

PUBLIC DISCLOSURE

December 2, 2024

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Hebron Savings Bank
Certificate Number: 8811

101 North Main Street
Hebron, Maryland 21830

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

350 Fifth Avenue, Suite 1200
New York, New York 10118

This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the 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 more than reasonable given the bank's size, financial condition, and assessment areas' credit needs.
- The bank made a substantial majority of its small business and home mortgage loans inside the assessment areas.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- The distribution of borrowers reflects, given the demographics of the assessment areas, reasonable penetration of loans among businesses of different sizes and individuals of different income levels.
- The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the Lending Test rating.

The Community Development Test is rated Satisfactory.

- The bank's community development performance demonstrates adequate responsiveness to the community development needs in its assessment areas through community development loans, qualified investments, and community development services, as appropriate, considering the bank's capacity and the need and availability of such opportunities for community development in its assessment areas.

DESCRIPTION OF INSTITUTION

Background

Hebron Savings Bank (HSB) is a state-chartered bank headquartered in Hebron, Maryland (MD). HSB is wholly owned by HSB Bancorp, Inc., a one-bank holding company. The bank has no subsidiaries. HSB received a “Satisfactory” rating from the Federal Deposit Insurance Corporation (FDIC) during its prior evaluation dated November 10, 2021, based on Interagency Large Bank Examination Procedures. Although HSB was an Intermediate Small Institution based on asset size at the prior evaluation, examiners used Interagency Large Bank Examination procedures because the bank voluntarily collected CRA data and management requested an evaluation under these procedures.

Operations

HSB operates 14 full-service branches throughout Wicomico (8), Dorchester (3), Somerset (2) and Worcester (1) Counties in MD. Of these, two branches are in low-income census tracts, three are in moderate-income census tracts, eight are in middle-income census tracts, and one is in an upper-income census tract. HSB opened a branch in a moderate-income census tract in Worcester County just prior to this evaluation. HSB did not close any branches or engage in any merger or acquisition activity since the previous evaluation.

HSB offers commercial, residential, agricultural, and consumer loan products. Commercial lending continues to be the institution’s primary business focus. Deposit products include consumer and business checking, savings, money market, certificate of deposit, and individual retirement accounts. Alternative banking services include online banking, mobile banking, person-to-person payments through Zelle, and bank-owned automated teller machines (ATMs) at 12 branches. Two branches, each in a middle-income census tract in Wicomico County (1) and Dorchester County (1), do not have ATMs.

Ability and Capacity

As of September 30, 2024, assets totaled \$753.3 million, deposits totaled \$650.0 million, loans totaled \$578.0 million, and securities totaled \$83.5 million. Since the last evaluation, assets decreased by 5.4 percent, deposits decreased by 8.1 percent, loans increased by 15.0 percent, and securities increased by 126.7 percent. Since the previous evaluation, the bank made a strategic decision to increase its securities portfolio. The following table details the bank’s loan portfolio.

Loan Portfolio Distribution as of 9/30/2024		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	62,391	10.8
Secured by Farmland	35,151	6.1
Secured by 1-4 Family Residential Properties	168,466	29.2
Secured by Multifamily (5 or more) Residential Properties	5,994	1.0
Secured by Nonfarm Nonresidential Properties	260,901	45.1
Total Real Estate Loans	532,903	92.2
Commercial and Industrial Loans	31,404	5.4
Agricultural Production and Other Loans to Farmers	2,634	0.5
Consumer Loans	3,649	0.6
Obligations of State and Political Subdivisions in the U.S.	7,754	1.3
Other Loans	267	0.1
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	(652)	(0.1)
Total Loans	577,959	100.0
<i>Source: Reports of Condition and Income.</i>		

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

DESCRIPTION OF ASSESSMENT AREAS

The CRA requires each financial institution to define one or more assessment areas within which examiners will evaluate its CRA performance. HSB designated two individual assessment areas.

Multi-State Metropolitan Statistical Area (MSA) 41540: This assessment area consists of all of Somerset, Wicomico, and Worcester Counties in MD and all of Sussex County in Delaware (DE). These counties are contiguous and once represented the entirety of the Salisbury, MD-DE MSA 41540. This MSA is part of the larger Salisbury-Cambridge, MD-DE Combined Statistical Area (CSA) 480.

In an announcement issued in July 2023, the Office of Management and Budget (OMB) updated statistical areas based on U.S. Census data and removed Sussex and Worcester Counties from MSA 41540. The OMB subsequently designated Sussex County as a non-MSA area and designated Worcester County as part of the Ocean Pines, MD Micropolitan Statistical Area 36810 (OMB Bulletin 23-01). The Ocean Pines, MD Micropolitan Statistical Area is part of the Salisbury-Ocean Pines, MD CSA 480. Because these changes occurred late in the evaluation cycle, examiners included Sussex and Worcester Counties as part of MSA 41540 to follow the statistical areas established in OMB Bulletin 20-10, which was in effect for most of the evaluation period.

Dorchester County: This assessment area consists of all of Dorchester County, MD. This assessment area is not located within an MSA, but makes up the Cambridge, MD Micropolitan

Statistical Area 15700. Dorchester County is contiguous to the Multi-State MSA 41540 assessment area.

Collectively, examiners refer to these two assessment areas as the combined assessment area.

HSB did not change its defined assessment areas since the previous evaluation; however, the release of 2020 U.S. Census data added 23 census tracts to the combined assessment area when compared to the previous evaluation. The number of moderate-income tracts increased by 4, middle-income census tracts increased by 7, upper-income tracts increased by 10, and census tracts with no income designations increased by 2 when compared to the previous evaluation, which relied upon 2015 American Community Survey (ACS) data for tract income designations.

Please refer to the individual assessment area sections for additional information.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated November 10, 2021, to the current evaluation dated December 2, 2024. Based on asset size, examiners used Intermediate Small Bank Examination Procedures to evaluate the bank's CRA performance. These procedures include the Lending Test and the Community Development Test. Refer to the Appendix for details on the Lending Test and Community Development Test criteria.

Examiners conducted full-scope reviews of each assessment area to evaluate HSB's CRA performance. The Multi-State MSA 41540 assessment area received the greatest weight when determining the overall rating, as this area accounted for the majority of the bank's loans, deposits, and branches. Please refer to the individual assessment area sections for demographic and economic information on each area.

Activities Reviewed

HSB's major product lines, considering its business strategy and the number and dollar volume of loans originated during the evaluation period, are small business and home mortgage loans. This evaluation presents both the number and dollar amount of loans. Examiners emphasized performance by number of loans because it is a better indicator of the number of businesses and individuals served.

