

# **PUBLIC DISCLOSURE**

May 1, 2023

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Burke & Herbert Bank & Trust Company  
Certificate Number: 11578

100 South Fairfax Street  
Alexandria, Virginia 22314

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

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Atlanta, Georgia 30309-3849

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.

PERFORMANCE LEVELS	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory			X
Low Satisfactory	X	X	
Needs to Improve			
Substantial Noncompliance			
* The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.			

**The Lending Test is rated Low Satisfactory.**

- Lending levels reflect adequate responsiveness to the assessment area credit needs.
- A high percentage of loans are made in the assessment area.
- The geographic distribution of loans reflects adequate penetration throughout the assessment area.
- The distribution of loans reflects adequate penetration among businesses of different sizes and individuals of different income levels.
- The institution uses flexible lending practices in order to serve assessment area credit needs.
- The institution made an adequate level of community development loans.

**The Investment Test is rated Low Satisfactory.**

- The institution has an adequate level of qualified investments and grants, rarely in a leadership position, and occasionally provided by private investors.
- The institution exhibits adequate responsiveness to the credit and community development needs.
- The institution uses complex investments to support community development initiatives.

**The Service Test is rated High Satisfactory.**

- Delivery systems are accessible to essentially all portions of the institution's assessment area.
- To the extent changes have been made, the institution's opening and closing of branches has not adversely affected the accessibility of its delivery systems, particularly in low-and moderate-income geographies and/or to low- and moderate-income individuals.
- Services and business hours do not vary in a way that inconveniences certain portions of the assessment area, particularly low- and moderate-income geographies and/or individuals.
- The institution provided a relatively high level of community development services.

## DESCRIPTION OF INSTITUTION

Burke & Herbert Bank & Trust Company (Burke & Herbert Bank), headquartered in Alexandria, Virginia, is a wholly owned subsidiary of Burke & Herbert Financial Services Corp., a one-bank holding company also headquartered in Alexandria, Virginia. The holding company was formed on October 1, 2022. Burke & Herbert Bank does not have any affiliates or subsidiaries; and has not been subject to any mergers or acquisitions since the last evaluation. The bank received a “Satisfactory” rating at the previous FDIC CRA Performance Evaluation, dated April 27, 2020, based on the Interagency Large Bank Examination Procedures.

Burke & Herbert Bank operates 23 full-service branches in Virginia located within the Washington-Arlington-Alexandria, DC-VA-MD-WV Metropolitan Division (Washington MD). Since the last evaluation, the bank opened one branch, closed three branches, and relocated one branch. In addition, Burke & Herbert Bank has five loan production offices in Alexandria, Virginia; Fredericksburg, Virginia; Richmond, Virginia; Loudoun, Virginia; and Bethesda, Maryland. Details of branching operations are discussed further under the Service Test.

Burke & Herbert Bank offers a full range of consumer and commercial credit and deposit products. Consumer lending products include home mortgage loans, home equity lines of credit, and consumer purpose loans. The bank also originates home mortgage loans that are sold on the secondary market, with 289 mortgage loans totaling \$91.8 million sold during the evaluation period. Commercial lending products include lines of credit, commercial mortgages, construction loans, credit cards, and Small Business Administration (SBA) 504 loans. The bank also participated in the SBA Paycheck Protection Program (PPP). The SBA guaranteed these loans under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The loans served to retain jobs that would otherwise be lost due to business closures resulting from the COVID-19 national emergency. Burke & Herbert Bank originated 878 PPP loans totaling \$79.7 million in 2020 and 661 PPP loans totaling \$67.3 million in 2021.

The institution provides a variety of deposit services including checking, savings, money market deposit accounts, and certificates of deposit. Alternative banking services include internet and mobile banking, electronic bill payment, and Automated Teller Machines (ATMs). Additional information on products and services is provided in the *Reasonableness of Business Hours and Services* section under the Service Test.

As of the December 31, 2022, assets totaled \$3.6 billion, loans totaled \$1.9 billion, and deposits totaled \$2.9 billion. Assets, loans, and deposits have increased by 24.3 percent, 0.1 percent, and 22.0 percent, respectively since the last evaluation. The following table reflects that Burke & Herbert Bank is primarily a business lender, as commercial purpose loans comprise 60.3 percent of the loan portfolio, while residential loans only comprise 26.5 percent. This distribution is similar to the loan portfolio noted at the last evaluation. Burke & Herbert Bank’s loan portfolio is reflected in the following table.

<b>Loan Portfolio Distribution as of 12/31/2022</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	94,450	5.0
Secured by Farmland	746	0.0
Secured by 1-4 Family Residential Properties	499,362	26.5
Secured by Multi-family (5 or more) Residential Properties	150,345	8.0
Secured by Non-farm Non-Residential Properties	1,086,084	57.5
<b>Total Real Estate Loans</b>	<b>1,830,987</b>	<b>97.0</b>
Commercial and Industrial Loans	52,370	2.8
Agricultural Production and Other Loans to Farmers	0	0.0
Consumer Loans	2,294	0.1
Obligations of State and Political Subdivisions in the U.S.	0	0.0
Other Loans	1,570	0.1
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
<b>Total Loans</b>	<b>1,887,221</b>	<b>100.0</b>
<i>Source: Report of Condition and Income (Call Report)</i>		

Examiners did not identify any financial, legal, or other impediments that affect Burke & Herbert Bank's ability to meet the credit needs of its assessment area.

