# PUBLIC DISCLOSURE

May 8, 2023

# COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Farmers Bank of Willards
Certificate Number: 5885

7484 Market St
Willards, Maryland 21874

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

350 Fifth Avenue, Suite 1200
New York, NY 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 federal financial supervisory agency concerning the safety and soundness of this financial institution.

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# INSTITUTION RATING

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

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

**The Lending Test is rated Satisfactory.**

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

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

- The institution demonstrated adequate responsiveness to the community development needs of its 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.

# DESCRIPTION OF INSTITUTION

***Background***

The Farmers Bank of Willards (FBW) is a full-service commercial bank headquartered in Willards, Maryland. FBW operates in Wicomico and Worcester Counties in Maryland and in Sussex County, Delaware. The institution received a "Satisfactory" rating at its previous FDIC CRA Performance Evaluation dated May 1, 2020, using Interagency Intermediate Small Institution Examination Procedures.

***Operations***

FBW operates eight full-service branches and seven automated teller machines (ATMs) within the counties that it operates. Five branches are located in middle-income census tracts, two are in upper-income census tracts, and one in a tract that does not have an income designation. FBW closed a branch located in a moderate-income census tract in April 2023. The branch was a seasonal branch, open six months out of the year, and had been experiencing unprofitability and declining transaction activity.

The bank offers both residential and commercial loan products, primarily focusing on residential lending. FBW also provides a variety of consumer deposit products including checking, savings, and certificates of deposit. Alternative banking services include online and mobile banking, electronic bill pay, and remote deposit capture.

***Ability and Capacity***

As of December 31, 2022, assets totaled approximately $521.2 million, including total loans of $336.8 million and total securities of $157.9 million. Since the prior evaluation, FBW's total assets increased by 33.8 percent, total securities increased by 574.8 percent, and total loans increased by 0.6 percent.

The following table illustrates the loan portfolio.

| **Loan Portfolio Distribution as of December 31, 2022** | | |
|---|---|---|
| **Loan Category** | **$(000s)** | **%** |
| Construction, Land Development, and Other Land Loans | 39,739 | 11.8 |
| Secured by Farmland | 11,995 | 3.6 |
| Secured by 1-4 Family Residential Properties | 161,991 | 48.1 |
| Secured by Multi-family (5 or more) Residential Properties | 8,381 | 2.5 |
| Secured by Non-farm Non-Residential Properties | 71,195 | 21.1 |
| **Total Real Estate Loans** | **293,301** | **87.1** |
| Agricultural Loans | 66 | <0.1 |
| Commercial and Industrial Loans | 31,303 | 9.3 |
| Consumer | 10,158 | 3.0 |
| Other | 1,993 | 0.6 |
| **Total Loans** | **336,821** | **100.0** |
| *Source: Reports of Condition and Income* | | |

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

## DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which its supervisory agency evaluates its CRA performance. FBW designated one contiguous assessment area in Delaware and Maryland that includes all 114 census tracts in Wicomico, Worcester, and Sussex Counties. Wicomico, Worcester, and Sussex Counties are located within the Salisbury, Maryland-Delaware Metropolitan Statistical Area (MSA) 41450. The assessment area has not changed since the last evaluation.

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

***Economic and Demographic Data***
The assessment area's census tracts reflect the following income designations according to the 2020 U.S. Census Data:

- 2 low-income census tracts
- 16 moderate-income census tracts
- 57 middle-income census tracts
- 33 upper-income census tracts
- 6 census tracts with no income designation

The bank's assessment area increased from 90 to 114 census tracts when compared to the 2015 American Community Survey (ACS). This has also increased the amount of census tracts within each income category of the assessment area, including low- and moderate-income census tracts.