The bank's small business lending performance contributed more weight to overall conclusions compared to home mortgage lending due to the larger volume of small business loans reported during the review period. Although HSB reported its small farm loan originations, examiners determined that the small volume of these loans would not provide for a meaningful analysis. Therefore, examiners presented small farm loans in the Assessment Area Concentration table but did not analyze this loan type further. Similarly, no other loan products, such as consumer loans, represent a major product line or provide material support for conclusions or ratings; therefore,

examiners did not analyze or present this product in the evaluation. Bank records indicate that the lending focus and product mix remained consistent since the previous evaluation.

To evaluate HSB's small business lending performance, examiners analyzed data reported on the bank's 2021, 2022, and 2023 CRA Loan Registers. Due to its asset size, the bank is not required to collect or report its small business loan data; however, HSB voluntarily collected and reported this data each year. HSB reported 350 small business loans totaling \$37.6 million in 2021, 94 small business loans totaling \$19.8 million in 2022, and 87 loans totaling \$16.8 million in 2023. The increase in small business lending in 2021 is primarily due to the bank's participation in the Small Business Administration's (SBA) Paycheck Protection Program (PPP) during the COVID-19 pandemic. Examiners used aggregate small business lending data and 2022 and 2023 D&B demographic data for comparison purposes. As of the evaluation date, 2023 aggregate small business lending data was not available.

Examiners also analyzed loans reported on HSB's 2021, 2022, and 2023 Home Mortgage Disclosure Act (HMDA) Loan Application Registers to evaluate home mortgage lending. HSB reported 94 home mortgage loans totaling \$22.6 million in 2021, 96 home mortgage loans totaling \$28.4 million in 2022, and 43 home mortgage loans totaling \$12.7 million in 2023. Examiners used aggregate HMDA data and 2020 U.S. Census data for comparison purposes.

For the Lending Test, examiners analyzed the bank's small business and home mortgage lending performance for all three years; however, examiners only presented 2022 and 2023 data within the Geographic Distribution and Borrower Profile performance tables, as HSB's small business and home mortgage performance was similar in 2021.

For the Community Development Test, bank management provided information on community development loans, qualified investments, and community development services since the prior CRA evaluation.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

HSB demonstrated reasonable performance under the Lending Test. HSB's performance in the Multi-State MSA 41540 assessment area primarily supports this conclusion.

Loan-to-Deposit Ratio

The LTD ratio is more than reasonable given the bank's size, financial condition, and assessment areas' credit needs. The bank's net LTD ratio, calculated from Call Report data, averaged 87.6 percent over the 12 calendar quarters since the prior CRA evaluation dated November 10, 2021. The ratio generally increased during the evaluation period, ranging from a low of 65.2 percent as of March 31, 2022, to a high of 89.0 percent as of June 30, 2024.

HSB’s average LTD ratio compares favorably to similarly situated institutions. Examiners selected comparable institutions based on asset size, geographic location, and lending focus. The following table reflects a comparison of HSB’s average net LTD ratio to those of similarly situated institutions.

Loan-to-Deposit (LTD) Ratio Comparison		
Bank	Total Assets as of 9/30/2024 (\$000s)	Average Net LTD Ratio (%)
Hebron Savings Bank	753,348	87.6
Bank of Ocean City	681,121	72.2
Calvin B. Taylor Banking Company of Berlin, Maryland	958,479	70.0
The Farmers Bank of Willards	572,322	82.9
<i>Source: Reports of Condition and Income 12/31/2021 - 9/30/2024</i>		

Assessment Area Concentration

HSB made a substantial majority of loans by number and dollar amount within the combined assessment area. Please refer to the following table.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollars Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Business										
2021	337	96.3	13	3.7	350	35,051	93.3	2,506	6.7	37,557
2022	87	92.6	7	7.4	94	18,412	93.0	1,393	7.0	19,805
2023	73	83.9	14	16.1	87	12,726	75.7	4,083	24.3	16,809
Subtotal	497	93.6	34	6.4	531	66,189	89.2	7,982	10.8	74,171
Home Mortgage										
2021	91	96.8	3	3.2	94	22,106	97.9	470	2.1	22,576
2022	87	90.6	9	9.4	96	22,144	77.9	6,286	22.1	28,430
2023	40	93.0	3	7.0	43	8,285	65.4	4,377	34.6	12,662
Subtotal	218	93.6	15	6.4	233	52,535	82.5	11,133	17.5	63,668
Small Farm										
2021	8	88.9	1	11.1	9	1,537	92.5	125	7.5	1,662
2022	5	100.0	0	0.0	5	939	100.0	0	0.0	939
2023	9	90.0	1	10.0	10	1,062	85.5	180	14.5	1,242
Subtotal	22	91.7	2	8.3	24	3,538	92.1	305	7.9	3,843
Total	737	93.5	51	6.5	788	122,262	86.3	19,420	13.7	141,682

Source: HMDA Reported Data; CRA Reported Data. Due to rounding, totals may not equal 100.0%.

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas. HSB's excellent distribution of small business and home mortgage loans in the Multi-State MSA 41540 assessment area primarily supports this conclusion, as this area received the most weight in determining overall conclusions. Performance in the Dorchester County assessment area is below the overall performance. Please refer to the individual assessment area sections for details.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among business customers of different sizes and retail customers of different income levels. HSB's excellent penetration among businesses of different sizes and retail customers of different income levels in the Multi-State MSA 41540 assessment area primarily supports this conclusion, as this area received the most weight in determining overall conclusions. Performance in the Dorchester County assessment area is below the overall performance. Please refer to the individual assessment area sections for details.

Response to Complaints

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

COMMUNITY DEVELOPMENT TEST

HSB demonstrated adequate responsiveness to community development needs in its assessment areas through community development loans, qualified investments, and community development services, as appropriate, considering the bank's capacity and the need and availability of community development opportunities in the assessment areas.

Community Development Loans

HSB made 19 community development loans totaling \$31.9 million throughout the combined assessment area and the broader statewide and regional areas. This level of activity represents 4.1 percent of average total assets and 6.1 percent of average total loans since the previous evaluation. Community development loans increased 111.1 percent by number and 824.5 percent by dollar amount when compared to the previous evaluation, at which time the bank made 9 community development loans totaling \$3.5 million. This increase is impacted by the fact that the prior evaluation covered two full years and one partial year of lending activity, while the current evaluation period covers two full years and two partial years of lending activity. By dollar volume, HSB's community development lending exceeded three similarly situated institutions, and by number of loans, HSB exceeded one and trailed two similarly situated institutions. The bank responded to opportunities for economic development and revitalization or stabilization in the combined assessment areas' low- and moderate-income geographies.