## **DESCRIPTION OF ASSESSMENT AREA**

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. The bank's assessment area has changed since the previous evaluation. Burke & Herbert Bank previously defined its assessment area as the counties of Arlington, Fairfax, and Prince William; and the independent cities of Alexandria, Fairfax, Falls Church, Manassas, and Manassas Park located in the Washington MD. In March 2021, Burke & Herbert Bank added Spotsylvania County, Stafford County, and Fredericksburg City in their entirety to the assessment area.

### **Economic and Demographic Data**

According to the 2015 American Community Survey (ACS), the assessment area includes 19 low-, 81 moderate-, 196 middle-, and 214 upper-income census tracts. There are also 8 census tracts with no income designation. The 2015 ACS data is used to analyze lending performance for 2020 and 2021. The 2020 U.S. Census data is used to analyze the lending performance for 2022. The U.S. 2020 Census resulted in an increase in the number of census tracts from 518 to 577. The income level of the census tracts also changed with an increase of 9 low-income tracts, 18 moderate-income tracts, 21 middle-income tracts, and 4 upper-income tracts. Tracts with no income designation increased from 8 to 15. While the census tract number and income levels changed, the overall percentage of owner-occupied housing units, population, and businesses within each tract income level was not significantly impacted.

The following table provides select demographic data from the 2015 ACS, unless otherwise noted, given the 2021 lending performance in presented under the Lending Test below.

<b>Demographic Information for the Assessment Area</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	518	3.7	15.6	37.8	41.3	1.5
Population by Geography	2,324,562	4.3	17.9	37.9	39.8	0.2
Housing Units by Geography	872,059	4.4	17.8	38.1	39.7	0.0
Owner-Occupied Units by Geography	525,110	1.4	13.4	37.6	47.6	0.0
Occupied Rental Units by Geography	296,456	9.4	24.9	39.3	26.4	0.0
Vacant Units by Geography	50,493	6.6	21.6	36.5	35.2	0.1
Businesses by Geography	307,464	2.6	14.1	38.3	44.8	0.1
Farms by Geography	4,419	2.0	17.6	40.4	39.9	0.1
Family Distribution by Income Level	560,486	18.8	15.6	19.9	45.7	0.0
Household Distribution by Income Level	821,566	18.6	15.4	19.0	47.0	0.0
Median Family Income - Washington-Arlington-Alexandria, DC-VA-MD-WV Multi-state MSA	\$106,105	Median Housing Value				\$442,933
		Median Gross Rent				\$1,688
		Families Below Poverty Level				4.7%
<i>Source: 2015 ACS and 2021 D&amp;B Data.</i>						
<i>Due to rounding, totals may not equal 100.0 percent.</i>						
<i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units and compares small business loans to the percentage of businesses located in low-, moderate-, middle-, and upper-income tracts. The 2015 ACS data shows the vast majority of owner-occupied housing units and businesses are within the middle- and upper-income tracts, indicating most of the lending opportunities are in these geographies. The moderate-income tracts contain a fair level of owner-occupied housing units and businesses, with significantly less located in the low-income tracts.

The analysis of small business loans under the Borrower Profile criterion compares the distribution of small business lending by gross annual revenues. The 2021 D&B distribution of businesses based on gross annual revenue is listed below.

- 89.9 percent have \$1.0 million or less;
- 3.6 percent have more than \$1.0 million; and,
- 6.5 percent have unknown revenues.

Examiners used the FFIEC’s updated median family income (MFI) figures to analyze the bank’s home mortgage lending under the Borrower Profile criterion. The following table reflects the low-,

moderate-, middle-, and upper-income MFI categories for the Washington-Arlington-Alexandria, DC-VA-MD-WV MMSA for 2020, 2021 and 2022.

<b>Median Family Income Ranges</b>				
<b>Median Family Incomes</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
2020 (\$118,700)	<\$59,350	\$59,350 to <\$94,960	\$94,960 to <\$142,440	≥\$142,440
2021 (\$122,100)	<\$61,050	\$61,050 to <\$97,680	\$97,680 to <\$146,520	≥\$146,520
2022 (\$139,700)	<\$69,850	\$69,850 to <\$111,760	\$111,760 to <\$167,640	≥\$167,640
<i>Source: FFIEC</i>				

The median housing value is high at nearly \$443,000 according to the 2015 ACS and over \$502,000 noted in the 2020 U.S. Census. Given the high median housing values, a low- or moderate-income family would likely have difficulty qualifying for a conventional home mortgage loan given the MFIs provides above. Therefore, lending opportunities to low- and moderate-income families may be limited.

As shown in the following table, the unemployment rates for the assessment area declined from 2020 to 2022. The unemployment rates in 2020, 2021, and 2022 for all counties and independent cities in the assessment area, with the exception of Fredericksburg City, were at or below the state rates and were below national rates. The unemployment rates for Fredericksburg City were above the state rate but below the national rate for all three years.

