



## COMMUNITY REINVESTMENT ACT POLICY

### **BACKGROUND**

In 1977, the United States Congress enacted the Community Reinvestment Act (CRA) to encourage banks and thrifts to help meet the credit needs of their entire communities, including low and moderate-income neighborhoods, consistent with safe and sound lending practices. In the CRA, Congress included provisions that:

1. Regulated financial institutions are required by law to demonstrate that their deposit facilities serve the convenience and needs of the communities in which they are chartered to do business;
2. The convenience and needs of communities include the need for credit as well as deposit services; and
3. Regulated financial institutions have continuing and affirmative obligations to help meet the credit needs of the local communities in which they are chartered.

### **Small Bank**

Defining our bank as a small bank means that, as of December 31 of either of the prior two years, our bank had total assets of less than \$1.503 billion and was independent or an affiliate of a holding company that, as of December 31 of either of the prior two calendar years, had total banking and thrift assets of less than \$1 billion.

### **Performance Tests and Standards**

The regulatory agencies will assess the CRA performance of our bank in an examination by applying the small bank performance standards in evaluating the performance of our bank, unless our bank elects to be assessed by another method.

### **Performance Context**

The regulatory agencies will apply the tests and standards in the context of:

1. Demographic data on medium income levels, distribution of household income, nature

of housing stock, housing costs, and other relevant data pertaining to a bank's assessment area;

2. Any information about lending, investment and service opportunities in our bank's assessment area maintained by our bank or obtained from community organizations, state and local governments, economic development agencies, or other sources;
3. Our bank's product offerings and business strategy as determined from data provided by our bank;
4. Institutional capacity and constraints, including size and financial condition of our bank, the economic climate, (national, regional and local), safety and soundness limitations, and any other factors that significantly affect our bank's ability to provide lending, investments or services in its assessment area;
5. Our bank's past performance and the performance of similarly situated lenders;
6. Our bank's public file and any written comments about our bank's CRA performance submitted to our bank or the regulatory agencies; and
7. Any other information deemed relevant by the regulatory agencies.

### **Performance Criteria**

The regulatory agencies evaluate the record of our bank of helping to meet the credit needs of its assessment area pursuant to the following criteria:

1. Our 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 our bank's assessment area;
3. Our 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;
4. The geographic distribution of our loans; and
5. Our 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)

## **ASSIGNED RATINGS**

In general, regulatory agencies will assign our bank a rating of "Outstanding," "Satisfactory," "Needs to Improve," or "Substantial Noncompliance" based on our bank's performance under the small bank tests.

The rating assigned by the regulatory agencies reflects our bank's record of helping to meet the credit needs of our entire community, including low and moderate-income neighborhoods, consistent with the safe and sound operation of our bank.

"In assigning a rating, the regulatory agencies will evaluate (our) bank's performance under the applicable performance criteria...which provides for adjustments on the basis of evidence of discriminatory or other illegal credit practices. (In addition, our) bank's performance need not fit each aspect of a particular rating profile in order to receive that rating, and exceptionally strong performance with respect to some aspects may compensate for weak performance in others. (Our) bank's overall performance, however, must be consistent with safe and sound banking practices and generally with the appropriate rating profile."

### **Safe and Sound Operations**

CRA does not require our bank to make loans or investments or to provide services that are inconsistent with safe and sound operations. To the contrary, the regulatory agencies anticipate that banks can meet the standards of the final rule with safe and sound loans, investments and services on which our bank expects to make a profit. Banks are permitted and encouraged to develop and apply flexible underwriting standards that benefit low- or moderate- income geographies or individuals, only if consistent with safe and sound operations.

### **Small Bank Performance Rating**

The regulatory agencies will rate the performance of each bank evaluated under the small bank performance standards as follows.