The following tables reflect the bank’s community development loans by purpose, year, and assessment area. The bank was primarily responsive to the needs of the Multi-State MSA 41540 assessment area.

Community Development Lending										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2021 (Partial)	0	0	1	14	0	0	1	1,584	2	1,598
2022	0	0	3	942	2	2,743	2	119	7	3,804
2023	0	0	0	0	1	91	2	12,797	3	12,888
YTD 2024	0	0	0	0	2	1,615	5	12,027	7	13,642
Total	0	0	4	956	5	4,449	10	26,527	19	31,932

Source: Bank Data

Community Development Lending by Assessment Area										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Multi-State MSA 41540	0	0	4	956	4	2,826	6	7,484	14	11,266
Dorchester County	0	0	0	0	1	1,623	0	0	1	1,623
Statewide Activities	0	0	0	0	0	0	1	9,000	1	9,000
Regional Activities	0	0	0	0	0	0	3	10,043	3	10,043
Total	0	0	4	956	5	4,449	10	26,527	19	31,932

Source: Bank Data

Below are notable examples of HSB’s community development loans that benefited the broader statewide and regional area.

- In 2023, the bank made a \$9.0 million loan to facilitate the purchase of a shopping center in a moderate-income census tract in Talbot County, MD that includes large national retail stores and a supermarket. The loan proceeds help stabilize this moderate-income geography by retaining existing and attracting new businesses and jobs. The loan also provides residents in the area with increased access to grocery and retail stores.
- In 2024, HSB made an \$8.8 million loan to a business that serves retail and tourism needs in an underserved/distressed census tract in Accomack County, Virginia. The loan proceeds help revitalize and stabilize the area by supporting job creation and retention, including low- and moderate-income part-time jobs.

The individual assessment area sections provide additional details and notable examples of the bank’s community development loans in each area.

Qualified Investments

HSB made 56 qualified investments and donations totaling approximately \$9.6 million that benefitted the combined assessment area during the evaluation period. This total includes 15 qualified investments totaling \$9.5 million and 41 qualified donations totaling \$70,000. Qualified investment activity represents 1.2 percent of average total assets and 9.2 percent of average total securities since the previous evaluation. Qualified investments decreased in number but increased in dollar amount since the prior evaluation, at which time the bank made 64 investments and donations totaling \$4.7 million. HSB’s qualified investment activity exceeded that of two similarly situated institutions and trailed a third similarly situated institution. HSB’s qualified investment activity was primarily responsive to affordable housing opportunities, while donations were primarily responsive to providing essential community services for low- and moderate-income individuals and families.

The following tables reflect the bank’s qualified investments by purpose, year, and assessment area. The bank was primarily responsive to the needs of the Multi-State MSA 41540 assessment area.

Qualified Investments										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	0	0	0	0	0	0	0	0	0	0
2021 (Partial)	0	0	0	0	0	0	0	0	0	0
2022	5	1,805	0	0	0	0	0	0	5	1,805
2023	7	2,352	0	0	0	0	0	0	7	2,352
YTD 2024	3	5,344	0	0	0	0	0	0	3	5,344
Subtotal	15	9,501	0	0	0	0	0	0	15	9,501
Qualified Grants & Donations	1	2	26	52	10	3	4	13	41	70
Total	16	9,503	26	52	10	3	4	13	56	9,571
<i>Source: Bank Data</i>										

Qualified Investments by Assessment Area										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Multi-State MSA 41540	10	8,673	25	52	10	3	4	13	49	8,741
Dorchester County	6	830	1	0	0	0	0	0	7	830
Total	16	9,503	26	52	10	3	4	13	56	9,571
<i>Source: Bank Data</i>										

The individual assessment area sections provide additional details and notable examples of the bank’s qualified investments and donations in each area.

Community Development Services

HSB management and staff provided 87 instances of financial expertise or technical assistance to 24 different community organizations in the combined assessment area during the evaluation period. The bank’s provision of community development services increased when compared to the prior evaluation, at which time bank representatives provided 64 instances of community development services. HSB’s community development service activity exceeded that of one similarly situated institution and trailed one similarly situated institution. Qualified services primarily responded to opportunities to support community services for low- and moderate-income individuals and families.

The following tables reflect the bank’s community development services by purpose, year, and assessment area. HSB was primarily responsive to the needs of the Multi-State MSA 41540 assessment area.

Community Development Services by Year					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2021 (Partial)	3	10	4	3	20
2022	3	11	4	3	21
2023	3	14	4	3	24
YTD 2024	1	15	5	1	22
Total	10	50	17	10	87
<i>Source: Bank Data</i>					

Community Development Services by Assessment Area					
Assessment Area	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
Multi-State MSA 41540	10	40	17	10	77
Dorchester County	0	10	0	0	10
Total	10	50	17	10	87
<i>Source: Bank Data</i>					

HSB’s retail banking services also received consideration given their benefit to low- and moderate-income geographies and individuals. Specifically, HSB operates two branches with ATMs in low-income census tracts and three branches with ATMs in moderate-income census tracts. These branches and ATMs are accessible to residents in low- and moderate-income census tracts and demonstrate the availability of banking services to individuals living in these areas. Additionally, the bank offers free and low-cost checking accounts throughout the combined assessment area, which benefit low- and moderate-income individuals across all census tracts.

The bank also continues to offer small dollar loans with amounts between \$500 and \$3,000 to help meet the credit needs of small businesses and low- and moderate-income individuals in the assessment areas. The amortization period for most small dollar loans is over twelve months or higher to keep payments affordable. Since the previous evaluation, the bank originated 86 loans totaling \$155,478 under this program.

The individual assessment area sections provide additional details and notable examples of the bank's community development services in each area.

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.

MULTI-STATE MSA 41540 – FULL-SCOPE REVIEW

DESCRIPTION OF INSTITUTION’S OPERATIONS IN MULTI-STATE MSA 41540

The Multi-State MSA 41540 assessment area consists of all of Somerset, Wicomico, and Worcester Counties in MD, and all of Sussex County in DE. The area encompasses 121 census tracts, which represents 92.4 percent of the total tracts among the combined assessment area. HSB operates 11 of its 14 branches (78.6 percent) in this assessment area. Based on FDIC Deposit Market share reports as of June 30, 2024, this assessment area accounted for 76.1 percent of the bank’s total deposits. Of the combined assessment area, HSB originated 86.9 percent of its small business loans and 77.2 percent of its home mortgage loans in this assessment area during 2022 and 2023.

Economic and Demographic Data

The assessment area’s 121 census tracts reflect the following income designations according to 2020 U.S. Census Data:

- 2 low-income census tracts,
- 17 moderate-income census tracts,
- 60 middle-income census tracts,
- 35 upper-income census tracts, and
- 7 census tracts with no income designation.