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

| Demographic Information of the Assessment Area | | | | | | |
|---|---|---|---|---|---|---|
| **Demographic Characteristics** | **#** | **Low % of #** | **Moderate % of #** | **Middle % of #** | **Upper % of #** | **NA* % of #** |
| Geographies (Census Tracts) | 114 | 1.8 | 14.0 | 50.0 | 28.9 | 5.3 |
| Population by Geography | 393,426 | 1.1 | 16.0 | 58.5 | 23.0 | 1.4 |
| Housing Units by Geography | 240,060 | 0.7 | 14.1 | 50.2 | 33.9 | 1.2 |
| Owner-Occupied Units by Geography | 115,959 | 0.3 | 12.1 | 59.3 | 27.9 | 0.5 |
| Occupied Rental Units by Geography | 39,067 | 3.0 | 26.1 | 51.8 | 15.2 | 3.8 |
| Vacant Units by Geography | 85,034 | 0.3 | 11.3 | 37.0 | 50.6 | 0.9 |
| Businesses by Geography | 37,363 | 1.4 | 14.4 | 54.7 | 28.5 | 1.0 |
| Farms by Geography | 1,667 | 0.5 | 10.7 | 66.3 | 22.1 | 0.4 |
| Family Distribution by Income Level | 103,211 | 19.5 | 18.5 | 21.0 | 41.0 | 0.0 |
| Household Distribution by Income Level | 155,026 | 23.0 | 16.4 | 18.8 | 41.8 | 0.0 |
| Median Family Income MSA - 41540 Salisbury, MD-DE MSA | | $76,095 | Median Housing Value | | | $294,762 |
| | | | Median Gross Rent | | | $1,036 |
| | | | Families Below Poverty Level | | | 7.7% |

*Source: 2020 U.S. Census and 2022 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.*

There are 240,060 total housing units in the assessment area. Of these, 48.3 percent are owner-occupied housing units, 16.3 percent are occupied rental units, and 35.4 percent are vacant. The Geographic Distribution criterion compares residential mortgage lending to the distribution of owner-occupied housing units. As shown above, only 0.3 percent of the total owner-occupied housing units are located in low-income census tracts and 12.1 percent are located in moderate-income census tracts. This data suggests the limited opportunities lenders have to originate residential mortgage loans within low- and moderate-income geographies. Furthermore, the large percentage of vacant housing reflects a large percentage of seasonal housing units located by the coast. The assessment area includes Ocean City, Maryland, which is a beach town that offers vacation housing and seasonal jobs to residents and visitors within the region.

As shown in the table above, 19.5 percent of families are low-income, 18.5 percent are moderate-income, and 7.7 percent are below the poverty level. This data suggests that it would be difficult for these families to qualify for a home mortgage loan or support a monthly mortgage payment, especially considering the assessment area's median home value of $294,762. The data also indicates some of the challenges lenders may experience in originating loans to low- or moderate-income individuals.

Examiners used the FFIEC-updated median family income level to analyze home mortgage loans under the Borrower Profile criterion. The Borrower Profile criterion for home mortgage lending considers the percentage of assessment area low- and moderate-income families.

| Median Family Income Ranges | | | | |
|---|---|---|---|---|
| **Median Family Incomes** | **Low <50%** | **Moderate 50% to <80%** | **Middle 80% to <120%** | **Upper ≥120%** |
| **Salisbury, MD-DE MSA Median Family Income (41540)** | | | | |
| 2021 ($74,100) | <$37,050 | $37,050 to <$59,280 | $59,280 to <$88,920 | ≥$88,920 |
| 2022 ($89,000) | <$44,500 | $44,500 to <$71,200 | $71,200 to <$106,800 | ≥$106,800 |
| *Source: FFIEC* | | | | |

According to 2022 D&B data, there were 37,363 non-farm businesses operating within the assessment area. Gross Annual Revenues (GARs) for these businesses are as follows:

- 88.0 percent have $1.0 million or less;
- 3.3 percent have more than $1.0 million and;
- 8.7 percent have unknown revenues.

Service industries represent the largest portion of businesses at 37.1 percent, followed by retail trade (14.0 percent); construction (9.2 percent); non-classifiable establishments (16.6 percent); and finance, insurance, and real estate (8.3 percent). In addition, 65.7 percent of area businesses have four or fewer employees and 90.9 percent operate at a single location. This data supports the many opportunities lenders have to originate loans to small businesses.

