



PUBLIC DISCLOSURE

December 11, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Henderson Federal Savings Bank
Charter Number 703155

130 N Marshall St
Henderson, TX 75652-3144

Office of the Comptroller of the Currency

1800 NW Loop 281
Suite 306
Longview, TX 75604-2516

NOTE: 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'S CRA RATING: This institution is rated Satisfactory

Henderson Federal Savings Bank (HFSB) has a “Satisfactory record of meeting the credit needs within its assessment area.” The major factors supporting this rating include:

- HFSB loan-to-deposit (LTD) ratio is reasonable.
- A substantial majority of loans are extended within HFSB’s assessment area (AA).
- HFSB’s distribution of loans based on borrower income represents a reasonable penetration.
- HFSB’s geographic distribution of loans reflects a reasonable dispersion within its AA.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

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 MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

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.

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, which 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).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, 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 conduct 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, the disposition of the application (e.g., approved, denied, and withdrawn), loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

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

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 MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties 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 percent 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 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

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 qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state 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 multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): 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, or are classified as loans to finance agricultural production and other loans to farmers.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

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

Description of Institution

HFSB is a mutually chartered federal savings association headquartered at 130 North Marshall Street, Henderson, Texas. The institution reported total assets of \$111 million as of September 30, 2017. HFSB's business strategy is that of a traditional federal savings association with a focus on 1-4 family mortgages and consumer loans.

HFSB has designated all of Rusk County as its AA, which is part of the Longview, Texas MSA. This AA meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude any low- or moderate-income geographies. The AA has a total population of 53.3 thousand and consists of 12 middle-income CTs and one moderate-income CT. HFSB has one office that includes a drive through facility and ATM. Major industries include retail trade, manufacturing, health care services, construction, and mining. The local economy is considered stable, and demographic information reflects a moderate poverty level with 12.49 percent of households living below the poverty level. Unemployment was reported at 4.1 percent as of October 2017. Competition is strong with several local community banks, savings associations, credit unions, and regional banks located within the AA.

We contacted a local government official as part of our community needs assessment. The official did not identify any credit needs that were not being met.

As of September 30, 2017, HFSB's loan portfolio totaled \$72 million with reported deposits of \$89 million. The following chart reflects the distribution of the bank's loan portfolio as of September 30, 2017.

Loan Category	\$ (000)	%
Residential Real Estate Loans	\$55,160	76.21%
Commercial Loans (includes commercial real estate)	\$11,494	15.88%
Consumer Loans	\$4,127	5.70%
Agricultural Loans	\$1,109	1.53%
Other	\$493	0.68%
Total	\$72,383	100.00%

There are no financial or legal obstacles affecting the institution's ability to meet community credit needs. HFSB's CRA performance was rated "Satisfactory" at the previous CRA Examination dated February 4, 2013. OCC records and the institution's CRA public file indicate there have been no complaints related to the CRA performance. HFSB's tier 1 capital equaled \$21.9 million, representing 19.78 percent of adjusted average assets as of September 30 2017.

SCOPE OF EXAMINATION

Scope of the Evaluation

Evaluation Period/Products Evaluated

HFSB's CRA performance was evaluated using the small bank CRA procedures. Under these procedures, loan originations are evaluated to determine if the institution is meeting the credit needs of its AAs. Conclusions regarding the bank's lending performance are based on 1-4 family mortgages and consumer loans originated from January 1, 2015 to June 30, 2017. Data for residential mortgages was obtained from reports required by the HMDA, while conclusions for consumer loans was based on statistical samples.

Data Integrity

A data integrity review was completed in June 2017 to determine the accuracy of HFSB's reporting of HMDA loans. The HMDA data was found to be reliable.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

Conclusions with Respect to Performance Tests

LENDING TEST

HFSB's performance under the CRA is "Satisfactory". The institution's LTD ratio is reasonable and a substantial majority of the lending activity was originated inside its AA. The distribution of loans to borrowers of different income reflects a reasonable penetration. In addition, the geographic distribution of loans represents a reasonable dispersion throughout the AA. Finally, there were no CRA related complaints filed during this evaluation period.

Loan-to-Deposit Ratio

HFSB's LTD ratio is reasonable given the institution's size, financial condition, and AA credit needs. The thrift's quarterly LTD ratio has averaged 79.25 percent since the prior CRA evaluation. The average quarterly LTD ratio of similarly situated institutions for the same period was 81.45 percent, and ranged from 47.72 percent to 96.08 percent.

