

PUBLIC DISCLOSURE

January 22, 2024

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Glenwood State Bank (Incorporated)
Certificate Number: 8853

5 East Minnesota Street
Glenwood, Minnesota 56334

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

1100 Walnut Street, Suite 2100
Kansas City, Missouri 64106

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 following points summarize the bank's Community Reinvestment Act (CRA) performance:

The Lending Test is rated Satisfactory.

- The loan-to-deposit ratio is more than reasonable given the institution's size, financial condition, and credit needs of the assessment area.
- The bank originated a majority of its small business, home mortgage, and small farm loans in its assessment area.
- The assessment area does not include any low- and moderate-income geographies, and a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.
- The distribution of borrowers reflects reasonable penetration of loans among businesses and farms of different revenue 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 institution's community development performance demonstrates adequate responsiveness to community development needs in its assessment area through community development loans, qualified investments, and community development services. Examiners considered the institution's capacity and the need and availability of such opportunities for community development in the assessment area.

DESCRIPTION OF INSTITUTION

Glenwood State Bank (Incorporated) is a family-owned bank headquartered in Glenwood, Minnesota. In addition to the main office, the institution operates two branches in Alexandria and Villard, Minnesota. The bank previously operated a loan production office (LPO) in Detroit Lakes, Minnesota; however, the LPO closed in March 2021. The subject institution is affiliated with Lowry State Bank, Lowry, Minnesota, and First National Bank of Osakis, Osakis, Minnesota, through common ownership. Glenwood State Bank received a Satisfactory rating at its previous FDIC Performance Evaluation, dated February 1, 2021, using Interagency Small Institution Examination Procedures.

Glenwood State Bank offers a variety of credit products including commercial, home mortgage, agricultural, and consumer loans, as well as credit cards. However, commercial lending continues to be the institution's primary lending focus, followed by home mortgage and agricultural lending. In addition to in-house mortgage products, the bank originates home loans and sells them to secondary market investors. Glenwood State Bank also refers home loan applications to third parties. These activities provide qualified borrowers with long-term mortgage financing options.

The bank also participates in various government-sponsored loan programs through entities including the Small Business Administration (SBA), Farm Service Agency, U.S. Department of Agriculture, and U.S. Department of Veterans Affairs. Notably, the bank originated 520 loans totaling \$12.8 million through the SBA's Paycheck Protection Program (PPP) in 2021. This program assisted small business and farm operators struggling with the impact of the COVID-19 pandemic. Glenwood State Bank also participates in state programs such as the Minnesota Department of Agriculture's Best Management Practices and Rural Finance Authority, as well as programs through the Minnesota Housing Finance Agency.

Glenwood State Bank offers a full line of traditional deposit products, including checking, savings, health savings, and individual retirement accounts, as well as certificates of deposit. In addition to traditional banking services, the institution offers gift and travel cards, telephone banking, online banking, electronic bill payment, e-statements, and mobile banking, including mobile check deposit and person-to-person transfers. Finally, the bank owns and operates three cash-dispensing ATMs.

As of September 30, 2023, the institution reported total assets of \$536.4 million, total deposits of \$441.4, and net loans of \$495.2. The following table illustrates the loan portfolio; however, secondary market loans are not included within the table as they are not held within the portfolio. Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet the credit needs of its assessment area.

Loan Portfolio Distribution as of September 30, 2023		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	31,993	6.4
Secured by Farmland	47,736	9.5
Secured by 1-4 Family Residential Properties	113,174	22.6
Secured by Multifamily (5 or more) Residential Properties	33,233	6.6
Secured by Nonfarm Nonresidential Properties	121,232	24.2
Total Real Estate Loans	347,368	69.4
Agricultural Production and Other Loans to Farmers	29,183	5.8
Commercial and Industrial Loans	98,645	19.7
Consumer Loans	11,941	2.4
Obligations of States and Political Subdivisions in the U.S.	13,430	2.7
Other Loans	61	<0.1
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	(0)	(0.0)
Total Loans	500,628	100.0
<i>Source: Reports of Condition and Income</i>		

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. Glenwood State Bank has designated a single assessment area that is comprised of Douglas and Pope counties in west central Minnesota. The geographical boundaries of the assessment area are unchanged from the prior evaluation; however, the number of census tracts and the census tract income levels changed between the 2015 American Community Survey (ACS) and the 2020 U.S. Census. According to the 2020 U.S. Census, the assessment area includes 15 census tracts, of which 12 are middle income and 3 are upper income. Per the 2015 ACS, there were 13 census tracts, with 12 middle income and 1 upper income. The bank's three offices are all located in middle-income census tracts.