Data obtained from the U.S. Bureau of Labor Statistics shows that unemployment rates at the county, state, and national levels were largely elevated in 2020 due to the COVID-19 Pandemic. Since the onset of the pandemic, unemployment rates have steadily declined. Unemployment rates in Worcester County were the highest among the assessment area, state, and national rates. See the following table.

| Unemployment Rates | | | |
|---|---|---|---|
| **Area** | **2020** | **2021** | **2022** |
| | **%** | **%** | **%** |
| Wicomico County, Maryland | 7.6 | 6.2 | 4.7 |
| Worcester County, Maryland | 11.6 | 8.2 | 6.5 |
| Sussex County, Delaware | 7.2 | 4.8 | 4.2 |
| State – Maryland | 6.5 | 5.3 | 3.2 |
| State – Delaware | 7.5 | 5.5 | 4.5 |
| National Average | 8.1 | 5.4 | 3.6 |
| *Source: U.S. Bureau of Labor Statistics* | | | |

***Competition***
The assessment area is a competitive market for financial services. According to 2022 FDIC Deposit Market Share data, 29 financial institutions operate 129 full-service branches within the assessment area. Of these institutions, FBW ranked fifth with a 6.2 percent deposit market share.

The assessment area is highly competitive for home mortgage lending. In 2021, 547 lenders made 34,562 residential mortgage loans in the assessment area. FBW ranked 56th out of this group of lenders with a 0.5 percent market share. The five most prominent lenders, Rocket Mortgage, Wells Fargo, PennyMac, Mclean Mortgage Corporation, and NVR Mortgage Finance accounted for 20.4 percent of the total market share.

There is a moderate level of competition for small business loans. FBW is not required to collect and report its small business loan data; therefore, the analysis of small business loans does not include comparisons to aggregate data. The aggregate data, however, provides insight on the level of demand for small business loans among larger banks. Aggregate data for 2021 shows 117 institutions reported 10,977 small business loans in the assessment area.

***Community Contact***
As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying credit and community development needs. This information indicates what credit and community development opportunities may be available. It also helps examiners determine if local financial institutions are responsive to those needs.

Examiners reviewed a recent contact with the executive director of a non-profit community organization located in Ocean City, Maryland. This contact's organization renovates commercial properties to attract businesses to downtown Ocean City. The organization receives funding through state grants and fundraising. The contact identified small dollar business loans and affordable housing as immediate credit and community development needs. The contact also identified an opportunity for financial institutions to provide financial support to local community organizations.

In addition, examiners contacted a non-profit organization located in Salisbury, Maryland. This organization's main mission is to help connect low- and moderate-income individuals and families to affordable housing. The contact identified affordable housing as the primary community development need in the area. According to the contact, there is a lack of housing stock in the area. Some individuals in this area have a poor or no credit history, which is an additional barrier to homeownership. The contact said that financial literacy courses would be beneficial to individuals trying to improve or establish credit. This contact also noted that there is greater opportunity for financial institutions to partner with affordable housing organizations in the community.

***Credit and Community Development Needs and Opportunities***
Considering information from the community contact, bank management, and demographic and economic data, examiners determined that affordable housing is the primary community development need. Economic data supports the limited availability of affordable housing and high cost of housing. In addition, there are opportunities for banks to partner with affordable housing

organizations to provide financial education and services. Lastly, there is a need for small dollar business loans, particularly to small businesses, in the assessment area.

# SCOPE OF EVALUATION

## General Information

This evaluation covers the period from FBW's prior evaluation dated May 1, 2020, to the current evaluation dated May 8, 2023. Examiners used the Interagency Intermediate Small Institution Examination Procedures to evaluate FBW's CRA performance. These procedures include two tests: the CRA Small Bank Lending Test and the Community Development Test. Banks must achieve at least a "Satisfactory" rating under each test to obtain an overall Satisfactory rating.

## Activities Reviewed

The bank's major product lines, considering its business strategy, loan composition, and number and dollar volume of loans originated during the evaluation period are home mortgage and small business loans. No other loan types, such as small farm or consumer loans, represent a major product line or provide material support for conclusions or ratings; therefore, examiners did not present these products. Bank records indicate that the lending focus and product mix remained consistent throughout the evaluation period. Considering the level of home mortgage and small business lending during the evaluation period, examiners assigned slightly more weight to home mortgage loans than small business loans when arriving at overall conclusions and ratings.

This evaluation reviewed all home mortgage loans that FBW reported on its 2020, 2021, and 2022 Home Mortgage Disclosure Act Loan Application Registers (HMDA LARs). In 2020, the bank originated 99 home mortgage loans totaling $19.6 million. In 2021, the bank originated 165 home mortgage loans totaling $32.9 million. In 2022, the bank originated 228 home mortgage loans totaling $55.0 million. Examiners presented FBW's 2021 home mortgage loans compared to 2021 aggregate data and 2015 ACS data.