Eligibility for a Satisfactory Rating. The regulatory agencies will rate our bank's performance "Satisfactory" if, in general, our bank demonstrates:

1. A reasonable loan-to-deposit ratio given our bank's size, financial condition, the credit needs of its assessment area, and taking into account, as appropriate, lending-related activities such as loan originations for sale to the secondary markets and community development loans and qualified investments;
2. A majority of its loans and, as appropriate, other lending-related activities are in its assessment area(s);
3. A distribution of loans to and, as appropriate, other lending related-activities for

individuals of different income levels (including low and moderate-income individuals) and businesses and farms of different sizes that is reasonable given the demographics of our bank's assessment area(s);

4. A record taking appropriate action, as warranted, in response to written complaints, if any about our bank's performance in helping to meet the credit needs of its assessment area(s); and
5. A reasonable geographic distribution of loans, given our bank's assessment area(s).

Eligibility for an Outstanding Rating. A bank that meets each of the standards for a "Satisfactory" rating and that exceeds some or all of those standards may warrant consideration for an overall rating of "Outstanding." In assessing whether a bank's performance is "Outstanding," the regulatory agencies consider the extent to which our bank exceeds each of the performance standards for a "Satisfactory" rating and its performance in making qualified investments and its performance in providing branches and other services and delivery systems that enhance credit availability in its assessment area(s).

#### Needs to Improve or Substantial Non-compliance Ratings

Our bank also may receive a rating of "Needs to Improve" or "Substantial Noncompliance", depending on the degree to which its performance has failed to meet the standards for a "Satisfactory" rating.

### **EFFECT OF CRA PERFORMANCE ON APPLICATIONS**

Among other factors, the regulatory agencies will take into account the record of performance under the CRA of

1. Each applicant bank for the
  - a. Establishment of a domestic branch and
  - b. Merger, consolidation, acquisition of assets, or assumption of liabilities requiring approval under the Bank Merger Act (12 USC 1828(c)) if the acquiring, assuming, or resulting bank is to be a bank and
2. Each insured depository institution (as defined in 12 USC 1813) controlled by an applicant and subsidiary bank or savings association proposed to be controlled by an applicant
  - a. To become a bank holding company in a transaction that requires approval under section 3 of the Bank Holding Company Act (12

USC 1842);

- b. To acquire ownership or control of shares or all or substantially all of the assets of a bank, to cause our bank to become a subsidiary of our bank holding company, or to merge or consolidate our bank holding company with any other bank holding company in a transaction that requires approval under section 3 of the Bank Holding Company Act (12 USC 1842); and
- c. To own, control, or operate a savings association in a transaction that requires approval under section 4 of the Bank Holding Company Act (12 USC 1843).

### **Interest Parties**

In considering CRA performance in an application, the regulatory agencies take into account any views expressed by interested parties that are submitted in accordance with the regulatory agencies' Rules of Procedure.

### **Denial or Conditional Approval of Application**

Our bank's record of performance may be the basis for denying or conditioning approval of an application

### **ASSESSMENT AREA DELINEATION**

In general, our bank must delineate one or more assessment areas within which the regulatory agencies evaluate our bank's record of helping to meet the credit needs of its community. The regulatory agencies will not evaluate our bank's delineation of its assessment area(s) as a separate performance criterion, but the regulatory agencies will review the delineation for compliance with the requirements of this section.

### **Geographic Area(s) for Banks**

The assessment area(s) for our bank must

1. Consist generally of one or more contiguous political subdivisions, such as counties, cities, or towns and
2. Include the geographies in which our bank has its main office, its branches, as well as the surrounding geographies in which our bank has originated or purchased a substantial portion of its loans (including home mortgage loans, small business and small farm loans, and any other loans our bank chooses, such as those consumer loans on which our bank elects to have its performance assessed).

### **Adjustments to Geographic Area(s)**

Our bank may adjust the boundaries of its assessment area(s) to include only the portion of a political subdivision that it reasonably can be expected to serve. An adjustment is particularly appropriate in the case of an assessment area that otherwise would be extremely large, of unusual configuration, or divided by significant geographic barriers.