<b>Unemployment Rates</b>			
<b>Area</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Arlington County	4.4	3.0	2.1
Fairfax County	5.8	3.5	2.5
Prince William County	6.5	4.0	2.7
Spotsylvania County	5.9	3.8	2.9
Stafford County	5.6	3.6	2.8
Alexandria City	6.0	3.8	2.4
Fairfax City	5.8	3.4	2.4
Falls Church City	3.8	2.6	2.1
Fredericksburg City	7.1	4.7	3.4
Manassas City	6.5	3.9	2.7
Manassas Park City	6.6	3.8	2.6
Virginia	6.5	3.9	2.9
National Averages	8.1	5.3	3.6
<i>Source: U.S. Bureau of Labor and Statistics</i>			

According to D&B, the assessment area’s largest industries include services at 41.0 percent; non-classifiable establishments at 27.3 percent; and finance, insurance, and real estate at 9.0 percent. According to Moody’s *Economy.com, Inc., Précis Metro* (Moody’s) dated December 2022, major



employers include Naval Support Activity Washington (23,511 employees), Joint Base Andrews-Naval Air Facility (17,500 employees), MedStar Health (17,419 employees), and Marriott International Inc. (16,773 employees).

As of December 2022, Moody's noted that the MSA is the home to many federal agencies ensuring a steady source of mid- to high-wage federal government jobs. Additionally, a new Amazon Corporate Headquarters in Crystal City is scheduled to complete its first construction phase in 2023. Recent moves by Boeing and Raytheon resulted in the area being the home to four of the top five U.S. aerospace and defense companies. However, the housing market continues to slow with an above-average percentage of remote jobs. In 2022, vacancy rates remained well above pre-pandemic level and continued to rise through the second half of the year as rent per square foot declined. Overall, strong technology growth has enabled the area to emerge as an East Coast technology hub.

### **Competition**

There is a high level of competition for deposits in the assessment area. According to the FDIC Deposit Market Share Report, as of June 30, 2022, 50 FDIC-insured institutions operate 512 offices within the assessment area. The top four institutions by deposit market share are Capital One, National Association (N.A.); Truist Bank; Wells Fargo Bank, N.A.; and Bank of America, N.A. Collectively, these four banks accounted for 70.5 percent of the deposit market share. Burke & Herbert Bank ranked eighth in total deposits with a market share of 2.4 percent.

There is a high level of competition for home mortgage loans in the assessment area. Aggregate data for 2022 is not yet available. However, to provide context, aggregate data for 2021 reflects 716 lenders reported 188,226 originated or purchased home mortgage loans. The five most prominent home mortgage lenders are Rocket Mortgage; Truist Bank; PennyMac Loan Services; Wells Fargo Bank, N.A.; and Freedom Mortgage, collectively accounting for 22.3 percent of total market share by number of loans. Burke & Herbert Bank ranked 118<sup>th</sup> with a market share of 0.1 percent.

In addition, there is a high level of competition for small business loans in the assessment area. Again, aggregate data for 2022 is not yet available. However, to provide context, aggregate data for 2021 reflects 231 lenders reported 76,115 small business loans. The five most prominent small business lenders are American Express National Bank; Bank of America, N.A.; JPMorgan Chase Bank, N.A.; Wells Fargo Bank, N.A.; and Truist Bank, collectively accounting for 59.9 percent of total market share by number of loans. Burke & Herbert Bank ranked 17<sup>th</sup> with a market share of 0.9 percent.

### **Community Contacts**

As part of the evaluation process, examiners contact third parties active in the assessment area to help identify the credit and community development needs of the assessment area and whether local financial institutions are responsive to those opportunities.

Examiners contacted a representative from an economic development organization in Prince William County. The contact stated there are several community development needs. First, there is a continued demand for small business counseling services. Second, the contact noted that small business loans continue to be in demand. Lastly, there is a shortage of affordable housing units.

Examiners also contacted a representative from an economic development organization in Stafford County. The contact indicated there are several needs within the community. The needs include capital investments to build out local downtowns that emphasize a gathering place where small businesses may thrive and improved traffic infrastructure for commuters. Additionally, the contact provided there are not enough local banks to meet the small business loan demand, and the building of affordable housing has significantly slowed and the contact projected that a shortage in affordable housing will emerge over time.

### **Credit and Community Development Needs and Opportunities**

Based on demographic information, economic data, and community contact information, examiners identified certain credit and community development needs and opportunities within the assessment area. Based on 2020 U.S. Census data, the elevated median age of housing stock in low- and moderate-income census tracts at 46 and 39 years, respectively, indicates a need for home improvement loans. The moderately high level of low- and moderate-income families at 19.5 and 16.1 percent respectively along with information from a community contact and the high median housing values indicates a continued need for affordable housing. Further, small business loans are needed, which is supported 91.2 percent of businesses having gross annual revenues of \$1.0 million or less and the information from the community contacts.

## **SCOPE OF EVALUATION**

### **General Information**

This evaluation covers the period from the previous evaluation dated April 27, 2020, to the current evaluation dated May 1, 2023. Examiners used the Interagency Large Institution Examination Procedures to evaluate the institution. These procedures include three tests: Lending, Investment, and Service. The evaluation includes a full-scope review of Burke & Herbert Bank's only assessment area.

### **Activities Reviewed**

This evaluation includes a review of all home mortgage and small business loans reported pursuant to the HMDA and CRA reporting requirements for 2020, 2021, and 2022. These products were chosen based on the bank's business strategy and the number and dollar volume of loans originated during the evaluation period. In 2020, 2021, and 2022, Burke & Herbert Bank reported 273, 247, and 213 home mortgage loans totaling \$106.7 million, \$137.4 million, and \$207.1 million, respectively. In 2020, 2021, and 2022, Burke & Herbert Bank reported 1,172, 778, and 205 small business loans totaling \$127.6 million, \$94.5 million, and \$54.9 million, respectively. The small

business lending increased significantly in 2020 and 2021 due to the bank's participation in the PPP.