Economic and Demographic Data

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

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	15	0.0	0.0	80.0	20.0	0.0
Population by Geography	50,314	0.0	0.0	74.0	26.0	0.0
Housing Units by Geography	27,992	0.0	0.0	74.5	25.5	0.0
Owner-Occupied Units by Geography	16,447	0.0	0.0	71.8	28.2	0.0
Occupied Rental Units by Geography	5,373	0.0	0.0	93.6	6.4	0.0
Vacant Units by Geography	6,172	0.0	0.0	65.0	35.0	0.0
Businesses by Geography	6,017	0.0	0.0	75.9	24.1	0.0
Farms by Geography	535	0.0	0.0	78.1	21.9	0.0
Family Distribution by Income Level	13,950	13.9	18.0	23.3	44.8	0.0
Household Distribution by Income Level	21,820	20.4	15.2	19.2	45.2	0.0
Median Family Income – Nonmetropolitan Minnesota		\$74,737	Median Housing Value			\$218,651
Families Below Poverty Level		3.9%	Median Gross Rent			\$753
<i>Source: 2020 U.S. Census and 2023 D&B Data</i>						
<i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

According to 2023 D&B data, service industries represent the largest portion of business operations within the assessment area at 32.8 percent, followed by non-classifiable establishments at 14.8 percent and finance, insurance, and real estate at 11.7 percent. Local businesses are predominantly small operations; per 2023 D&B data, 91.9 percent of the assessment area’s businesses operate from a single location and 69.2 percent have four or fewer employees.

The Federal Financial Institutions Examination Council’s (FFIEC) median family income level is used to analyze home mortgage loans under the Borrower Profile criterion. The following table illustrates the 2023 median family income ranges for the nonmetropolitan portion of Minnesota.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2023 (\$90,400)	<\$45,200	\$45,200 to < \$72,320	\$72,320 to < \$108,480	≥\$108,480
<i>Source: FFIEC</i>				

Competition

The bank operates in a relatively competitive market for financial services, especially given its smaller geographical area. According to 2023 FDIC Deposit Market Share data, 17 institutions operate 26 offices within Douglas and Pope counties. Of these institutions, Glenwood State Bank ranked 1st with a deposit market share of 20.6 percent. However, this data does not include deposit market share information for credit unions, which are also present in the assessment area.

Glenwood State Bank is not required to collect or report small business and small farm CRA loan data and has not elected to do so. However, the aggregate data provides an indication of the level of demand for small business and small farm loans and the degree of competition within the assessment area. Aggregate data for 2022 (the most recent available) shows that 45 lenders reported 1,038 small business loans in the assessment area. Further, 15 lenders reported 181 small farm loans. These figures do not include the number of loans originated by smaller institutions that are not required to report data but operate within the assessment area. The overall volume of small business and small farm lending reflects a competitive market.

There is also a significant level of competition for home mortgage loans amongst banks, credit unions, and non-depository mortgage lenders. In 2022, 131 lenders reported 1,234 home mortgage loans originated or purchased in Douglas and Pope counties. The three most prominent lenders originated or purchased 29.5 percent of the market share, by number, within the assessment area. These figures do not contain a high number of loans originated by smaller banks that are not required to report home mortgage data (including Glenwood State Bank) but that operate in the assessment area. Therefore, the overall volume of home mortgage lending in the assessment area indicates a competitive market.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit opportunities are available. For this evaluation, examiners referenced an existing interview with a representative of an economic development organization serving the assessment area.

The community contact indicated that the economy in the assessment area is doing well due to the strength of its primary industries, which include agriculture, manufacturing, and tourism. However, the area struggles with a lack of affordable housing and a shortage of childcare. The contact noted that the higher interest rate environment is negatively impacting some borrowers, but there is still demand for credit as people are buying equipment, vehicles, and homes. The community contact inferred that commercial, home mortgage, and agricultural loans are all credit needs in the assessment area.