Due to its asset size, the bank is not required to report its small business loans. The bank collected its small business loan data. Examiners reviewed FBW's 2020, 2021, and 2022 small business loans. In 2020, the bank originated 234 small business loans totaling $16.0 million. In 2021, the bank originated 328 small business loans totaling $20.4 million. In 2022, the bank originated 318 small business loans totaling $30.4 million. Examiners presented 2022 small business loan data using 2022 D&B data as a standard of comparison.

For the Lending Test, examiners reviewed the number and dollar volume of home mortgage and small businesses loans; however, examiners emphasized performance by number of loans since it is a better indicator of the number of individuals and businesses served. For the Community Development Test, management provided data on community development loans, investments, and services since the prior CRA evaluation.

# CONCLUSIONS ON PERFORMANCE CRITERIA

## LENDING TEST

FBW's Lending Test performance is rated "Satisfactory". The bank's performance under each criteria supports this rating.

### Loan-to-Deposit Ratio

The LTD ratio is reasonable given the institution's size, market share, financial condition, and assessment area credit needs. The LTD ratio averaged 74.0 percent over the 11 calendar quarters from June 30, 2020, to December 31, 2022. The ratio ranged from a low of 63.2 percent as of March 31, 2022, to a high of 92.2 percent as of June 30, 2020. The bank's average LTD ratio is similar to 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 (LTD) Ratio Comparison | | |
|---|---|---|
| **Bank** | **Total Assets as of 12/31/2022 ($000s)** | **Average Net LTD Ratio (%)** |
| **Farmers Bank of Willards** | **521,189** | **74.0** |
| Bank of Ocean City | 619,836 | 59.2 |
| Calvin B. Taylor Bank | 904,402 | 62.8 |
| Community Bank Delaware | 311,835 | 92.8 |
| Hebron Savings Bank | 807,397 | 76.0 |
| *Source: Reports of Condition and Income 6/30/2020 – 12/31/2022* | | |

### Assessment Area Concentration

FBW made a substantial majority of its home mortgage and small business loans, by number and dollar volume, inside its assessment area. The following table details the distribution of loans, by number and dollar volume, 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 | | | | | | | | | | |
| 2020 | 98 | 99.0 | 1 | 1.0 | 99 | 19,521 | 99.6 | 75 | 0.4 | 19,596 |
| 2021 | 159 | 96.4 | 6 | 3.6 | 165 | 31,289 | 95.0 | 1,650 | 5.0 | 32,939 |
| 2022 | 214 | 93.9 | 14 | 6.1 | 228 | 52,120 | 94.8 | 2,865 | 5.2 | 54,985 |
| **Subtotal** | **471** | **95.7** | **21** | **4.3** | **492** | **102,930** | **95.7** | **4,590** | **4.3** | **107,520** |
| Small Business | | | | | | | | | | |
| 2020 | 215 | 91.9 | 19 | 8.1 | 234 | 14,563 | 91.2 | 1,405 | 8.8 | 15,968 |
| 2021 | 316 | 96.3 | 12 | 3.7 | 328 | 18,424 | 90.3 | 1,987 | 9.7 | 20,411 |
| 2022 | 265 | 83.3 | 53 | 16.7 | 318 | 26,552 | 87.3 | 3,877 | 12.7 | 30,429 |
| **Subtotal** | **796** | **90.5** | **84** | **9.5** | **880** | **59,539** | **89.1** | **7,269** | **10.9** | **66,808** |
| **Total** | **1,267** | **92.3** | **105** | **7.7** | **1,372** | **162,469** | **93.2** | **11,859** | **6.8** | **174,328** |
| *Source: Bank Data*<br>*Due to rounding, totals may not equal 100.0%* | | | | | | | | | | |

## Geographic Distribution

The geographic distribution of loans reflects excellent dispersion throughout the assessment area. The bank's distribution of home mortgage loans primarily supports this conclusion.

