



PUBLIC DISCLOSURE

October 16, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

FDS Bank
Charter Number 716138

9111 Duke Boulevard
Mason, OH 45040

Office of the Comptroller of the Currency

Midsized Bank Supervision
1 South Wacker, Suite 2000
Chicago, IL 60660

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.

Table of Contents

Overall CRA Rating 3
Definitions and Common Abbreviations..... 4
Description of Institution 6
Scope of the Examination..... 7
Discriminatory or Other Illegal Credit Practices Review 7
Description of Assessment Area..... 8
Conclusions about Performance..... 10

Overall CRA Rating

This institution is rated Satisfactory.

The conclusions for the three rating criteria are:

- The bank demonstrates an adequate level of community development services and/or qualified investment activity;
- The bank demonstrates no use of innovative or complex qualified investments or community development services; and
- The bank demonstrates adequate responsiveness to credit and community development needs in its assessment area.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation. 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 both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Assessment Area (AA): A geographic area that consists generally of one or more MSAs (using the MSA boundaries that were in effect as of January 1 of the calendar year in which the delineation is made) or one or more contiguous political subdivisions, such as counties, cities, or towns, in which the bank has its main office, branches, and deposit-taking ATMs.

Benefit to Assessment Area: The OCC considers all qualified investments, community development loans, and community development services that benefit areas within the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

Benefit Outside Assessment Area: The OCC considers the qualified investments, community development loans, and community development services that benefit areas outside the bank's assessment area(s), if the bank has adequately addressed the needs of its assessment area(s).

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 (CD): 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.

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

Limited Purpose Institution: An institution that offers only a narrow product line (such as credit cards or automobile loans) to a regional or broader market and for which a designation as limited purpose bank is in effect.

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: 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.

Net Operating Income: As listed in the Consolidated Report of Condition and Income: Income before income taxes and extraordinary items and other adjustments.

Pass-Through Receivables: Outstanding receivables tied to all accounts issued or owned by the bank. Pass-through receivables include receivables attributable and receivables retained on balance sheet as those terms are used in 12 CFR 8.

Tier 1 Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with noncumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Total Assets: Total bank assets as listed in the Consolidated Report of Condition and Income.

Total Income: From the Consolidated Report of Condition and Income – Total Interest income plus Total Noninterest income.

Description of Institution

FDS Bank (FDS or the bank) is a less than \$250 million bank headquartered in Mason, Ohio, a suburb of Cincinnati, Ohio. It has no branch offices or ATMs. In February 1996, FDS received its designation as a limited purpose institution for CRA purposes. FDS is a wholly-owned subsidiary of FDS Thrift Holding Company, Inc., which is wholly owned by Macy's Inc. There has been no merger or acquisition activity impacting the bank's CRA performance since the last evaluation.

FDS's narrow product line somewhat affects its ability to help meet community credit needs within its AA; however, there are no known legal or financial factors. Table 1 provides financial information relating to FDS's financial capacity to help meet the needs of its AA. FDS's assets are centered in federal funds sold and investment securities. FDS's business focus is the origination of private label Macy's and Bloomingdale's credit cards for commercial entities and employees of Macy's Inc. The bank also issues pre-pay accounts for employees. The average amount of pass-through receivables (\$3.12 million) represents the outstanding balance of all accounts originated, subsequently sold, and presently serviced by FDS, with one exception. FDS does not sell its commercial receivables.

Qualified CD activities of FDS, FDS' affiliates, or parent company departments are included in this CRA evaluation and are described below:

Macy's Inc.

Macy's, Inc. is one of the nation's premier retailers, with corporate offices in Cincinnati, Ohio and New York, New York. Macy's Inc. gross annual sales were \$25.8 billion for fiscal 2016. Macy's Inc. operates more than 700 department stores under the names of Macy's and Bloomingdale's, and approximately 125 specialty stores in 45 states, the District of Columbia, Guam, and Puerto Rico.

Macy's Foundation, Inc.

Macy's Foundation is a private grant-making foundation located in Cincinnati, Ohio. Established in 1996, Macy's Foundation supports local communities across the country where stores or other facilities are located. In addition, contributions are comprised of employee contributions through workplace giving campaigns and customer contributions through signature giving programs.

The following table provides an overview of FDS' financial information.