### **Limitations on the Delineation of an Assessment Area**

Our bank's assessment area(s)

1. Must consist only of whole geographies;
2. May not reflect illegal discrimination;
3. May not arbitrarily exclude low or moderate-income geographies, taking into account our bank's size and financial condition; and
4. May not extend substantially beyond a state boundary. If our bank serves a geographic area that extends substantially beyond a state boundary, our bank must delineate separate assessment areas for the areas in each state.

### **Use of Assessment Area(s)**

The regulatory agencies use the assessment area(s) delineated by our bank in their evaluation of our bank's CRA performance unless the regulatory agencies determine that the assessment area(s) does (do) not comply with the requirements of this section.

## **CONTENT AND AVAILABILITY OF PUBLIC FILE**

### **Information Available to the Public**

Our bank must maintain a public file that includes:

1. All written comments received from the public for the current year and each of the prior two calendar years that specifically relate to our bank's performance in helping to meet community credit needs and any response to the comments by our bank, if neither the comments nor the responses contain statements that reflect adversely on the good name or reputation of any persons other than our bank or publication of which would violate specific provisions of law;

2. A copy of the public section of our bank's most recent CRA performance evaluation prepared by the regulatory agencies. Our bank must place this copy in the public file within 30 business days after its receipt from the regulatory agencies;
3. A list of our bank's branches, their street addresses, and geographies;
4. A list of branches opened or closed by our bank during the current year and each of the prior two calendar years, their street addresses, and geographies;
5. A list of services (including hours of operation, available loan and deposit products, and transaction fees) generally offered at our bank's branches and descriptions of material differences in the availability or cost of services at particular branches, if any. At its option, our bank may include information regarding the availability of alternative systems for delivering retail banking services (e.g., ATMs, ATMS not owned or operated by or exclusively for our bank, banking by telephone or computer, loan production offices, and bank-at-work or bank-by-mail programs);
6. A map of each assessment area showing the boundaries of the area and identifying the geographies contained within the area, either on the map or in a separate list; and
7. Any other information our bank chooses.

#### **Additional Information Available to the Public**

Our small bank (or our bank that was a small bank during the prior calendar year) must include in its public file

1. Our bank's loan-to-deposit ratio for each quarter of the prior calendar year and, at its option, additional data on its loan-to-deposit ratio and
2. The information required for other banks, if our bank has elected to be evaluated under the lending, investment, and service tests.

**Banks with Less than Satisfactory Ratings.** If our bank received a less than satisfactory rating during its most recent examination, then it must include in its public file a description of its current efforts to improve its performance in helping to meet the credit needs of its entire community. Our bank must update the description quarterly.

#### **Location of Public Information**

Our bank must make available to the public for inspection upon request and at no cost the

information required in this section as follows:

1. At the main office and, in an interstate bank, at one branch office in each state, all information in the public file and
2. At each branch
  - a. A copy of the public section of our bank's most recent CRA performance evaluation and a list of services provided by the branch and
  - b. Within five calendar days of the request, all the information in the public file relating to the assessment area in which the branch is located

### **Copies**

Upon request, our bank must provide copies, either on paper or in another form acceptable to the person making the request, of the information in its public file. Our bank may charge a reasonable fee not to exceed the cost of copying and mailing (if applicable).

### **Updating**

Except as otherwise provided in this section, our bank must ensure that the information required by this section is current as of April 1 of each year.

### **Public Notice by Banks**

Our bank must provide in the public lobby of its main office and each of its branches, the appropriate public notice.

## ***BRANCH POLICY***

### ***STATEMENT OF NEED AND DEFINITION***

The board of directors of The Frederick Community Bank (the “bank”) has determined that a branch policy be established to ensure that certain considerations are taken into account during the consolidation or closing of branches. Such considerations include the effect on the community, profitability, overall strategic plan, and requirements under various regulations.

### ***THE PURPOSE***

The purpose of this policy is to establish the focus of the bank’s branch consolidation/closing program and to include specific reviews in the process.



## **GENERAL OBJECTIVES OF THIS BRANCHING POLICY**

The general objective is to provide a systematic analysis for branching consolidation/closing. The reasons are to be consistent with the strategic plan of the organization. It may be due to such reasons as merger, marketing redirection, or profitability. Reasons will be determined and then communicated through the organization to the appropriate regulatory agencies and to the public.