### *Home Mortgage Loans*

The geographic distribution of home mortgage loans reflects excellent dispersion throughout the assessment area. Examiners focused on the percentage by number of loans in the moderate-income census tracts, as there are no low-income census tracts in the assessment area. The following table shows that the bank's percentage of loans in moderate-income census tracts significantly exceeded aggregate and demographic data. While the bank ranked 56th overall for the number of loans originated in the assessment area in 2021, FBW ranked 18th overall for the number of loans originated in moderate-income census tracts. These comparisons and market share data reflect excellent performance. The following table reflects the distribution of home mortgage loans by census tract income level.

| Geographic Distribution of Home Mortgage Loans | | | | | | |
|---|---|---|---|---|---|---|
| **Tract Income Level** | **% of Owner-Occupied Housing Units** | **Aggregate Performance % of #** | **#** | **%** | **$(000s)** | **%** |
| Low | | | | | | |
| 2021 | 0.0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Moderate | | | | | | |
| 2021 | 7.7 | 4.6 | 24 | 15.1 | 2,274 | 7.3 |
| Middle | | | | | | |
| 2021 | 65.8 | 61.0 | 82 | 51.6 | 17,371 | 55.5 |
| Upper | | | | | | |
| 2021 | 26.5 | 34.4 | 53 | 33.3 | 11,644 | 37.2 |
| Not Available | | | | | | |
| 2021 | 0.0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| **Totals** | | | | | | |
| **2021** | **100.0** | **100.0** | **159** | **100.0** | **31,289** | **100.0** |
| *Source: 2015 ACS; Bank Data, 2021 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%* | | | | | | |

***Small Business Loans***

The geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area. As previously stated, the 2020 U.S. Census data reflects changes in the demographic composition of the assessment area. These changes include the addition of two low-income geographies (increase from zero) and the addition of five moderate-income geographies (from 11 to 16). The bank's performance in low-income census tracts exceeded the percentage of businesses operating in those tracts. In 2022, the bank's performance in moderate-income census tracts was below the percentage of businesses operating in those tracts. The comparison reflects reasonable performance. The following table reflects the distribution of small business loans by census tract category in 2022.

| Geographic Distribution of Small Business Loans | | | | | |
|---|---|---|---|---|---|
| **Tract Income Level** | **% of Businesses** | **#** | **%** | **$(000s)** | **%** |
| Low | | | | | |
| 2022 | 1.4 | 6 | 2.3 | 464 | 1.8 |
| Moderate | | | | | |
| 2022 | 14.4 | 19 | 7.1 | 1,815 | 6.8 |
| Middle | | | | | |
| 2022 | 54.7 | 173 | 65.3 | 17,450 | 65.7 |
| Upper | | | | | |
| 2022 | 28.5 | 67 | 25.3 | 6,823 | 25.7 |
| Not Available | | | | | |
| 2022 | 1.0 | 0 | 0.0 | 0 | 0.0 |
| **Totals** | | | | | |
| **2022** | **100.0** | **265** | **100.0** | **26,552** | **100.0** |

*Source: 2022 D&B Data; Bank Data; "--" data not available.*
*Due to rounding, totals may not equal 100.0%*

## Borrower Profile

The distribution of loans reflects reasonable penetration among borrowers of different income levels and businesses of different sizes. The bank's reasonable home mortgage and small business lending performance supports this conclusion.

### *Home Mortgage Loans*

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

The bank's performance of lending to low- and moderate-income borrowers exceeded aggregate performance while lagging behind demographic data. However, in 2021, a low-income family in the assessment area would not have an income greater than $37,050. It may be difficult for low-income families to qualify for a home mortgage loan or support a monthly mortgage payment, especially given that the assessment area's median housing value is $294,762. This data supports the challenges lenders face in originating home mortgage loans to low-income borrowers. The following table reflects the distribution of home mortgage loans within the assessment area in 2021.

| Distribution of Home Mortgage Loans by Borrower Income Level | | | | | | |
|---|---|---|---|---|---|---|
| **Borrower Income Level** | **% of Families** | **Aggregate Performance % of #** | **#** | **%** | **$(000s)** | **%** |
| Low | | | | | | |
| 2021 | 20.3 | 4.1 | 12 | 7.5 | 1,092 | 3.5 |
| Moderate | | | | | | |
| 2021 | 17.8 | 12.2 | 22 | 13.8 | 3,428 | 11.0 |
| Middle | | | | | | |
| 2021 | 20.8 | 16.9 | 15 | 9.4 | 2,367 | 7.6 |
| Upper | | | | | | |
| 2021 | 41.1 | 49.9 | 66 | 41.5 | 17,589 | 56.2 |
| Not Available | | | | | | |
| 2021 | 0.0 | 16.9 | 44 | 27.7 | 6,814 | 21.8 |
| **Totals** | | | | | | |
| **2021** | **100.0** | **100.0** | **159** | **100.0** | **31,289** | **100.0** |
| *Source: 2015 ACS; Bank Data, 2021 HMDA Aggregate Data, "--" data not available.*<br>*Due to rounding, totals may not equal 100.0%* | | | | | | |

***Small Business Loans***

The distribution of loans reflects reasonable penetration of loans to businesses with GARs of $1 million or less. The bank's record of lending to businesses with GARs of $1.0 million or less compares reasonably to the percentage of small businesses.