Table 1: Financial Information (000s)

	Year-end CY 2012	Year-end CY 2013	Year-end CY 2014	Year-end CY 2015
Tier 1 Capital	62,974	73,464	86,373	115,977
Total Income	827,784	909,936	953,047	1,016,236
Net Operating Income	593,653	676,833	716,747	766,289

Total Assets	190,191	198,544	218,033	252,660
Pass-Through Receivables	4,163	2,527	2,455	3,120

Source: Consolidated Report of Condition and Income and bank reported data.

The Average for Evaluation Period is the average of the numbers in the six columns.

	Year-end CY 2016	Most Recent Quarter-end 06/30/2017	Average for Evaluation Period
Tier 1 Capital	92,773	40,720	85,869
Total Income	908,100	434,664	918,139
Net Operating Income	702,743	346,836	691,473
Total Assets	216,513	148,292	222,588
Pass-Through Receivables	3,552	NA	2,876

Source: Consolidated Report of Condition and Income and bank reported data.

The Average for Evaluation Period is the average of the numbers in the six columns.

^{NA} Information not available.

Scope of the Examination

In evaluating the bank's performance under the CRA, we reviewed CD activities from March 1, 2013 through October 15, 2017. We reviewed the level and nature of qualified investments and CD services. The bank does not have any CD lending. At the bank's request, we also considered qualified investments and CD services provided by its affiliates. At the prior examination dated March 19, 2012, we rated the bank Satisfactory.

Data Integrity

As part of our ongoing supervision of the bank, we reviewed the appropriateness of CD activities provided for consideration in our evaluation. This included testing of CD investments and services for accuracy and to determine if they qualify as CD as defined in the CRA regulation. Our testing indicated no substantive inaccuracies in the data. Therefore, we concluded that the CD activity data could be relied upon for this evaluation.

We considered a variety of CD activities presented by the bank and its affiliates for consideration during the evaluation period, including investments such as grants to qualifying CD organizations. We also considered CD services provided such as board or committee memberships.

The bank has adequately addressed the needs of its AA; therefore, we considered qualified investments and/or services outside of its AA in evaluating the bank's performance.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 CFR 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 AA 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.

The OCC has not identified that this institution [or any affiliate whose loans have been considered as part of the institution's lending performance] has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

Description of Assessment Area

FDS has one AA that encompasses the states of Ohio, Kentucky, and Indiana. The bank has designated the Cincinnati-Middletown, OH-KY-IN MSA as the Cincinnati AA. The AA consists of 12 of the 15 counties, which are the following: Dearborn and Ohio counties in Indiana; Boone, Campbell, Gallatin, Grant, Kenton, Pendleton counties in Kentucky; and Butler, Clermont, Hamilton, and Warren counties in Ohio. The number of counties changed slightly from the previous performance evaluation due primarily to the bank's consumer footprint. This AA complies with CRA guidelines, and does not arbitrarily exclude low- and moderate-income (LMI) geographies. There are no known barriers to CD lending, investment, or services. Our analysis included a full-scope review of the bank's performance in the Cincinnati AA.

According to the 2010 U.S. Census, the total population of the AA was 2,053,730. The distribution of families by income level was 5.27 percent low-income, 19.37 percent moderate-income, 43.67 percent middle-income, and 31.68 percent upper-income. The percentage of families in the AA living below the poverty level is high at 12.08 percent at the 2010 U.S. Census. The 2016 FFIEC adjusted median family income for the AA was \$68,800. Low-income families in the AA, earned median annual income of \$34,400 or less, and moderate-income families earned an annual income of \$34,401 to \$55,040.

According to the Bureau of Labor Statistics, unemployment in this AA is slightly higher than the national average as of September 2017 at 4.6 percent. The national unemployment rate as of September 2017 was 4.20 percent, and for the states of Indiana, Kentucky, and Ohio the rate was 3.80, 5.20, and 5.30 percent, respectively.

According to Moody's Analytics, Cincinnati's economy is on solid footing and is second only to Columbus in the Buckeye State. Although job growth has slowed since the start of 2017 after clocking in near its fastest pace in more than 15 years in 2016, the labor market continues to tighten. A large e-commerce company is investing \$1.5 billion in a 3 million square-foot shipping hub at the Cincinnati/Northern Kentucky International Airport that will reinforce existing logistical operations. Although the jobs added will be a mix of high- and low-paying positions, the mega retailer's presence will draw other services firms. The hospital system has increased its workforce by a factor of four since 1995, and the latest expansion will add 600 workers, the majority of which will be well-paying medical professional positions.