The previous evaluation, which relied upon 2015 ACS data for tract income designations, reflected 98 census tracts, including 1 low- and 14 moderate-income census tracts.

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

Demographic Information of the Assessment Area						
Multi-State MSA 41540						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	121	2.5	14.9	49.6	27.3	5.8
Population by Geography	418,046	2.6	17.1	57.4	21.7	1.3
Housing Units by Geography	251,536	2.0	14.6	50.1	32.3	1.1
Owner-Occupied Units by Geography	121,566	0.9	12.7	59.4	26.6	0.4
Occupied Rental Units by Geography	41,969	6.7	26.1	49.4	14.2	3.6
Vacant Units by Geography	88,001	1.2	11.6	37.5	48.9	0.8
Businesses by Geography	41,745	2.5	14.8	54.4	27.4	0.9
Farms by Geography	1,961	2.3	12.2	64.1	21.0	0.4
Family Distribution by Income Level	108,922	20.4	18.4	21.0	40.2	0.0
Household Distribution by Income Level	163,535	23.7	16.5	18.8	41.1	0.0
Median Family Income MSA - 41540 Salisbury, MD-DE MSA		\$76,095	Median Housing Value			\$287,427
			Median Gross Rent			\$1,016
			Families Below Poverty Level			8.1%

Source: 2020 U.S. Census and 2023 D&B Data. Due to rounding, totals may not equal 100.0%. () The NA category consists of geographies that have not been assigned an income classification.*

The Geographic Distribution criterion for small business loans considers the distribution of businesses by tract income level within the assessment area. According to 2023 D&B data, 2.5 percent of the assessment area’s businesses are in low-income census tracts and 14.8 percent are in moderate-income census tracts. This limits opportunities for lenders to originate small business loans in these tracts, particularly in the low-income geographies.

The Geographic Distribution criterion for home mortgage loans considers the distribution of owner-occupied housing units by tract income level within the assessment area. Owner-occupied housing units indicate the opportunity that institutions have to originate 1-4 family residential mortgage loans. Of the assessment area’s 251,536 housing units, 48.3 percent are owner-occupied, 16.7 percent are occupied rental units, and 35.0 percent are vacant. Additionally, only 0.9 percent of the assessment area’s owner-occupied housing units are in low-income census tracts and 12.7 percent are in moderate-income census tracts. This limits opportunities for lenders to originate home mortgage loans in these tracts, particularly in the low-income geographies.

The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by gross annual revenue (GAR) level. According to 2023 D&B data, 41,745 non-farm businesses operate in this assessment area. GARs for these businesses are as follows:

- 88.0 percent have GARs of \$1.0 million or less,
- 3.1 percent have GARs of more than \$1.0 million, and
- 8.9 percent have unknown revenues.

Service-related businesses represent the largest percentage of businesses operating in the assessment area (37.4 percent); followed by non-classifiable establishments (15.9 percent); retail trade (13.7 percent); construction (9.1 percent); and finance, insurance, and real estate (8.8 percent). Of the area’s total businesses that include farms (43,706), 91.7 percent have fewer than five employees and 91.2 percent operate from a single location. This data suggests that the majority of businesses in the assessment area are small businesses.

The Borrower Profile criterion compares home mortgage loans to the percentage of low- and moderate-income families. Demographic data shows that 20.4 percent of assessment area families are low-income (including 8.1 percent living below poverty level) and 18.4 percent are moderate-income. This data suggests that it would be difficult for these families to qualify for a home mortgage loan or support a monthly mortgage payment, particularly considering the median home value in the assessment area is \$287,427. This data further reflects the challenges lenders face in originating home mortgage loans to low- and moderate-income individuals.

Examiners used the FFIEC-updated median family income data to analyze the bank’s home mortgage lending under the Borrower Profile criterion. The following table reflects the median family income ranges for the low-, moderate-, middle-, and upper-income categories of the assessment area.

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)				
2022 (\$89,000)	<\$44,500	\$44,500 to <\$71,200	\$71,200 to <\$106,800	≥\$106,800
2023 (\$93,300)	<\$46,650	\$46,650 to <\$74,640	\$74,640 to <\$111,960	≥\$111,960
<i>Source: FFIEC</i>				

Data obtained from the U.S. Bureau of Labor Statistics shows that unemployment rates at the county, state, and national levels improved during the evaluation period. The elevated 2021 unemployment rates reflect the impact of the COVID-19 pandemic. Unemployment rates in the assessment area counties declined during the evaluation period. Similar to the state and national trends, unemployment rates in the assessment area counties increased slightly as of October 2024. The following table presents annual and current unemployment rates for the assessment area counties, as well as the state and national levels, since 2021.

Unemployment Rates				
Area	2021	2022	2023	October 2024
	%	%	%	%
Somerset County, MD	6.9	4.4	3.2	4.2
Wicomico County, MD	5.6	3.6	2.6	3.4
Worcester County, MD	7.4	4.7	3.3	4.0
Sussex County, DE	5.0	4.2	3.8	3.9
State of Maryland	5.2	3.0	2.1	2.7
State of Delaware	5.5	4.2	4.0	4.0
National Average	5.4	3.6	3.6	4.0

Source: U.S. Bureau of Labor Statistics.

Competition

The market for financial services within this assessment area is moderately competitive. According to 2024 FDIC Deposit Market Share data, 26 financial institutions operated 133 full-service branches within the assessment area. Among these institutions, HSB ranked 9th in total deposits, with a 0.4 percent deposit market share.

There is a moderate level of competition for small business loans in the assessment area. According to the most recent 2022 aggregate lending data, 101 lenders originated or purchased 11,066 small business loans in the assessment area. The top five lenders, consisting of large national banks and credit card issuers, accounted for 53.9 percent of the market share based on number of loans originated. HSB ranked 20th with a 0.7 percent market share.

There is a high level of competition for home mortgage loans in the assessment area. Based on 2023 aggregate lending data, 461 lenders originated or purchased 13,958 home mortgage loans. The top five lenders, consisting of large national banks and online mortgage companies, accounted for 20.7 percent of the market share based on number of loans originated. HSB ranked 79th with a 0.2 percent market share.

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 helps determine whether local financial institutions are responsive to those needs. It also shows what types of credit and community development opportunities are available.

Examiners reviewed a recent contact made with the executive director of a non-profit organization headquartered in a moderate-income census tract in Worcester County. The non-profit operates with a mission to create partnerships between public and private sectors and to eliminate barriers to revitalization in Worcester County. The organization receives its primary funding through local and state grants, and through individual fundraising activities. The contact identified affordable housing for seasonal employees in Ocean City as a key need in the county. The contact also noted that, while much of the local economy is seasonal and its strength varies from season to season, businesses overall are doing well.