The bank's record of originating small business loans contributed more weight to the overall conclusions due to the higher loan volume when compared to home mortgage loans during the evaluation period. In addition, no other loan types, such as small farm or consumer loans, represented a major product line. From 2020 through 2022, Burke & Herbert Bank originated only three small farm loans totaling \$93,000. Therefore, these loan types provided no material support for the conclusions or ratings in this evaluation. Bank records indicate that the core lending focus remained consistent throughout the evaluation period; however, overall small business lending increased significantly in 2020 and 2021 due to participation in the PPP.

Examiners compared the bank's home mortgage and small business lending performance for 2020 and 2021 to the demographic data based on the 2015 ACS Census and the 2022 lending performance compared to the 2020 U.S. Census data. Burke & Herbert Bank's small business lending performance was reviewed against the annual D&B data for comparison purposes. The bank's performance was also compared to the respective 2020 and 2021 aggregate data. Aggregate data for 2022 is not available.

The home mortgage and small business lending performance tables present 2021 lending data for the assessment area, as this is the most recent year for which aggregate data is available for comparison purposes. The written analysis for the home mortgage and small business lending focuses on the 2021 lending performance; however, examiners reviewed the 2020 and 2022 lending performance and discussed any significant performance variances under the Geographic Distribution and Borrower Profile performance factors. These performance factors focus only on loans originated within the assessment area.

This evaluation considered the community development loans and innovative and/or flexible lending products originated by Burke & Herbert Bank from April 27, 2020, to May 1, 2023. In addition, the evaluation includes qualified investments identified by management that were either purchased prior to but still outstanding as of this evaluation date, or purchased during the evaluation period. Finally, the evaluation includes all community development services identified by management that were provided during the evaluation period.

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

### **LENDING TEST**

The Lending Test is rated Low Satisfactory. Lending levels reflect adequate responsiveness to assessment area credit needs, and a high percentage of loans were originated in the assessment area. The geographic distribution reflects adequate penetration throughout the assessment area, and the distribution of loans reflects adequate penetration among borrowers of different incomes and to businesses of different sizes. In addition, the bank uses innovative and/or flexible lending practices and made an adequate level of community development loans.

## Lending Activity

Lending levels reflect adequate responsiveness given the bank's asset size, financial condition, and assessment area credit needs.

Burke & Herbert Bank's average net loan-to-deposit ratio, calculated from Call Report data, averaged 62.3 percent over the past 11 quarters from June 30, 2020, to December 31, 2022. Since the previous evaluation, the ratio fluctuated from a high of 72.0 percent as of June 30, 2020, to a low of 57.2 percent as of September 30, 2021. In the fourth quarter of 2020, due to the effects of the COVID-19 pandemic, net loans declined by seven percent. The net loan-to-deposit ratio declined for five consecutive quarters starting in September 30, 2020, and continuing through September 30, 2021, and then stabilized for the remainder of the period. Additionally, the bank originates home mortgage loans that are sold on the secondary market; thus, such are not included in the average net loan-to-deposit ratio. During the evaluation period, Burke & Herbert Bank originated and sold an additional 289 home mortgage loans totaling \$91.8 million.

In addition, the bank's net loan-to-deposit ratio was compared to similarly situated institutions. Examiners selected the following similarly situated banks based on asset size, overlapping geographic locations, and lending focus. Burke & Herbert Bank had a lower average net loan-to-deposit ratio than similarly situated banks during the same period; however, the banks average net loan-to-deposit ratio is considered adequate. Detailed below is additional information on similarly situated institutions.

<b>Loan-to-Deposit Ratio Comparison</b>		
<b>Bank</b>	<b>Total Assets as of 12/31/2022 \$(000s)</b>	<b>Average Net LTD Ratio (%)</b>
<b>Burke &amp; Herbert Bank &amp; Trust, Alexandria, VA</b>	<b>3,563,307</b>	<b>62.3</b>
The Freed Bank of Virginia, Fairfax, VA	985,123	93.3
MainStreet Bank, Fairfax, VA	1,924,469	91.7

*Source: Call Reports 6/30/2020 – 12/31/2022*

## Assessment Area Concentration

Burke & Herbert Bank originated a high percentage of its home mortgage and small business loans by number and by dollar amount within the assessment area. The following table illustrates lending inside and outside the assessment area.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2020	229	83.9	44	16.1	273	89,929	84.3	16,789	15.7	106,718
2021	198	80.2	49	19.8	247	86,454	62.9	50,913	37.1	137,367
2022	149	70.0	64	30.0	213	140,487	67.8	66,598	32.2	207,085
<b>Subtotal</b>	<b>576</b>	<b>78.6</b>	<b>157</b>	<b>21.4</b>	<b>733</b>	<b>316,870</b>	<b>70.2</b>	<b>134,300</b>	<b>29.8</b>	<b>451,170</b>
Small Business										
2020	1,033	88.1	139	11.9	1,172	108,021	84.7	19,571	15.3	127,592
2021	670	86.1	108	13.9	778	80,507	85.2	14,014	14.8	94,521
2022	164	80.4	40	19.6	204	43,561	79.4	11,320	20.6	54,881
<b>Subtotal</b>	<b>1,867</b>	<b>86.7</b>	<b>287</b>	<b>13.3</b>	<b>2,154</b>	<b>232,089</b>	<b>83.8</b>	<b>44,905</b>	<b>16.2</b>	<b>276,994</b>
<b>Totals</b>	<b>2,443</b>	<b>84.6</b>	<b>444</b>	<b>15.4</b>	<b>2,887</b>	<b>548,959</b>	<b>75.4</b>	<b>179,205</b>	<b>24.6</b>	<b>728,164</b>

Source: 2020, 2021, 2022 HMDA and CRA Reported Data.