The majority of small businesses (65.8 percent) in the assessment area are very small, with four or fewer employees. Many of these smaller businesses may be more likely to seek alternative financing, such as credit cards or home equity lines of credit. Therefore, examiners considered the bank's performance reasonable.

The following table reflects the distribution of small business loans by GAR level.

| Distribution of Small Business Loans by Gross Annual Revenue Category | | | | | |
|---|---|---|---|---|---|
| **Gross Revenue Level** | **% of Businesses** | **#** | **%** | **$(000s)** | **%** |
| <=$1,000,000 | | | | | |
| 2022 | 87.6 | 191 | 72.1 | 14,082 | 53.0 |
| >$1,000,000 | | | | | |
| 2022 | 3.4 | 63 | 23.8 | 11,167 | 42.1 |
| Revenue Not Available | | | | | |
| 2022 | 9.0 | 11 | 4.2 | 1,303 | 4.9 |
| **Totals** | | | | | |
| **2022** | **100.0** | **265** | **100.0** | **26,552** | **100.0** |
| *Source: 2022 D&B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%* | | | | | |

While this evaluation does not present an analysis of consumer loans, the bank originated consumer loans that meet the FDIC's small dollar loan guidelines. Specifically, during the evaluation period, the bank originated 134 such loans totaling $188,414. These loans were in amounts of $2,500 or less, had terms of 90 days or more, annual percentage rates of 36 percent or less, and featured low or no fees. The bank also streamlined underwriting, offering credit decisions within 24 hours. These loans further demonstrate the bank's responsiveness to the credit needs of its assessment area, particularly those of low- or moderate-income individuals.

## Response to Complaints

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

## COMMUNITY DEVELOPMENT TEST

FBW demonstrated adequate responsiveness to community development needs in its assessment area, through community development loans, qualified investments and donations, and community development services, as applicable. Examiners considered the bank's capacity and the need and availability of community development opportunities in the assessment area.

### Community Development Loans

The bank originated 35 community development loans totaling approximately $3.0 million during the evaluation period. This represents 0.6 percent of average total assets and 1.0 percent of average total loans during the evaluation period. Of the total number of loans, 71.4 percent had a community development purpose of economic development. The Paycheck Protection Program (PPP) lending drove a significant percentage of economic development loans. The level of community development loans, excluding the PPP loans, stood at 13 loans for approximately $1.8 million.

The following table illustrates community development lending activity by year and purpose.

| Community Development Lending | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Activity Year** | **Affordable Housing** | | **Community Services** | | **Economic Development** | | **Revitalize or Stabilize** | | **Totals** | |
| | **#** | **$(000s)** | **#** | **$(000s)** | **#** | **$(000s)** | **#** | **$(000s)** | **#** | **$(000s)** |
| 2020 (Partial) | 0 | 0 | 3 | 205 | 7 | 578 | 0 | 0 | 10 | 783 |
| 2021 | 0 | 0 | 1 | 20 | 18 | 858 | 0 | 0 | 19 | 878 |
| 2022 | 1 | 672 | 5 | 686 | 0 | 0 | 0 | 0 | 6 | 1,358 |
| YTD 2023 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | 1 | 672 | 9 | 911 | 25 | 1,436 | 0 | 0 | 35 | 3,019 |
| *Source: Bank Data* | | | | | | | | | | |

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

- The bank participated in the SBA's PPP established by the Coronavirus Aid, Relief, and Economic Security Act, or CARES Act. This loan program provided a direct incentive for small businesses to keep their workers on the payroll. The SBA will forgive loans if all employees remain on the payroll for eight weeks and the money is used for payroll, rent, mortgage interest, or utilities. The bank originated 24 PPP loans totaling approximately $1.2 million in low- and moderate-income census tracts during the evaluation period.

- FBW originated a $132,743 loan to repair a handicap school bus that transports primarily low-and moderate-income students to a school located within the assessment area. The majority of students at this school receive free or reduced price lunches.