The top employers include the Kroger Co., University of Cincinnati, Cincinnati Children’s Hospital Medical Center, UC Health, TriHealth Inc., Procter & Gamble Co., and St. Elizabeth Healthcare. The leading industries are education, health services, and transportation.

The following table provides a summary of statistics for the Cincinnati-Middletown, OH-KY-IN MSA:

Table 2: Assessment Area Description

	Number	Low	Moderate	Middle	Upper
Tracts	484	11.57%	24.17%	39.26%	24.17%
Families	521,437	5.27%*	19.37%*	43.67%*	31.68%*
Businesses	117,132	5.54%**	22.10%**	38.92%**	33.35%**

Source: Demographic Data – 2010 U.S. Census, Dun & Bradstreet Data.

*Represents families by income level.

**Represents businesses by income level of census tract. Does not add to 100% due to rounding. Four Census Tracts are not income categorized.

Based upon FDIC deposit market share data as of June 30, 2017, FDS achieved a 0.02 percent market share of deposits, ranking 54th among 61 financial institutions in the AA.

Banking competition is strong in the Cincinnati-Middletown, OH-KY-IN MSA, which has a large number of commercial banks, including large national banks such as US Bank NA, Fifth Third Bank, PNC Bank NA, and JP Morgan Chase NA, as well as several large credit unions who also vie for meaningful CD opportunities. Several large multi-state regional institutions have extensive branch networks, which give them the ability to combine CD activities with their retail banking offices and products. These financial institutions compete for a limited supply of qualified CD opportunities in the Cincinnati-Middletown, OH-KY-IN MSA to satisfy their CRA obligations. The opportunity for any one of these institutions to obtain any sizable portion of qualified investments or loans benefiting the AA is limited.

Housing affordability in this area remains a challenge, particularly for low- and moderate-income families. According to Realtor.com, the median home sales price in Cincinnati-Middletown, OH-KY-IN MSA increased from over \$137,000 during the first quarter of 2013 to over \$189,000 during the second quarter of 2017. This increase in home prices has strained the affordable housing market. Further, per 2010 U.S. Census data, the Cincinnati-Middletown, OH-KY-IN MSA housing market consisted of over 880,000 housing units (61.36 percent of which were owner occupied, 27.95 percent of which were occupied rental units, and 10.69 percent of the housing units in the AA were vacant).

The OCC’s Community Affairs Officers completed community contact information regarding community needs in the AA during the evaluation period. The identified CD needs in the AA, based on community contact information and information obtained from bank management, include the following:

- Housing rehabilitation assistance for low- and moderate-income homeowners;
- Home ownership assistance for low- and moderate-income individuals;
- Rental assistance and subsidized housing, including security deposit grants, for low-income households;

- Social services for low-income individuals including homeless prevention services, food and clothing assistance, health care services, financial education, and debt management services; and
- Small business venture capital loans.

There is a significant need for CD loans, investments, and services within the AA. Competition for CD loans, qualified investments, and CD services is high and consists primarily of local financial institutions that have a presence within the AA. However, FDS's ability to take advantage of these opportunities is somewhat limited due to the nature of its operations and significant competition from full service FDIC-insured institutions.

Conclusions about Performance

Summary

The conclusions for the three rating criteria are:

- The bank demonstrates an adequate level of CD services and/or qualified investment activity in relation to its capacity and opportunities in the AA;
- The bank demonstrates no use of innovative or complex qualified investments, CD loans, or CD services; and
- The bank demonstrates adequate responsiveness to credit and CD needs in its AA. FDS's qualified investments and CD services provided affordable housing and social service programs targeted to low- and moderate-income individuals and economic development activities. These CD activities were in direct response to identified community needs.

Qualified Investments

Qualified investments and grants made in or benefiting the AA totaled over \$3.1 million during the evaluation period, which largely consisted of grants from the bank's affiliate. The majority of qualified investments and grants focused on providing community services to low- and moderate-income individuals and, to a lesser extent, affordable housing. As such, the investments were responsive to the identified credit needs of the AA. The bank's affiliate contributed over \$2.8 million to the qualified grants.