Credit and Community Development Needs and Opportunities

Considering the information from the community contact, bank management, and economic and demographic data, examiners determined that affordable housing for seasonal employees is a community development need in the assessment area. Credit needs include home mortgage products accessible to low- and moderate-income borrowers as well as the financing for the construction of affordable housing units. Economic and demographic data support housing affordability as a primary need for low- and moderate-income families in the assessment area. Examiners also identified a need for lending to and providing advice to small businesses and financing revitalization projects in assessment area cities.

CONCLUSIONS ON PERFORMANCE CRITERIA IN MULTI-STATE MSA 41540

LENDING TEST

HSB demonstrated excellent performance under the Lending Test in the Multi-State MSA 41540 assessment area. The bank's excellent performance under the Geographic Distribution and Borrower Profile criteria supports this conclusion.

Geographic Distribution

The geographic distribution of loans reflects excellent dispersion throughout the assessment area. The bank's excellent small business and home mortgage lending performance supports this conclusion.

Small Business Loans

The geographic distribution of small business loans reflects excellent dispersion throughout the assessment area. HSB's small business lending in low-income census tracts significantly exceeded demographic data in 2022 and 2023 and exceeded aggregate performance in 2022. In the moderate-income census tracts, HSB outperformed demographic data each year and exceeded aggregate performance in 2022. These comparisons reflect excellent dispersion. The following table reflects the distribution of small business loans by census tract income level.

Geographic Distribution of Small Business Loans						
Multi-State MSA 41540						
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2022	2.5	1.7	7	9.2	2,220	13.9
2023	2.5	--	5	7.9	534	4.7
Moderate						
2022	14.9	14.3	14	18.4	2,963	18.6
2023	14.8	--	13	20.6	1,826	16.1
Middle						
2022	54.4	54.3	41	53.9	8,033	50.4
2023	54.4	--	31	49.2	5,973	52.7
Upper						
2022	27.4	29.0	14	18.4	2,732	17.1
2023	27.4	--	13	20.6	2,954	26.1
Not Available						
2022	0.9	0.7	0	0.0	0	0.0
2023	0.9	--	1	1.6	50	0.4
Totals						
2022	100.0	100.0	76	100.0	15,948	100.0
2023	100.0	--	63	100.0	11,337	100.0
<i>Source: 2022 & 2023 D&B Data; CRA Reported Data; 2022 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects excellent dispersion throughout the assessment area. In 2022 and 2023, although loan volumes were low, HSB's home mortgage lending in low-income tracts, by percentage of loans, significantly outperformed area demographics and aggregate performance. Similarly, in moderate-income tracts, HSB outperformed area demographics and aggregate performance in 2022. Consistent with an overall decrease in the bank's home mortgage lending in 2023, lending in moderate-income tracts decreased, trailing area demographics and aggregate performance.

Market share data supports conclusions that the bank's performance was excellent. In 2022, HSB ranked 8th among 67 institutions in lending in low-income census tracts. Of these lenders, 83.6 percent made fewer than five loans. In 2023, HSB ranked 17th among 49 lenders who made loans in low-income census tracts. These rankings exceed the bank's overall home mortgage market ranking in the assessment area (79th out of 461 lenders). In 2022, HSB ranked 51st out of 248 lenders in lending in moderate-income census tracts. Of these lenders, 75.0 percent made fewer than 10 loans. In 2023, the bank ranked 95th out of 218 institutions who made loans in moderate-income census tracts. The market share data reflects high competition and relatively limited demand for home mortgage loans in low- and moderate-income tracts. Considering the market share data and the bank's comparisons to aggregate performance and demographic data, the bank's performance reflects excellent dispersion.

The following table reflects the distribution of home mortgage loans by census tract income level.

Geographic Distribution of Home Mortgage Loans						
Multi-State MSA 41540						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2022	0.9	0.8	5	7.8	869	5.0
2023	0.9	0.8	2	5.9	272	3.8
Moderate						
2022	12.7	11.9	12	18.8	3,245	18.6
2023	12.7	11.8	3	8.8	758	10.6
Middle						
2022	59.4	54.4	34	53.1	9,443	54.1
2023	59.4	58.4	16	47.1	3,233	45.3
Upper						
2022	26.6	32.6	13	20.3	3,911	22.4
2023	26.6	28.7	13	38.2	2,871	40.2
Not Available						
2022	0.4	0.3	0	0.0	0	0.0
2023	0.4	0.3	0	0.0	0	0.0
Totals						
2022	100.0	100.0	64	100.0	17,468	100.0
2023	100.0	100.0	34	100.0	7,134	100.0
<i>Source: 2020 U.S. Census; HMDA Reported Data; 2023 HMDA Aggregate Data. Due to rounding, totals may not equal 100.0%.</i>						

Borrower Profile

The distribution of borrowers reflects excellent penetration among businesses of different sizes and retail customers of different income levels. The bank’s excellent small business lending performance primarily supports this conclusion.

Small Business Loans

The distribution of borrowers reflects excellent penetration among businesses of different sizes. Small business lending to businesses with GARs of \$1.0 million or less fell below area demographics but exceeded aggregate performance by more than 10 percentage points in 2022. Although loan volume declined slightly in 2023, the percentage of loans to businesses at this GAR level increased. Market share data supports the bank’s excellent performance. In 2022, HSB ranked 16th among 69 lenders in lending to businesses with GARs of \$1.0 million or less. This ranking exceeds the bank’s overall small business market ranking in the assessment area (20th out of 101 lenders). The top 10 lenders, each a large national bank, accounted for 80.1 percent of the market share.

The following table reflects the distribution of small business loans by gross revenue category.

Distribution of Small Business Loans by Gross Annual Revenue Category						
Multi-State MSA 41540						
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
≤ \$1,000,000						
2022	87.6	53.1	49	64.5	11,069	69.4
2023	88.0	--	44	69.8	6,550	57.8
> \$1,000,000						
2022	3.3	--	27	35.5	4,879	30.6
2023	3.1	--	19	30.2	4,787	42.2
Revenue Not Available						
2022	9.1	--	0	0.0	0	0.0
2023	8.8	--	0	0.0	0	0.0
Totals						
2022	100.0	100.0	76	100.0	15,948	100.0
2023	100.0	--	63	100.0	11,337	100.0
<i>Source: 2022 & 2023 D&B Data; CRA Reported Data; 2022 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0%.</i>						

Home Mortgage Loans

The distribution of borrowers reflects reasonable penetration among retail customers of different income levels. As shown in the following table, the bank's lending to low-income borrowers more than doubled aggregate performance in 2022 but trailed the demographics. A low-income family in the Multi-State MSA 41540 assessment area, earning less than \$46,650 may have difficulty qualifying for a mortgage under conventional underwriting standards, considering the median housing value of \$287,427. Additionally, 8.1 percent of assessment area families have incomes below the poverty level. These factors help explain the disparity between lending to low-income families and the percentage of low-income families. In 2023, the bank's overall home mortgage lending decreased, and the bank did not make any loans to low-income borrowers. HSB's lending to moderate-income borrowers trailed aggregate performance and demographic data in 2022 and slightly exceeded aggregate performance in 2023.