- FBW originated a $20,000 loan to an organization that provides services and housing for homeless women and children in the assessment area. The purpose of this loan allows the organization to continue its operations.

## Qualified Investments

FBW made 13 investments totaling $3.2 million during the evaluation period. This total includes seven prior period investments with a current book value of $1.1 million, and 35 investments and donations totaling $35,000. By dollar volume, 49.1 percent of the investments helped to revitalize or stabilize the assessment area. Qualified investments represent 0.7 percent of total assets and 3.7 percent of total securities.

The following table illustrates the bank's qualified investments by year and purpose.

| Qualified Investments | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Activity Year** | **Affordable Housing** | | **Community Services** | | **Economic Development** | | **Revitalize or Stabilize** | | **Totals** | |
| | **#** | **$(000s)** | **#** | **$(000s)** | **#** | **$(000s)** | **#** | **$(000s)** | **#** | **$(000s)** |
| Prior Period | 2 | 321 | 0 | 0 | 2 | 208 | 3 | 540 | **7** | **1,069** |
| 2020 (Partial) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** | **0** |
| 2021 | 0 | 0 | 0 | 0 | 0 | 0 | 4 | 1,039 | **4** | **1,039** |
| 2022 | 2 | 1,105 | 0 | 0 | 0 | 0 | 0 | 0 | **2** | **1,105** |
| YTD 2023 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** | **0** |
| **Subtotal** | **4** | **1,426** | **0** | **0** | **2** | **208** | **7** | **1,579** | **13** | **3,213** |
| Qualified Grants & Donations | **2** | **1** | **27** | **29** | **6** | **5** | **0** | **0** | **35** | **35** |
| **Total** | **6** | **1,427** | **27** | **29** | **8** | **213** | **7** | **1,579** | **48** | **3,248** |
| *Source: Bank Data* | | | | | | | | | | |

Below are notable examples of the bank's qualified investments and donations.

- In 2021, FBW invested $300,000 in a municipal bond benefitting Wicomico County. This investment funded public works and projects to revitalize and stabilize a moderate-income area inside the bank's assessment area.
- In 2021, FBW invested $245,000 in a Credit Union with a designation in a low-income area. This Credit Union used this investment to continue its operations and provide financial services to customers in a low-income census tract.
- In 2022, FBW donated $7,410 to a non-profit organization that provides services to low- and moderate-income individuals, primarily those who are experiencing homelessness. This organization provides food, clothing, and showers to individuals in the assessment area.

## Community Development Services

Bank staff provided 97 instances of financial expertise and/or technical assistance during the evaluation period. This level of activity reflects a significant increase since the prior evaluation, at which time the bank engaged in 42 community development services.

The following table illustrates the bank's community development services by year and purpose.

| Community Development Services by Assessment Area | | | | | |
|---|---|---|---|---|---|
| Assessment Area | Affordable Housing | Community Services | Economic Development | Revitalize or Stabilize | Totals |
| | # | # | # | # | # |
| 2020 (Partial) | 0 | 4 | 5 | 0 | **9** |
| 2021 | 0 | 31 | 3 | 1 | **35** |
| 2022 | 1 | 43 | 3 | 1 | **48** |
| YTD 2023 | 1 | 3 | 1 | 0 | **5** |
| **Total** | **2** | **81** | **12** | **2** | **97** |
| *Source: Bank Data* | | | | | |

The following examples highlight the bank's community development services during the evaluation period.

- The bank hosts a "Teach Children to Save Day" in which they collaborate with three local schools to present topics such as financial responsibility and the power of saving to school students. A majority of the students are eligible for free and reduced-price school lunches.

- A Vice President serves on the Board of a Community Development Financial Institution that targets moderate-income neighborhoods in Salisbury, Maryland. The institution's goal is to revitalize these neighborhoods and extend credit to low- and moderate-income residents.

- A Vice President serves on the Loan Committee for an organization that grants credit to new expanding small businesses in a moderate-income area. This member lends his financial expertise to advise on the creditworthiness of applicants.

## 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.

# APPENDICES

# INTERMEDIATE SMALL BANK PERFORMANCE CRITERIA

## Lending Test

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

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

## Community Development Test

The Community Development Test considers the following criteria:

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

# GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

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

**Community Development Loan:** A loan that:

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

**Community Development Service:** A service that:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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