The bank invested \$45,000 in an interest waived account at a nonprofit credit union that originated in a prior period in the AA. The interest is used by the institution to provide low interest loans for investors within the AA.

CD activities outside the bank's AA had a positive impact on its overall CRA performance and further supported the overall Satisfactory rating. FDS received consideration for these CD activities outside of its AA because it adequately addressed CD needs within its AA. During the evaluation period, CD investments and grants totaling over \$4.2 million were made that were located outside the bank's AA and have no potential to benefit the AA. The bank made 386 grants during the evaluation period to support CD outside of its AA.

Table 3, below, quantifies the level of total qualified investment activity benefiting the AA as well as outside of the AA.

Table 3: Qualified Investment Activity (000s)

	Benefits AA	Outside AA	Totals
Originated Investments	\$0	\$0	\$0
Originated Grants	\$3,131	\$4,227	\$7,358
Prior-Period Investments that Remain Outstanding	\$45	\$0	\$45
Total Qualified Investments	\$3,176	\$4,227	\$7,403
Unfunded Commitments*	\$0	\$0	\$0

* "Unfunded Commitments" means legally binding investment commitments that are tracked and recorded by the bank's financial reporting system.

Table 4, below, provides a breakdown of the bank's investment activity in relationship to its financial capacity in terms of average tier 1 capital and average total income over the evaluation period.

Table 4: Qualified Investment Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total Investments/Average Tier 1 Capital	3.70	4.92	8.62
Total Investments/Average Total Income	0.35	0.46	0.81
Total Investments/Average Pass-Through Receivables	100.43	147.00	257.43

Described below are some of the most significant qualified grants in the AA made by the bank:

- Several grants totaling \$100,000 to a nonprofit organization that provides services within the community to low-income elderly and disabled homeowners. The funds support the organization's mission to improve their quality of living. The organization assists residents with critical home repairs, energy conservation and weatherization, mobility modifications, and maintenance services. An additional \$90,000 in grants were made by the bank's affiliate. (People Working Cooperatively)
- Various sponsorships totaling over \$90,000 to an organization that supports affordable housing solutions to improve the homes and lives of homeowners in low-income communities. (Housing Opportunities of Northern Kentucky)
- Nearly \$60,000 in grants to a nonprofit organization dedicated to providing emergency shelter and housing programs for homeless families. The organization's support offers tools, resources, and support that families need to overcome homelessness and achieve long-term stability. (Interfaith Hospitality Network of Greater Cincinnati)

- Several sponsorships totaling \$50,000 to a nonprofit organization with a primary purpose is to provide homeownership opportunities to low- and moderate-income individuals and families. The organization's mission is to strengthen the fabric of its community by providing services and connecting people to resources necessary for realizing their full potential for a quality life. An additional \$50,000 in grants were made by the bank's affiliate. (Warren County Balanced Housing Corp.)

Described below are some of the most significant qualified grants in the AA made by the bank's affiliate:

- Several donations totaling over \$1.4 million to a nonprofit organization within the AA. The organization provides grants to other nonprofit organizations, which a majority serve a CD purpose. Various organizations provide affordable housing and community services primarily to low- and moderate-income individuals. (United Way of Greater Cincinnati)
- Various sponsorships totaling \$175,000 to an organization that leads economic development within the AA. An initiative of the organization is the Minority Business Accelerator, which has a purpose to accelerate the development of sizable minority business enterprises and to strengthen and expand the regional minority entrepreneurial community. (Cincinnati USA Regional Chamber)
- Numerous grants totaling nearly \$174,000 to a nonprofit organization that assists low- and moderate-income individuals develop skills to compete in the job market. The organization assists entrepreneurs in starting businesses, recruits participants, and delivers direct services to 3,000 adult/youth program participants. The organization provides financial literacy and asset building training to develop new businesses in the AA. (Urban League Of Greater Southwestern Ohio)
- Several grants totaling over \$72,000 to a nonprofit youth organization serving with community services that assists low-income neighborhoods. The support advanced the organization's mission to improve the lives of children and strengthen communities through professionally-supported, one-to-one mentoring relationships. (YMCA of Greater Cincinnati)