### Geographic Distribution

The geographic distribution of loans reflects adequate penetration throughout the assessment area.

### *Small Business Loans*

The geographic distribution of small business loans reflects adequate penetration throughout the assessment area. Lending performance in both low- and moderate-income census tracts was below demographic and aggregate data.

Geographic Distribution of Small Business Loans						
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
Low	2.6	2.5	11	1.6	822	1.0
Moderate	14.1	14.4	83	12.4	9,239	11.5
Middle	38.3	39.5	226	33.7	28,543	35.5
Upper	44.8	43.4	349	52.1	41,539	51.6
Not Available	0.1	0.2	1	0.2	364	0.4
<b>Totals</b>	<b>100.0</b>	<b>100.0</b>	<b>670</b>	<b>100.0</b>	<b>80,507</b>	<b>100.0</b>

Source: 2021 D&B Data; 2021 CRA Data; and, 2021 CRA Aggregate Data.  
Due to rounding, totals may not add to 100 percent.

## ***Home Mortgage Loans***

The geographic distribution of home mortgage loans reflects adequate dispersion throughout the assessment area. Lending performance in low-income census tracts was comparable to the demographic and aggregate data. Lending performance to moderate-income census tracts was slightly lower than the demographic and aggregate data.

<b>Geographic Distribution of Home Mortgage Loans</b>						
<b>Tract Income Level</b>	<b>% of Owner-Occupied Housing Units</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low	1.4	1.5	4	2.0	1,231	1.4
Moderate	13.4	13.2	21	10.6	5,604	6.5
Middle	37.6	39.2	58	29.3	22,007	25.5
Upper	47.6	46.1	115	58.1	57,612	66.6
<b>Totals</b>	<b>100.0</b>	<b>100.0</b>	<b>198</b>	<b>100.0</b>	<b>86,454</b>	<b>100.0</b>

*Source: 2015 ACS; 2021 HMDA Data; and, 2021 HMDA Aggregate Data.*

## **Borrower Profile**

The distribution of loans reflects, given the demographics of the assessment area, adequate penetration to businesses of different sizes and individuals of different income levels.

### ***Small Business Loans***

The distribution of small business loans reflects adequate penetration among businesses of different sizes. While 11.0 percent of loans in 2021 were to small businesses, performance was significantly stronger in 2022 with 56.7 percent of small business loans originated to small businesses, which remained significantly below demographics but is considered adequate.

As the table indicates, there is a significant volume of loans with no revenue data available, which impacts the analysis of small business loans by gross annual revenue. As a result, an analysis of the loans without revenue available by size of the loan was conducted. The analysis determined that 65.4 percent of loans without revenue had origination amounts of \$100,000 or less, indicating assistance to small businesses. The average loan amount for loans with revenue not available was \$93,081.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>						
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<=\$1,000,000	89.9	49.2	74	11.0	15,420	19.1
>\$1,000,000	3.6	--	53	7.9	14,544	18.1
Revenue Not Available	6.5	--	543	81.1	50,543	62.8
<b>Totals</b>	<b>100.0</b>	<b>100.0</b>	<b>670</b>	<b>100.0</b>	<b>80,507</b>	<b>100.0</b>
<i>Source: 2021 D&amp;B Data; 2021 CRA Data; and, 2021 CRA Aggregate Data. "--" data not available.</i>						

The following table reflects the distribution of small business loans without revenue available by loan size.

<b>Distribution of Small Business Loans without Revenue Available by Loan Size</b>				
<b>Loan Size</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
< \$100,000	355	65.4	11,120	22.0
\$100,000 - \$249,999	99	18.2	14,078	27.9
\$250,000 - \$1,000,000	89	16.4	25,345	50.1
<b>Totals</b>	<b>543</b>	<b>100.0</b>	<b>50,543</b>	<b>100.0</b>
<i>Source: Bank Records</i>				

### ***Home Mortgage Loans***

The distribution of home mortgage loans reflects good distribution among borrowers of different income levels.

In 2021, lending performance to low-income borrowers was lower than demographic data but more than double the aggregate data. However, in 2020, lending performance was lower at 5.4 percent but remained comparable to aggregate lending of 5.5 percent. Lending to moderate-income borrowers in 2021 was well above demographics and aggregate lending, and in 2020, performance at 20.9 percent exceeded demographics of 15.6 percent and aggregate data at 14.1 percent. In 2022, lending, lending to moderate-income borrowers contracted to 12.1 percent, which was below demographic data of 16.1 percent.

<b>Distribution of Home Mortgage Loans by Borrower Income Level</b>						
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low	18.8	6.3	26	13.1	5,473	6.3
Moderate	15.6	15.7	48	24.3	14,606	16.9
Middle	19.9	20.1	41	20.7	15,159	17.5
Upper	45.7	34.4	78	39.4	48,774	56.4
Not Available	0.0	23.5	5	2.5	2,443	2.9
<b>Totals</b>	<b>100.0</b>	<b>100.0</b>	<b>198</b>	<b>100.0</b>	<b>86,454</b>	<b>100.0</b>

*Source: 2015 ACS; 2021 HMDA Data; and, 2021 HMDA Aggregate Data*

### **Innovative or Flexible Lending Practices**

The institution uses flexible lending practices in order to serve the assessment area's credit needs; however, the programs are not considered innovative. Loans originated under these programs totaled 1,560 for \$153.3 million and consist primarily of loans originated under the PPP.