Market share data supports conclusions that HSB's performance was reasonable. In lending to low-income borrowers, the bank ranked 45th out of 170 lenders in 2022. In 2023, although HSB made no loans to low-income borrowers, 31 lenders reported a total of only 48 loans to low-income borrowers in the assessment area. Of the 31 lenders, 22 institutions made only one loan. In lending to moderate-income borrowers, HSB ranked 67th out of 238 institutions in 2022 and 67th out of 187 lenders in 2023. Of the lenders that originated loans to moderate-income borrowers in 2023, 59.4 percent made fewer than five loans. The market share data reflects high competition and relatively limited demand for home mortgage loans to low- and moderate-income borrowers. Considering the market share data and the bank's comparisons to aggregate performance and demographic data, the bank's performance reflects reasonable penetration.

The following table reflects the distribution of home mortgage loans by borrower income level.

Distribution of Home Mortgage Loans by Borrower Income Level						
Multi-State MSA 41540						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2022	20.4	6.5	9	14.1	777	4.4
2023	20.4	5.3	0	0.0	0	0.0
Moderate						
2022	18.4	15.9	8	12.5	1,664	9.5
2023	18.4	14.5	5	14.7	1,087	15.2
Middle						
2022	21.0	17.9	13	20.3	2,921	16.7
2023	21.0	19.2	6	17.6	1,068	15.0
Upper						
2022	40.2	44.5	16	25.0	6,371	36.5
2023	40.2	43.9	11	32.4	2,608	36.6
Income Not Available						
2022	0.0	15.1	18	28.1	5,734	32.8
2023	0.0	17.1	12	35.3	2,371	33.2
Total						
2022	100.0	100.0	64	100.0	17,467	100.0
2023	100.0	100.0	34	100.0	7,134	100.0
<i>Source: 2020 U.S. Census; HMDA Reported Data; 2022 & 2023 HMDA Aggregate Data. Due to rounding, totals may not equal 100.0%</i>						

COMMUNITY DEVELOPMENT TEST

HSB’s community development performance demonstrates adequate responsiveness to community development needs in this assessment area through community development loans, qualified investments, and community development services. Examiners considered the bank’s capacity and the need and availability of community development opportunities in the assessment area.

Community Development Loans

HSB originated 14 community development loans totaling \$11.3 million in this assessment area during the evaluation period. Community development loans in this area increased significantly by number and dollar volume when compared to the previous evaluation, at which time the bank made

7 community development loans totaling \$2.7 million. However, as mentioned previously, this evaluation includes a longer review period than the previous evaluation period.

HSB’s community development loans primarily benefitted revitalization or stabilization efforts in the assessment area and were also responsive to economic development and community service needs. The following table details HSB’s community development loans by year and purpose.

Community Development Lending										
Multi-State MSA 41540										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2021 (Partial)	0	0	1	14	0	0	1	1,584	2	1,598
2022	0	0	3	942	1	1,120	2	119	6	2,181
2023	0	0	0	0	1	91	1	3,797	2	3,888
YTD 2024	0	0	0	0	2	1,615	2	1,984	4	3,599
Total	0	0	4	956	4	2,826	6	7,484	14	11,266

Source: Bank Data

Notable examples of the bank’s qualified community development loans include the following:

- In 2021, the bank made a \$1.6 million loan to improve a shopping mall that revitalized and stabilized a moderate-income census tract located in a designated Enterprise Zone (EZ) in Wicomico County. The goal of Maryland’s EZ program is to encourage economic growth in economically distressed areas. The program offers tax credits for businesses located in an EZ in return for job creation and investments.
- In 2022, the bank made a \$1.1 million loan to expand a dental office in a moderate-income census tract in Wicomico County. The loan supported economic development efforts, allowing the business to hire an additional dentist and associated support staff. Wicomico County has been identified as a health professional shortage area (HPSA). HPSAs are areas with a shortage of health professionals, which can include geographic areas, populations, or facilities.
- In 2023, the bank made a \$3.8 million loan to support the purchase, repair, and renovation of a shopping plaza that revitalized and stabilized a low-income census tract. The shopping plaza, located in a Wicomico County EZ, contains several anchor stores, including a supermarket and a national retail chain store.

Qualified Investments

HSB made 49 qualified investments and donations totaling \$8.7 million in this assessment area during the evaluation period. This total includes 10 current period investments totaling approximately \$8.7 million and 39 donations totaling \$68,000. Qualified investments and donations remained the same in number but increased 300.2 percent by dollar amount when compared to the

prior evaluation, at which time the bank made 49 qualified investments totaling approximately \$2.2 million. However, as mentioned previously, this evaluation includes a longer review period than the previous evaluation period. As shown in the following table, qualified investments largely benefitted affordable housing and essential community services.

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

Qualified Investment										
Multi-State MSA 41540										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	0	0	0	0	0	0	0	0	0	0
2021 (Partial)	0	0	0	0	0	0	0	0	0	0
2022	3	1,426	0	0	0	0	0	0	3	1,426
2023	5	1,983	0	0	0	0	0	0	5	1,983
YTD 2024	2	5,264	0	0	0	0	0	0	2	5,264
Subtotal	10	8,673	0	0	0	0	0	0	10	8,673
Qualified Grants & Donations	0	0	25	52	10	3	4	13	39	68
Total	10	8,673	25	52	10	3	4	13	49	8,741
<i>Source: Bank Data</i>										

Notable examples of the bank’s qualified community development investments include the following:

- In 2022, the bank purchased three mortgage-backed securities (MBS) totaling \$1.4 million. The securities invest in eight loans to low- and moderate-income borrowers within the Multi-State MSA 41540 assessment area.
- In 2023, the bank purchased five MBSs totaling approximately \$2.0 million. The investments benefitted low- and moderate-income individuals within the Multi-State MSA 41540 assessment area.
- In 2024, the bank invested \$4.5 million in a bond fund that offers a variety of affordable first-time homebuyer mortgage products that benefit low- and moderate-income borrowers. Borrowers are required to take an approved homebuyer education course and meet established income and purchase price limits. In addition to competitive interest rates offered on mortgage loans, the program offers down payment and closing cost assistance to help borrowers obtain the initial funds to purchase a home. HSB earmarked the investment to serve borrowers in the assessment area counties.
- During the evaluation period, the bank made eight donations totaling \$33,500 to assessment area schools that primarily educate low- and moderate-income students. The majority of students at these schools are eligible for free or reduced-cost lunch.

