13,700**	**1**	**2,500**	**14**	**43,181**
Source: Bank Records										

Below are notable examples of the bank's community development loans:

- In 2014 and 2017, the bank made two mortgage loans totaling $19.0 million. These loans financed the construction of two 83-unit assisted living facilities located within the assessment area. The majority of units were designated affordable housing for individuals at or below 80 percent of the median family income for the MSA.

- Between 2016 and 2017, the bank made three loans totaling $3.8 million to two related entities in Holyoke. The loans promoted economic development and revitalized and stabilized the area. The loans were used to purchase and improve properties in areas specially designated for redevelopment by the Holyoke Redevelopment Authority.

- In 2017, the bank made a loan totaling $12.0 million loan to build a hotel in the assessment area. The new hotel will provide jobs that benefit low-to-moderate individuals. A portion of the loan was also guaranteed by the Small Business Administration's 504 program, which is only granted to loans that promote economic development.

Qualified Investments

Florence Bank made 141 qualified investments totaling approximately $3.2 million. This total includes qualified equity investments of approximately $2.6 million and donations of $584,116. This dollar amount of equity investments equates to 0.2 percent of average total assets and 1.3 percent of average securities since the last evaluation.

The bank's qualified investments consist of equity investments in new and pre-existing mortgage-backed securities (MBS), an ongoing investment in a CRA Investment Fund, and donations to various community development organizations.

Of the $2.6 million in qualified equity investments, $1.5 million came from the prior evaluation period. During the evaluation period, the bank also purchased a new MBS totaling approximately $1.1 million. All of the underlying assets in the newly purchased MBS benefitted low- or moderate-income borrowers within the assessment area. The bank's ongoing investment with the CRA Investment Fund targets Hampshire County initiatives.

Florence Bank made 130 qualified donations totaling $584,116 during the evaluation period. The donations all benefitted community development organizations with a primary purpose of helping low- and moderate-income individuals or promoting small business development. The table below details the bank's community development donations by year and community development category.

Qualified Donations

Activity Year	Affordable Housing		Community Services		Economic Development		Totals	
	#	$(000s)	#	$(000s)	#	$(000s)	#	$(000s)
2014		0	3	41	1	10	**4**	**51**
2015	2	60	28	97	1	1	**31**	**158**
2016	4	31	32	106	3	21	**39**	**158**
2017	3	40	43	157	3	2	**49**	**199**
YTD 2018	1	10	5	6	1	2	**7**	**18**
Total	**10**	**141**	**111**	**407**	**9**	**36**	**130**	**584**

Source: Bank Records

Below are notable examples of the bank's donations.

- The bank provided over $130,000 to a community service organization that provides affordable housing, jobs skills training, and emergency shelter services to individuals living within the assessment area.

- The bank provided $100,000 to a community development organization that provides affordable housing and small business development. The organization works with low- and moderate-income individuals by providing grants to first-time homebuyers and building affordable rental housing.

- The bank provided $25,000 to a local hospital's Opioid Initiative. The funds were used to provide services to low- and moderate-income patients who received care through the initiative.

Community Development Services

Florence Bank provides community development services through officer and employee involvement in local community development and non-profit organizations in various capacities. Bank personnel provide these organizations with financial and management expertise while serving as directors, committee members, officers, and volunteers.

During the evaluation period, bank employees provided over 1,300 hours of financial expertise or technical assistance to 21 different community development-related organizations in the assessment area. The following table illustrates the bank's community development service hours by year and purpose.

Community Development Services				
Activity Year	**Affordable Housing**	**Community Services**	**Economic Development**	**Totals**
	# Hours	# Hours	# Hours	# Hours
2015	60	355	6	**421**
2016	48	378	6	**432**
2017	48	397	6	**451**
Total	**156**	**1,130**	**18**	**1,304**
Source: Bank Records				

The following examples describe the bank's notable community development services:

- The bank's President/CEO serves on the Board of Directors of the Western Massachusetts Economic Development Council, which is a non-profit public benefit organization that promotes economic development and job creation and retention within the assessment area.

- An assistant vice president continues to serve on the Board of Directors and is a finance committee member of Hilltown Community Development Corporation, which provides affordable housing and small business development services for ten communities in Hampshire and Berkshire Counties.

- A vice president serves on the Advisory Council for the Money Management Program of Highland Valley Elder Services. The program provides an in-home bill payer service and representative payee service targeted towards low- and moderate-income elders within the assessment area.

- A vice president provides financial literacy and elder financial fraud training to members of the community.

The bank continues its partnership with the Valley Community Development Corporation and conducted 28 homeownership seminars targeted to first-time homebuyers, most of whom are low- and moderate-income individuals. Bank representatives educated attendees on the home mortgage application process and available financing options.

Several bank employees provided free preparation of income tax returns for low- and moderate-income individuals and families at Volunteer Income Tax Assistance (VITA) centers in Greenfield and Northampton during the evaluation period.

Additionally, Florence Bank operates one branch in a moderate income census tract. The bank also operates two remote deposit taking ATMs in a low- and moderate-income census tract. These branches and ATMs demonstrate the availability of banking services to low- and moderate-income individuals.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution's overall CRA rating.

APPENDIX A
Fair Lending Policies and Procedures

The Division of Banks provides comments regarding the institution's fair lending policies and procedures pursuant to Regulatory Bulletin 1.3-106. A review of the bank's public comment file indicated the bank received no complaints pertaining to the institution's CRA performance since the previous examination. The fair lending review was conducted in accordance with the Federal Financial Institutions Examination Council (FFIEC) Interagency Fair Lending Examination Procedures. Based on these procedures, no evidence of disparate treatment was noted.