Lending in Assessment Area

A substantial majority of the institution's lending activity is located inside its AA. We reviewed all HMDA reported loans for 2015 through June 30, 2017, along with a sample of consumer loans. This sample reflected approximately 82.35 percent of the number of loans were extended in the institution's assessment areas. The breakdown by loan category is illustrated in the following table:

Table 1 - Lending in Rusk County AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Purchase	93	80.87	22	19.13	115	11,105	75.49	3,606	24.51	14,711
Refinance	23	85.19	4	14.81	27	2,919	84.10	552	15.90	3,471
Home Improvement	36	85.71	6	14.29	42	2,269	90.80	230	9.20	2,499
Consumer	16	80.00	4	20.00	20	201	67.95	95	32.05	296
Totals	168	82.35	36	17.65	204	16,494	78.63	4,483	21.37	20,977

Source: Loan Sample; Data Reported Under HMDA.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

HFSB's distribution of loans based on borrower income represents a reasonable penetration given the demographics of the institution's AAs.

The distribution of loans among individuals of different income levels is reasonable based on residential mortgage originations. While the percentage of loans to low-income families was lower than the AA's demographics, residential mortgages originated to moderate-income families was near to the AA demographics. Factors that inhibit the origination of loans to low-income families include a moderately high percentage of households that live below the poverty level at 12.49 percent. In addition, the weighted average value of housing stock within the institution's AA was \$89,405, making it difficult for low-income families to qualify for a home loan.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Rusk County AA									
Borrower Income Level	Low		Moderate		Middle		Upper		Not Available
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of Number of Loans
Purchase	20.04	2.15	18.02	15.05	22.01	23.66	39.93	51.61	7.53
Refinance	20.04	0.00	18.02	8.70	22.01	8.70	39.93	69.57	13.03
Home Improvement	20.04	2.78	18.02	16.67	22.01	11.11	39.93	61.11	8.33

Source: Data Reported Under HMDA; U.S. Census Data.

The distribution of loans among individuals of different income levels is reasonable based on consumer loan originations. The percentage of loans to both low-income and moderate-income households were near to the AA demographics.

Table 2B - Borrower Distribution of Consumer Loans in Rusk County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	21.57	20.00	15.99	10.00	18.19	25.00	44.25	45.00

Source: Loan Sample; U.S. Census Data.

Geographic Distribution of Loans

HFSB's distribution of loans by geography reflects a reasonable dispersion given the demographics of the institution's AAs.

The geographic distribution of home loans represents a reasonable dispersion throughout the AA. The percentage of home loans originated in moderate-income tracts exceeded the percentage of owner occupied housing for purchase and home improvement loans, while the percentage of refinance loans is near to the percentage of owner occupied housing.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Rusk County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Purchase	0.00	0.00	6.68	7.53	93.32	92.47	0.00	0.00
Refinance	0.00	0.00	6.68	4.35	93.32	95.65	0.00	0.00
Home Improvement	0.00	0.00	6.68	13.89	93.32	86.11	0.00	0.00

Source: Data Reported Under HMDA; U.S. Census Data.

The geographic distribution of consumer loans represents an excellent dispersion throughout the AA. The percentage of consumer loans originated in moderate-income tracts exceeded the percentage of AA households.

Table 3B - Geographic Distribution of Consumer Loans in Rusk County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0.00	0.00	6.34	15.00	93.66	85.00	0.00	0.00

Source: Loan Sample; U.S. Census Data.

Responses to Complaints

HFSB did not receive any complaints or public comments regarding CRA performance during this evaluation period.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test (excludes CD loans): (01/01/2015 to 06/30/2017)	
Financial Institution		Products Reviewed
Henderson Federal Savings Bank (HFSB) Henderson, Texas		1-4 Family Mortgages Consumer Loans
Affiliate(s)	Affiliate Relationship	Products Reviewed
NA	NA	NA
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Rusk County	Full-Scope	

Appendix B: Community Profiles for Full-Scope Areas

Rusk County AA

Demographic Information for Full-Scope Area: (Rusk County)						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	13	0.00	7.69	92.31	0.00	0.00
Population by Geography	53,330	0.00	5.25	94.75	0.00	0.00
Owner-Occupied Housing by Geography	21,047	0.00	6.68	93.32	0.00	0.00
Businesses by Geography	2,447	0.00	5.11	94.89	0.00	0.00
Farms by Geography	118	0.00	9.32	90.68	0.00	0.00
Family Distribution by Income Level	13,407	20.04	18.02	22.01	39.93	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	5,103	0.00	53.10	37.08	0.00	0.00
Median Family Income = \$54,881 FFIEC Adjusted Median Family Income for 2017 = \$55,700 Households Below the Poverty Level = 12.49%						Median Housing Value = \$89,405 Unemployment Rate = 4.1%

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2010 U.S. Census, and 2017 FFIEC updated MFI.