Community Development Services

During the evaluation period, bank management and staff provided 77 instances of financial expertise to qualifying community development organizations. This represents a 26.2 percent increase in qualifying services when compared to the previous evaluation; however, as mentioned previously this evaluation includes a longer review period than the previous evaluation period.

The following table illustrates HSB’s community development services by year and purpose.

Community Development Services					
Multi-State MSA 41540					
Assessment Area	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2021 (Partial)	3	8	4	3	18
2022	3	9	4	3	19
2023	3	11	4	3	21
2024 (YTD)	1	12	5	1	19
Total	10	40	17	10	77
<i>Source: Bank Data</i>					

Notable examples of the bank’s qualified community development services include the following:

- In 2021, 2022, and 2023, an Assistant Vice President (AVP) shared financial expertise with a nationwide non-profit organization with multiple locations in Salisbury that primarily serves low- and moderate-income individuals.
- Each year following the previous evaluation, a bank Executive Vice President (EVP) served on the Board of a Wicomico County organization that provides housing opportunities for individuals that meet certain income guidelines, primarily low- and moderate-income individuals. As Board Vice-Chair, the EVP assisted with the financial management of the organization’s activities.
- Each year following the previous evaluation, a bank employee shared financial expertise with a non-profit in Wicomico County by providing financial planning assistance to homeless shelter occupants.

In addition, the free and low-cost deposit accounts and small dollar loan programs discussed at the institution level are available in the Multi-State MSA 41540 assessment area.

DORCHESTER COUNTY, NON-MSA – FULL-SCOPE REVIEW

DESCRIPTION OF INSTITUTION’S OPERATIONS IN DORCHESTER COUNTY, NON-MSA

This assessment area represents the non-MSA county of Dorchester. The area encompasses 10 census tracts, which represents 7.6 percent of the total tracts among the combined assessment area. HSB operates 3 of its 14 branches (21.4 percent) in this assessment area. Based on FDIC Deposit Market Share reports as of June 30, 2024, this assessment area accounted for 23.9 percent of the bank’s total deposits. Of the combined assessment area, the bank originated 13.1 percent of its small business loans and 22.8 percent of its HMDA loans in this assessment area during 2022 and 2023.

Economic and Demographic Data

The assessment area’s 10 census tracts reflect the following income designations according to 2020 U.S. Census Data:

- 0 low-income census tracts,
- 2 moderate-income census tracts,
- 7 middle-income census tracts,
- 0 upper-income census tracts, and
- 1 census tract with no income designation.

The previous evaluation, which relied upon 2015 ACS data for tract income designations, also reflected 10 census tracts, including 1 low- and 1 moderate-income census tract.

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

Demographic Information of the Assessment Area						
Dorchester County, Non-MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	10	0.0	20.0	70.0	0.0	10.0
Population by Geography	32,531	0.0	28.7	71.3	0.0	0.0
Housing Units by Geography	16,754	0.0	25.7	74.3	0.0	0.0
Owner-Occupied Units by Geography	9,068	0.0	15.7	84.3	0.0	0.0
Occupied Rental Units by Geography	4,365	0.0	51.2	48.8	0.0	0.0
Vacant Units by Geography	3,321	0.0	19.7	80.3	0.0	0.0
Businesses by Geography	3,576	0.0	21.9	78.1	0.0	0.0
Farms by Geography	256	0.0	6.3	93.8	0.0	0.0
Family Distribution by Income Level	8,641	24.4	20.3	21.9	33.4	0.0
Household Distribution by Income Level	13,433	29.8	16.5	17.3	36.4	0.0
Median Family Income Non-MSAs - MD		\$75,242	Median Housing Value			\$197,442
			Median Gross Rent			\$867
			Families Below Poverty Level			10.9%

Source: 2020 U.S. Census and 2023 D&B Data. Due to rounding, totals may not equal 100.0%. () The NA category consists of geographies that have not been assigned an income classification.*

The Geographic Distribution criterion for small business loans considers the distribution of businesses by tract income level within the assessment area. According to 2023 D&B data, 21.9 percent of the assessment area’s businesses operate in the moderate-income census tracts, while 78.1 percent are located in middle-income tracts. This suggests that there is greater opportunity for lenders to originate small business loans in middle-income geographies than in moderate-income geographies.

The Geographic Distribution criterion for home mortgage loans considers the percentage of owner-occupied housing units within the assessment area, with a focus on loan penetration in the area’s moderate-income census tracts. Of the assessment area’s 16,754 housing units, 54.1 percent are owner-occupied, 26.1 percent are occupied rental units, and 19.8 percent are vacant. Additionally, as shown in the table above, 15.7 percent of the assessment area’s owner-occupied housing units are in the moderate-income census tracts while 84.3 percent are in middle-income tracts. This suggests that there is greater opportunity for lenders to originate home mortgage loans in middle-income geographies than in moderate-income geographies.

The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR level. According to 2023 D&B data, 3,576 non-farm businesses operate in this assessment area. GARs for these businesses are as follows:

- 87.7 percent have GARs of \$1.0 million or less,
- 3.0 percent have GARs of more than \$1.0 million, and

- 9.3 percent have unknown revenues.

Service-related businesses represent the largest percentage of businesses operating in the assessment area (31.6 percent); followed by non-classifiable establishments (21.7 percent); retail trade (10.0 percent); finance, insurance, and real estate (8.2 percent); and construction (7.1 percent). Of the area’s total businesses that include farms (3,832), 92.3 percent have fewer than five employees and 92.0 percent operate from a single location. This data suggests that the majority of businesses in the assessment area are small businesses.

The Borrower Profile criterion compares home mortgage lending to the percentage of low- and moderate-income families in the assessment area. As shown in the table above, 24.4 percent of the assessment area’s families are low-income, including 10.9 percent below the poverty level, and 20.3 percent are moderate-income. This data suggests it may be difficult for many families to qualify for a home mortgage loan or to support a monthly mortgage payment under traditional underwriting guidelines, especially considering the median housing value in the assessment area. This data reflects the challenges lenders face in originating home mortgage loans to low- and moderate-income individuals.