The bank is an SBA lender and participates in the SBA 504 Program. The SBA 504 Program is an avenue for business financing, while promoting business growth and job creation. The program provides small businesses with financing to acquire fixed assets for expansion or modernization. During the review period, the bank originated one SBA 504 loan totaling \$246,000.

In response to small businesses adversely affected by COVID-19, the bank participated in the PPP that was created under the CARES Act. This program was designed to provide assistance to small businesses to help retain and/or improve jobs. Since the last evaluation, the bank originated 1,539 PPP loans totaling \$147.1 million to small businesses.

For home mortgage borrowers, Burke & Herbert Bank offers a flexible home mortgage product that targets low- and moderate-income borrowers and areas. This program provides discounted fixed-rate mortgage loans and allows for higher debt-to-income and loan-to-value ratios. During the evaluation period, the institution originated 13 loans totaling \$4.6 million.

In addition, the bank offers the FHLB Affordable Housing Program that provides homeowner assistance for eligible families and individuals. The program provides a subsidy for first-time homebuyers, veterans, and other community partners, which, includes law enforcement officers, teachers, first responders, and healthcare providers with income that is below 80 percent of the median family income for the area. The subsidy can be used for down-payment assistance, closing costs, or principal reduction.

Lastly, the bank offers mortgage loans underwritten through government agencies programs including the Federal Housing Administration (FHA), Veterans Administration (VA), and the Virginia Housing Development Authority (VHDA).



Flexible Lending Programs										
Type of Program	2020		2021		2022		2023		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Home Opportunity Mortgage	0	0	2	831	5	1,987	6	1,767	13	4,585
FHLB Affordable Housing	0	0	0	0	2	15	2	19	4	34
FHA	0	0	1	515	0	0	1	632	2	1,147
VHDA	0	0	1	230	0	0	0	0	1	230
SBA 504	0	0	0	0	1	246	0	0	1	246
SBA PPP	878	79,748	661	67,316	0	0	0	0	1,539	147,064
<b>Totals</b>	<b>878</b>	<b>79,748</b>	<b>665</b>	<b>68,892</b>	<b>8</b>	<b>2,248</b>	<b>9</b>	<b>2,418</b>	<b>1,560</b>	<b>153,306</b>

*Source: Bank Data 4/28/2020 to 5/1/2023*

### Community Development Loans

The institution made an adequate level of community development loans. Burke & Herbert Bank originated 19 community development loans totaling \$64.9 million, representing 1.9 percent of average assets and 3.6 percent of average loans. The community development loans increased from 13 loans totaling \$17.4 million at the last evaluation. The community development loans include 3 PPP loans totaling \$4.1 million. The following table shows the community development loans 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 (4/28 – 12/31/2020)	0	0	2	2,738	0	0	0	0	2	2,738
2021	4	6,000	2	1,350	2	5,242	1	11,900	9	24,492
2022	2	26,500	4	5,300	1	1,600	0	0	7	33,400
2023 (1/1 – 12/31/2023)	0	0	1	4,250	0	0	0	0	1	4,250
<b>Totals</b>	<b>6</b>	<b>32,500</b>	<b>9</b>	<b>13,638</b>	<b>3</b>	<b>6,842</b>	<b>1</b>	<b>11,900</b>	<b>19</b>	<b>64,880</b>

*Source: Bank Records.*

Below are examples of the community development loans.

- \$26.5 million (two loans) to acquire and renovate a 147-unit apartment complex providing affordable housing. All 147 units for the Low-Income Housing Tax Credit (LIHTC) project are subject to income restrictions of 60 percent of area median income.
- \$3.5 million to a non-profit organization for the construction of a building whose literacy programs target low- and moderate-income families. The bank also extended a \$1.2 million line of credit for working capital to this organization and a \$1.5 million PPP loan to help the organization retain over 200 employees serving over 2,000 families in the assessment area.

- \$1.6 million to purchase a building leased by the U.S. Department of Veteran Affairs. The building is located in a moderate-income census tract and created 750 jobs while serving 29,000 veterans in the Washington MD.

## INVESTMENT TEST

The Investment Test is rated Low Satisfactory. Burke & Herbert Bank has an adequate level of qualified investments and grants. In addition, the bank exhibits adequate responsiveness to credit and community economic development needs and makes use of complex investments to support community development initiatives.

### Investment and Grant Activity

The institution has an adequate level of qualified investments and grants. Investments and donations during the evaluation period totaled \$24.1 million or 0.7 percent of average total assets and 1.8 percent of average total securities. This includes 12 qualified investments totaling \$23.9 million and 37 donations totaling \$188,235. Donations represent all new qualified investments during the evaluation period. The current level of qualified investments is almost half of the last evaluation’s performance at \$44.3 million. The decline is a result of amortizing LIHTCs. The following table shows the bank’s qualified investments by year and purpose.