MINORITY APPLICATION FLOW

Examiners reviewed Florence Bank's 2016 and 2017 HMDA LARs to determine if the minority application flow reflected the assessment area's demographics.

For 2016, according to the 2010 U.S. Census data, the bank's assessment area had a population of 206,319, of which 12.7 percent are minorities. The assessment area's minority population includes 0.2 percent American Indian, 3.8 percent Asian/Pacific Islander, 2.0 percent Black, 4.5 percent Hispanic, and 2.2 percent other race.

For 2017, according to the 2015 American Community Survey (ACS) US Census data, the bank's assessment area has a population of 640,390, of which 29.6 percent are minorities representing a 16.9 percent increase over 2016 demographic data. This significant increase in total population is primarily attributed to Florence Bank's assessment area expansion into West Springfield and the surrounding area during the review period incorporating 95 additional census tracts that included low- and moderate-income tracts. The assessment area's 2017 minority population includes 0.1 percent American Indian/Alaskan Native, 3.0 percent Asian/Pacific Islander, 6.4 percent Black, 18.1 percent Hispanic, and 2.0 percent other race.

Examiners compared Florence Bank's 2016 and 2017 residential lending to 2016 aggregate data. This comparison assists in deriving reasonable expectations for the minority application rate. Refer to the following table for information regarding Florence Bank's minority application flow as well as the aggregate.

MINORITY APPLICATION FLOW					
RACE	**Bank 2016**		**2016 Aggregate Data**	**Bank 2017**	
	#	%	%	#	%
American Indian/ Alaska Native	0	0.0	0.2	1	0.2
Asian	17	4.2	1.9	26	4.8
Black/ African American	0	0.0	0.8	2	0.4
Hawaiian/Pacific Islander	0	0.0	0.1	0	0.0
2 or more Minority	0	0.0	0.1	0	0.0
Joint Race (White/Minority)	9	2.2	1.7	9	1.7
Total Minority	**26**	**6.4**	**4.9**	**38**	**7.1**
White	355	87.0	79.6	414	76.3
Race Not Available	27	6.6	15.5	90	16.6
Total	**408**	**100.0**	**100.0**	**542**	**100.0**
ETHNICITY					
Hispanic or Latino	**2**	**0.5**	**1.9**	**5**	**0.9**
Not Hispanic or Latino	377	92.4	81.4	442	81.6
Joint (Hisp/Lat /Not Hisp/Lat)	**2**	**0.5**	**0.9**	**5**	**0.9**
Ethnicity Not Available	27	6.6	15.7	90	16.6
Total	**408**	**100.0**	**100.0**	**542**	**100.0**

Source: HMDA Aggregate Data 2016, HMDA LAR Data 2016 and 2017

In 2016, the bank received 408 HMDA reportable loan applications within its assessment area. Of these applications, 26 were received from racial minority applicants. The bank's application flow was above the aggregate performance of 4.9 percent for applications received from minorities. The bank received four applications, or 1.0 percent, representing the Hispanic or Latino and Joint (Hispanic/Latino-Not Hispanic/Latino) ethnic groups in 2016. The bank's application flow was below the aggregate performance of 2.8 percent.

In 2017, the bank received 542 HMDA reportable loan applications. Of these applications, 38 were received from racial minority applicants. The bank's application flow increased by 0.6 percent over the 2016 for applications received from minorities. The bank received ten applications, or 1.8 percent, representing the Hispanic or Latino and Joint (Hispanic/Latino-Not Hispanic/Latino) ethnic groups in 2017.

General minority application flow exhibits proactive outreach to all racial demographics in the assessment area in 2016. The bank is aware of its responsibilities and employs representative marketing strategies throughout the assessment area. The bank's 2017 performance improved, but remains below the assessment area demographics. This is understandable given the recent expansion of the assessment area into the Greater Springfield Area, and the increased branch presence is anticipated to positively impact the minority application flow. The bank remains cognizant of the need to continue its marketing and outreach efforts to reach the larger ethnic and racial minority population that comprises the new assessment area. The bank's minority application flow is deemed adequate.

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.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan 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. Census tract boundaries normally follow visible features, but they may follow governmental unit boundaries and other non-visible features in some instances. They always nest within counties. Census tracts average about 4,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogenous for population characteristics, economic status, and living conditions to allow for statistical comparisons.

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 non-metropolitan middle-income geographies; or
5. Enable or facilitate projects or activities that address needs regarding foreclosed or abandoned residential properties in designated target areas.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Bank 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 bank:
(i) Has not been reported or collected by the bank or an affiliate for consideration in the bank'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 bank's assessment area(s) or a broader statewide or regional area including the bank'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 <u>financial</u> services; and
(3) Has not been considered in the evaluation of the bank'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.

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).

Family Income: Includes the income of all members of a family that are age 15 and older.

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and non-metropolitan 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: Performance under the applicable tests is analyzed considering performance context, quantitative factors (geographic loan distribution, borrower profile loan distribution, and total number and dollar amount of investments), and qualitative factors (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 Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement, and temporary-to-permanent construction loans.

Home Mortgage Loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans to purchase manufactured homes, and refinancings of home improvement and home purchase loans.

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.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households are only one person, median household income is usually less than median family income.

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: Performance under the applicable tests is analyzed using only quantitative factors (for example, geographic loan distribution, borrower profile loan 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 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.

Micropolitan Statistical Area: CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

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.

Non-metropolitan Area: All areas outside of metropolitan areas. The definition of non-metropolitan 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 non-metropolitan 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 more than 120 percent of the area median income, or a median family income that is more than 120 percent 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.