## **SPECIFIC GOALS**

The specific goals are to:

- a. Properly document the rational bases for branch decisions made.
- b. Consider the effects on the community when consolidating, closing, and /or opening any service facilities (e.g., branches, drive-ins).
- c. Provide an objective assessment of profitability and feasibility of each branch under study.
- d. Provide notification to the appropriate federal banking agency and to present and potential customers.
- e. Effectively communicate the bank's concern for the community prior to and when closing a branch.

This policy does not apply to:

- ATM's
- The relocation of a branch or consolidation of one or more branches into another branch, if the relocation or consolidation occurs within the immediate neighborhood and does not substantially affect the nature of the business or customers served
- A branch that is closed in connection with certain emergency acquisitions or any assistance provided by the FDIC as specified in the FDI Act.

## **AUTHORITY**

This policy establishes the authority of an implementation team that will be composed of members of the compliance committee. It will be their responsibility to document the considerations that are used in deciding upon the course of action taken. The team will report to the CEO and the board of directors.

## **IMPACT ON THE COMMUNITY**

The Frederick Community Bank will assess and consider the impact of any reduction or closing of branch facilities on the communities in which those facilities are located. The factors considered will include the bank's ability to provide continuity of service through other offices, physical proximity of other offices, and presence of other financial institutions in the community.

Prior to closing a branch, we will make every good faith effort to improve profitability. Activities may include adjustment of open hours, changes in facilities and services, possible installation of ATM's, and changes in personnel.

## **OBJECTIVE CRITERIA FOR BRANCH DECISION MAKING**

The Frederick Community Bank, in evaluating branch closings/consolidations, will consider objective criteria and will avoid any subjective impressions based on undocumented neighborhood factors. These may include, but are not limited to:

- An analysis of the needs of the community with regard to the types of products and services
- Comprehensive analysis of the projected or actual profitability of the branch.

- Analysis of branch use and traffic to determine sufficiency of demand for continuation of current services
- Review and analysis of competition.
- Consideration of overlapping service support through other offices.
- Costs of continuing operations.

In all of its branch decisions, the bank is firmly committed to making decisions regardless of race, color, religion, national origin, sex or disability. Its branching will not be based on any factor relating to the racial composition of neighborhoods. Nor will its branching be void of any analysis of the needs of qualified individuals with disabilities throughout the neighborhood.

All of the bank's decisions for closing a branch or reducing service levels will be put in writing. As part of the written documentation, the bank details will include actions taken to make the branch more viable.

#### ***AFTER THE DECISION TO CLOSE***

The bank will include actions designed to lessen any adverse impact on the subject branch's community, including measures to help that community to continue to meet its credit needs, especially in low- to moderate-income areas. The bank will make every effort to ensure that the affected communities have credit available to them.

## ***CUSTOMER NOTIFICATIONS***

### **Posted notice**

The bank management will also ensure that all customers receive proper notice prior to changes in service. A conspicuous notice will be provided in branch lobby areas at least 30 calendar days before the closing date. The posted notice will include:

- Proposed closing date.
- Alternative sites that may be used of banking services or a telephone number that present and potential customers may use to inquire about alternative site(s).

### **Written Notice**

Bank customers will receive written notice at least 90 days before an office is scheduled to close. Notification can be included with the regular account statements or provided through a separate mailing. The customer notification should include:

- Location of the branch office to be closed.
- Proposed closing date.
- Alternative sites that may be used for banking services or a telephone number that customers may use to inquire about available alternative sites.

Additional notice requirements exist for interstate banks if the branch to be closed is located in a low or moderate income area.

## ***REGULATORY AGENCY NOTIFICATION***

In cases of branch closing, the appropriate federal banking agency will receive notice at least 90 days in advance. The notice shall include:

- Proposed date of closing
- Identification of the branch to be closed.
- Detailed statement of reasons for closing the branch office.
- Statistical and other relevant information to support the branch closing decision.