Qualified Investments by Year										
Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Total	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	11	22,070	1	1,850	0	0	0	0	12	23,920
2020 (4/28 – 12/31/2020)	0	0	0	0	0	0	0	0	0	0
2021	0	0	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0	0	0
2023 (1/1 – 5/1/2023)	0	0	0	0	0	0	0	0	0	0
<b>Subtotal</b>	<b>11</b>	<b>22,070</b>	<b>1</b>	<b>1,850</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>12</b>	<b>23,920</b>
Grants & Donations	8	63	29	125	0	0	0	0	37	188
<b>Total</b>	<b>19</b>	<b>22,133</b>	<b>30</b>	<b>1,975</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>49</b>	<b>24,108</b>
<i>Source: Bank Records.</i>										

Below are examples of the qualified investments.

- A prior period LIHTC with a current book value of \$5.0 million collateralized by 70 Section 8 housing units.
- A prior period LIHTC with a current book value of \$3.6 million that helped finance 204 apartment units for low-income residents, which required remediation due to environmental hazards.

- Donations totaling \$32,260 to a non-profit organization whose programs are targeted to low- and moderate-income families.
- Donations totaling \$29,500 to an organization that assists homeless people with children obtain permanent housing and skills development.

### **Responsiveness to Credit and Community Development Needs**

The institution exhibited adequate responsiveness to credit and community economic development needs throughout its assessment area. A majority of the qualified investments support affordable housing. Both community contacts cited affordable housing as a significant need in the assessment area. During the evaluation period, Burke & Herbert Bank did not purchase any equity investments. The bank maintains an equity investment in a statewide LIHTC equity fund totaling \$2.5 million, which is considered as the bank was responsive to the assessment area needs. Furthermore, the bank continues to maintain investments in LIHTC projects totaling \$20.2 million.

### **Community Development Initiatives**

Burke & Herbert Bank makes use of complex investments to support community development initiatives within the assessment area. No innovative investments are noted. A substantial majority of the investments are equity investments in LIHTCs that provide affordable housing to low- and moderate-income individuals. While Burke & Herbert Bank's investments are not innovative, LIHTCs are complex investments not routinely made by private investors.

### **SERVICE TEST**

The Service Test is rated High Satisfactory. Delivery systems are accessible to essentially all portions of the assessment area. To the extent changes have been made, the opening and closing of branches has not adversely affected the accessibility of delivery systems, particularly in low- and moderate-income geographies and/or to low- and moderate-income individuals. Services and business hours do not vary in a way that inconveniences certain portions of the assessment area, particularly low- and moderate-income census tracts and/or low- and moderate-income individuals. In addition, the institution provides a relatively high level of community development services.

### **Accessibility of Delivery Systems**

Delivery systems are accessible to essentially all portions of the assessment area. Burke & Herbert Bank operates 23 full-service branches and 25 ATMs throughout the assessment area. The bank owns and operates an ATM at each branch. Alternative delivery systems include a customer contact center; mobile banking with deposit capture; online account opening and loan applications; online banking with bill payment, bank-to-bank transfers, and person-to-person payments; telephone banking; and, free access to the Allpoint ATM network.

Due to the 2020 U.S. Census, the Skyline branch is now located in a low-income census tract instead of a moderate-income census tract. In addition, during the evaluation period, the bank opened its Fredericksburg branch in a moderate-income census tract. Thus, Burke & Herbert Bank

gained one branch each in each a low- and moderate-income census tract since the last evaluation. The percentage of branches in low-income census tracts is comparable with demographic data. Further, the percentage of branches in moderate-income census tracts was above the demographic data. The following table illustrates the bank’s branch and ATM distribution by tract income level for 2022.

<b>Branch and ATM Distribution by Geography Income Level</b>								
<b>Tract Income Level</b>	<b>Census Tracts</b>		<b>Population</b>		<b>Branches</b>		<b>ATMs</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Low	28	4.9	127,417	5.2	1	4.4	1	4.0
Moderate	99	17.1	466,244	19.0	5	21.7	5	20.0
Middle	217	37.6	960,766	39.1	5	21.7	6	24.0
Upper	218	37.8	888,360	36.2	12	52.2	13	52.0
NA	15	2.6	11,572	0.5	0	0.0	0	0.0
<b>Totals</b>	<b>577</b>	<b>100.0</b>	<b>2,454,359</b>	<b>100.0</b>	<b>23</b>	<b>100.0</b>	<b>25</b>	<b>100.0</b>

*Source: 2020 U.S. Census and Bank Records.*

### **Changes in Branch Locations**

To the extent changes have been made, the record of opening and closing branches has not adversely affected the accessibility of the bank’s delivery systems. Since the last evaluation, the bank opened its Fredericksburg branch in a moderate-income census tract. Additionally, Burke & Herbert Bank closed three branches with two in middle-income census tracts and one in an upper-income census tract. Further, a branch was relocated but continued in an upper-income census tract.

### **Reasonableness of Business Hours and Services**

Services, including business hours, do not vary in a way that inconveniences certain portions of the assessment area, particularly low- and moderate-income geographies and/or individuals. All offices are open from 9 a.m. to 5 p.m. Monday through Friday, and all locations are open on Saturdays from 9 a.m. to 1 p.m. except the Clarendon, Fredericksburg, and McLean offices. The Clarendon and McLean offices are both located in upper-income census tracts, while the Fredericksburg office is located in a moderate-income census tract. Office hours are reasonable and comparable to other local financial institutions.