Examiners used the FFIEC-updated median family income data to analyze home mortgage loans under the Borrower Profile criterion. The following table presents median family income ranges in the assessment area.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
MD NA Median Family Income (99999)				
2022 (\$93,600)	<\$46,800	\$46,800 to <\$74,880	\$74,880 to <\$112,320	≥\$112,320
2023 (\$87,800)	<\$43,900	\$43,900 to <\$70,240	\$70,240 to <\$105,360	≥\$105,360
<i>Source: FFIEC</i>				

Data obtained from the U.S. Bureau of Labor Statistics shows that unemployment rates in Dorchester County generally decreased since the prior evaluation. Similar to the state and national average, unemployment rates in Dorchester County increased as of October 2024. The following table presents annual unemployment rates in Dorchester County as well as the state and national levels since 2021.

Unemployment Rates				
Area	2021	2022	2023	October 2024
	%	%	%	%
Dorchester County, MD	5.2	3.4	2.3	3.2
State of Maryland	3.6	2.5	2.2	3.0
National Average	3.9	3.5	3.7	4.1
<i>Source: U.S. Bureau of Labor Statistics.</i>				

Competition

Competition for financial services within this assessment area is limited. According to 2024 FDIC Deposit Market Share data, 7 financial institutions operate 12 full-service branches within the assessment area. Of these institutions, HSB ranked 2nd with a 24.3 percent deposit market share.

Aggregate lending data reveals moderate competition for small business loans in this assessment area. In 2022, 47 lenders reported 635 originated or purchased small business loans. The top five lenders, consisting of large national banks, accounted for 21.0 percent of the market share based on number of loans originated. Of these institutions, HSB ranked 15th with a 1.7 percent market share.

There is also a moderate level of competition for home mortgage loans in this assessment area. In 2023, 151 lenders reported 913 originated or purchased mortgage loans. Of these institutions, HSB ranked 37th with a 0.7 percent market share. The top five lenders, consisting of large national banks and online mortgage companies, accounted for 27.1 percent of the market share based on the number of loans originated.

Community Contact

Examiners contacted the president of a non-profit organization that supports the needs of small businesses in Dorchester County. The organization's mission is to promote a strong and resilient business community in Dorchester County. The non-profit partners with larger economic development and small business development organizations to provide services for the local business community. The contact stated that there are not many business-wide vacancies but noted there is low housing stock. The contact also stated that several downtown Cambridge buildings are being rebuilt, and the local government is still trying to secure funding to have them repaired. When asked about local banking, the contact noted that most banks are fairly involved. The contact also stated that despite area banks merging and increasing in size, they still act like community banks. The contact noted that local business owners have had good working relationships with local banks. According to the contact, most banks offer SBA loan products and there is not much room for banks to differentiate outside of SBA's predefined terms. The contact identified that the biggest needs in the community are financial literacy, workforce education, and workforce development.

Credit and Community Development Needs and Opportunities

Considering the information from the community contact, bank management, and economic and demographic data, examiners determined that community development opportunities exist for banks to assist the local business community with financial literacy in navigating SBA financing programs. Examiners also determined that credit needs include small business loans and loans to finance the development of area housing.

CONCLUSIONS ON PERFORMANCE CRITERIA IN DORCHESTER COUNTY, NON-MSA

LENDING TEST

HSB demonstrated poor performance under the Lending Test in Dorchester County. The bank's poor performance under the Geographic Distribution criterion and Borrower Profile criterion supports this conclusion.

Geographic Distribution

The geographic distribution of loans reflects poor dispersion throughout the assessment area. The bank's low loan volume in this assessment area supports this conclusion.

Small Business Loans

The bank made 11 small business loans totaling \$2.4 million in this assessment area in 2022. Of these, two loans totaling \$900,000 were in moderate-income census tracts. The bank made 10 small business loans in this assessment area in 2023; none were to businesses in moderate-income census tracts. Examiners could not draw meaningful conclusions on the bank's performance due to the overall low volume of loans.

Home Mortgage Loans

HSB made 23 home mortgage loans in this assessment area in 2022. Of these, six were in moderate-income census tracts. The bank made six home mortgage loans in 2023; one was in a moderate-income census tract. Examiners could not draw meaningful conclusions on the bank's performance due to the overall low volume of loans.

Borrower Profile

The distribution of borrowers reflects poor penetration among businesses of different sizes and individuals of different income levels. The bank's low loan volume in this assessment area supports this conclusion.

Small Business Loans

Of the 11 small business loans the bank made in 2022, 9 were to businesses with GARs of \$1 million or less. Of the 10 small business loans originated in 2023, 7 were to businesses with GARs of \$1 million or less. Although the large majority of loans were to businesses with GARs of \$1 million or less each year, examiners could not draw meaningful conclusions on the bank's performance due to the overall low volume of loans.

Home Mortgage Loans

Of the 23 home mortgage loans originated in 2022, 1 was to a low-income borrower and 3 were to moderate-income borrowers. Of the six home mortgage loans originated in 2023, none were to low-income borrowers, and one was to a moderate-income borrower. Examiners could not draw meaningful conclusions on the bank's performance due to the overall low volume of loans.

COMMUNITY DEVELOPMENT TEST

HSB's community development performance demonstrates adequate responsiveness to community development needs in this assessment area through community development loans, qualified investments, and community development services. Examiners considered the bank's capacity and the need and availability of community development opportunities in the assessment area.

Community Development Loans

HSB made one qualifying community development loan totaling \$1.6 million in this assessment area in 2022. This loan, to a start-up business, promoted economic development in a moderate-income census tract. This represents 5.2 percent by number and 5.0 percent by dollar amount of the bank's total community development lending. Community development lending increased in dollar volume since the previous evaluation but decreased by number of loans. During the previous evaluation, HSB made two loans totaling \$795,600.

Qualified Investments

The bank made five investments totaling \$828,330 in MBSs that benefitted low- and moderate-income borrowers and one donation totaling \$1,500 to a non-profit that provides affordable housing. In addition, HSB made one donation totaling \$100 to a qualifying organization that provides community services. The bank's 7 combined investments and donations in this assessment area represents a decrease from the previous evaluation, where the bank made 15 qualifying investments and donations totaling \$2.5 million.

Community Development Services

Two bank AVPs provided 10 qualifying community services to 3 organizations during the evaluation period. Services included assisting with the financial management of a non-profit organization and providing financial literacy instruction to low- and moderate-income students. Community development services increased from the previous evaluation, where one employee engaged in three qualifying services as a representative of HSB.

In addition, the free and low-cost deposit accounts and small dollar loan programs discussed at the institution level are available in the Dorchester County, Non-MSA assessment area.

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. 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.

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.