Described below are some of the most significant qualified grants outside the AA made by the bank's affiliate:

- Several donations totaling over \$2.5 million to various nonprofit organizations with a similar function and are affiliated with the same national organization. The organizations provide grants to other nonprofit organizations, which a majority serve a CD purpose. Various organizations provide affordable housing and community services primarily to low- and moderate-income individuals. (All United Ways)
- Several grants totaling nearly \$135,000 to numerous nonprofit organizations with similar functions. The organizations' primary objectives are to provide emergency food assistance to low-income, ethnically diverse, homeless individuals throughout the country.

- Over \$93,000 in numerous donations to various organizations across the country with an objective to provide affordable housing solutions. Several provide support services with the education they need to make informed and reasonable decisions to achieve their housing goals. Some offer housing counselors to assist clients through individual and group counseling along with educational and training programs.
- Nearly \$160,000 in sponsorships to several nonprofits with a like objective to enable all young people, with a majority being from low-income neighborhoods, to reach their full potential as productive, caring, responsible citizens. (All Boys & Girls Clubs)

Other investments included grants to local or regional organizations providing early childhood education, economic development, affordable housing, and community services or activities that revitalize or stabilize LMI geographies.

Community Development Services

Through their involvement of a board of a community service organization, the bank and affiliate employees exhibited an adequate response to CD needs. During the evaluation period, FDS and affiliate employees participated in 39 qualified service activities, providing over 17,395 hours of service to 34 organizations benefiting the AA. These organizations work to meet the needs of the community through their focus on providing affordable housing, conducting consumer education for financial management and homebuyer counseling, creating and expanding small businesses, and providing CD services to low- and moderate-income families and individuals.

A notable activity consists of the bank's participation in the United Way of Greater Fall River's (UWGF) Loaned Executive Program. UWGF is a nonprofit organization that works to improve the lives of low-income individuals and families in the community by investing their resources where they are needed most. Several FDS employees volunteered through United Way during the evaluation period by leading corporations and organizations in the community. The Loaned Executive Program is designed to make a valuable employee even more valuable through training and skill building within the nonprofit's program. Bank employees participated through the UWGF program totaling over 9,300 hours during the evaluation period.

Various bank employees participate in the Adopt A Class program, which is run by the AAC Foundation, a nonprofit organization. Adopt A Class connects businesses and civic groups with students in economically-challenged schools in greater Cincinnati and Northern Kentucky. FDS employees serve as mentors and work as a team, visiting classrooms to help mentees build communication skills, workplace expectations, the importance of finishing school, the concept of work ethic, and students' visions for their future.

Additional examples of the CD services completed during this evaluation period include:

- A bank representative served 38 hours on the finance committee of a housing organization that provides decent and affordable housing for low-income persons in the Northern Kentucky area. The organization also provides homeownership training and education to its constituents. (HONK - Housing Opportunities in Northern KY)

- A bank representative served 114 hours on the board of a nonprofit organization that provides thousands of low-income, elderly, and disabled homeowners with a higher quality of living. The organization, along with thousands of volunteers, helps Ohio residents with critical home repairs, energy conservation and weatherization, mobility modifications, and maintenance services. (PWC - People Working Cooperatively)
- An employee served 16 hours as a board member to a nonprofit housing organization that provides financial and counseling assistance to low-to-moderate income individuals and families in order to help them purchase a home. The organization also purchases and rehabilitates existing homes, and has built new housing in order to provide housing opportunities for qualified county residents. (Warren County Community Services)
- An employee served 24 hours to a nonprofit organization that provides food and shelter for families who have been displaced due to various circumstances in their lives, mostly single mothers with children. The nonprofit also assists the parents in obtaining employment and housing. (Interfaith Hospitality Network)
- Various bank representatives served over 2,170 hours in volunteering with a nonprofit organization. The organization, through their Volunteer Tax Assistance Collaborative program, assist in the preparation of tax returns for low-to-moderate income individuals and families. Bank team members worked as counselors helping local hardworking families file their taxes and claim their refunds. (VITA - United Way)

The bank also participated with other local or regional organizations providing early childhood education, economic development, affordable housing, and community services or activities that revitalize or stabilize LMI geographies.