Burke & Herbert Bank offers a reasonable assortment of deposit and loan products to meet the needs of the assessment area for both consumer and business customers. In addition to standard loan products, the bank offers SBA, FHA, VA, and VHDA loans. Burke & Herbert Bank also offers its Convenient Checking account, which is a non-interest bearing account with a minimum deposit of \$25 to open and no monthly maintenance fees or minimum balance requirements. In addition, in response to the COVID-19 pandemic, Burke & Herbert Bank implemented deposit-

related practices that lowered costs for consumers experiencing financial hardship or duress due to the pandemic upon request. These included activities such as:

- deferred loan payments from 90 to 180 days for consumers and businesses;
- waived fees; and,
- resources to the customer contact center to handle increased call volumes.

**Community Development Services**

The institution provided a relatively high level of community development services. Since the last evaluation, employees participated in 115 community development services. The community development services mostly involved financial literacy sessions targeted to low- and moderate-income individuals and officer positions on Boards of Directors. The following table presents the community development services by category and year.

<b>Community Development Services</b>					
<b>Activity Year</b>	<b>Affordable Housing</b>	<b>Community Services</b>	<b>Economic Development</b>	<b>Revitalize or Stabilize</b>	<b>Totals</b>
	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>
2020 (4/28 – 12/31/2020)	0	14	0	0	14
2021	5	22	1	0	28
2022	1	37	2	0	40
2023 (1/1 – 5/1/2023)	1	30	2	0	33
<b>Total</b>	<b>7</b>	<b>103</b>	<b>5</b>	<b>0</b>	<b>115</b>
<i>Source: Bank Records.</i>					

Below are examples of the community development services.

- An officer served on the Board of an organization whose mission is to preserve affordable homeownership, promote the revitalization of neighborhoods, and provide free home repair services for those in need.
- A loan officer served on the Board of a regional food bank that provides services to low- and moderate-income people and communities.
- Bank personnel staff taught several financial literacy outreach events to multiple schools, where a majority of the students are eligible for the federal free or reduced lunch programs.

**DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

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

## APPENDICES

### LARGE 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) through its lending activities by considering a bank's home mortgage, small business, small farm, and community development lending. If consumer lending constitutes a substantial majority of a bank's business, the FDIC will evaluate the bank's consumer lending in one or more of the following categories: motor vehicle, credit card, other secured, and other unsecured. The bank's lending performance is evaluated pursuant to the following criteria:

- 1) The number and amount of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, in the bank's assessment area;
- 2) The geographic distribution of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, based on the loan location, including:
  - i. The proportion of the bank's lending in the bank's assessment area(s);
  - ii. The dispersion of lending in the bank's assessment areas(s); and
  - iii. The number and amount of loans in low-, moderate-, middle- and upper-income geographies in the bank's assessment area(s);
- 3) The distribution, particularly in the bank's assessment area(s), of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, based on borrower characteristics, including the number and amount of:
  - i. Home mortgage loans low-, moderate-, middle- and upper-income individuals
  - ii. Small business and small farm loans to businesses and farms with gross annual revenues of \$1 million or less;
  - iii. Small business and small farm loans by loan amount at origination; and
  - iv. Consumer loans, if applicable, to low-, moderate-, middle- and upper-income individuals;
- 4) The bank's community development lending, including the number and amount of community development loans, and their complexity and innovativeness; and
- 5) The bank's use of innovative or flexible lending practices in a safe and sound manner to address the credit needs of low- and moderate-income individuals or geographies.

#### **Investment Test**

The Investment Test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through qualified investments that benefit its assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s). Activities considered under the Lending or Service Test may not be considered under the investment test. The bank's investment performance is evaluated pursuant to the following criteria:

- 1) The dollar amount of qualified investments;
- 2) The innovativeness or complexity of qualified investments;
- 3) The responsiveness of qualified investments to available opportunities; and
- 4) The degree to which qualified investments are not routinely provided by private investors.

## **Service Test**

The Service Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the bank's systems for delivering retail banking services and the extent and innovativeness of its community development services.

The bank's retail banking services are evaluated pursuant to the following criteria:

- 1) The current distribution of the bank's branches among low-, moderate-, middle-, and upper-income geographies;
- 2) In the context of its current distribution of the bank's branches, the bank's record of opening and closing branches, particularly branches located in low- or moderate-income geographies or primarily serving low- or moderate-income individuals;
- 3) The availability and effectiveness of alternative systems for delivering retail banking services (*e.g.*, RSFs, RSFs not owned or operated by or exclusively for the bank, banking by telephone or computer, loan production offices, and bank-at-work or bank-by-mail programs) in low- and moderate-income geographies and to low- and moderate-income individuals; and
- 4) The range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

The bank's community development services are evaluated pursuant to the following criteria:

- 1) The extent to which the bank provides community development services; and
- 2) The innovativeness and responsiveness of community development services.

## SCOPE OF EVALUATION

<b>Burke &amp; Herbert Bank &amp; Trust Company</b>	
<b>Scope of Examination:</b> A full scope review was performed on following assessment area within the noted rate area: Washington MD Assessment Area	
<b>Time Period Reviewed:</b>	4/28/2020 to 5/01/2023
<b>Products Reviewed:</b> Home Mortgage: 1/01/2020 – 12/31/2022 Small Business: 1/01/2020 – 12/31/2022 Community Development Loans: 4/28/2020 to 5/01/2023	

List of Affiliates and Products Reviewed		
Affiliate(s)	Affiliate Relationship	Products Reviewed
NA	NA	NA

List of Assessment Areas and Type of Evaluation			
Rated Area/ Assessment Area	Type of Evaluation	Branches Visited	Other Information
Washington MD Assessment Area:	Full-scope	None	None



## 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. 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 financial 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.

**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.

**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.

**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 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