Credit Needs

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that small business, home mortgage, and small farm loans represent primary credit needs within the assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated February 1, 2021 to the current evaluation dated January 22, 2024. Examiners used Interagency Intermediate Small Institution Examination Procedures to evaluate Glenwood State Bank's performance. The institution became subject to the Intermediate Small Institution Examination Procedures since the prior evaluation. These procedures include two tests: the Lending Test and the Community Development Test. Banks must achieve at least a Satisfactory rating under each test to obtain an overall Satisfactory rating. Refer to the Appendices for information on each test.

Activities Reviewed

Bank records and discussions with management revealed that the lending focus and product mix remained relatively consistent throughout the evaluation period. Therefore, examiners selected 2023, the most recent calendar year, as the review period. Management confirmed that this timeframe is representative of the bank's performance during the entire evaluation period.

As noted earlier, the bank's primary lending focus is commercial lending, followed by home mortgage and agricultural lending. This conclusion considered the bank's business strategy, lending activity during the evaluation period, and Reports of Condition and Income data. Given this information, the scope of the Lending Test included all small business, home mortgage, and small farm loans originated, renewed, extended, or purchased in 2023. However, the Lending Test scope did not include loans that management requested to have reviewed as part of the Community Development Test.

The entire universes of small business, home mortgage, and small farm loans were used to evaluate the Assessment Area Concentration criterion. As revenue information was not readily available, examiners selected random samples of the loans that were located in the assessment area for the Borrower Profile analysis. The following table details the loan products reviewed during the evaluation.

Loan Products Reviewed				
Loan Category	Universe		Reviewed	
	#	\$(000s)	#	\$(000s)
Small Business	373	72,514	55	10,259
Home Mortgage	203	47,762	47	8,678
Small Farm	237	30,470	51	6,753

Source: Bank Data

Although both the number and dollar volume of loans are presented, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of businesses, farms, and individuals served. Further, small business lending was given the most weight in analyzing the bank's performance due to the larger volume of loan activity during the

review period. Home mortgage lending was given less weight than small business lending in the evaluation, while small farm loans were given the least weight. Finally, 2023 D&B data provided a standard of comparison for the bank’s small business and small farm lending performance, while 2020 U.S. Census data provided a standard of comparison for home mortgage lending.

For the Community Development Test, bank management provided data on community development loans, qualified investments, and community development services since the prior evaluation. Further, qualified investments made prior to the evaluation period that remain outstanding were also considered. To provide perspective on Glenwood State Bank’s performance, examiners reviewed community development activities for three comparable institutions based on factors such as asset size, number and location of assessment areas, and branching structure.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Glenwood State Bank demonstrated satisfactory performance under the Lending Test. The bank’s performance under the Loan-to-Deposit Ratio, Assessment Area Concentration, and Borrower Profile criteria supports this conclusion.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is more than reasonable given the institution’s size, financial condition, and assessment area credit needs. The bank’s loan-to-deposit ratio, which is calculated from Reports of Condition and Income data, is shown in the table below. Glenwood State Bank’s ratio averaged 99.9 percent over the past 11 calendar quarters and exceeds the ratios of similarly-situated institutions. The comparable institutions were selected based on their asset size, branching structure, geographic location, and lending focus.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 9/30/2023 (\$000s)	Average Net Loan-to-Deposit Ratio (%)
Glenwood State Bank (Incorporated) Glenwood, Minnesota	536,260	99.9
RiverWood Bank Baxter, Minnesota	614,789	78.2
Midwest Bank Detroit Lakes, Minnesota	713,364	79.2
<i>Source: Reports of Condition and Income 3/31/2021 – 9/30/2023</i>		

Assessment Area Concentration

As detailed in the following table, Glenwood State Bank made a majority of its small business, home mortgage, and small farm loans within the assessment area.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Business	262	70.2	111	29.8	373	45,746	63.1	26,768	36.9	72,514
Home Mortgage	147	72.4	56	27.6	203	31,577	66.1	16,185	33.9	47,762
Small Farm	172	72.6	65	27.4	237	21,309	69.9	9,161	30.1	30,470
<i>Source: Bank Data</i>										

Geographic Distribution

The assessment area does not include any low- or moderate-income geographies; therefore, a review of the Geographic Distribution criterion would not yield meaningful conclusions. As such, this criterion was not evaluated.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among businesses and farms of different revenue sizes and individuals of different income levels. The bank’s reasonable performance of small business, home mortgage, and small farm lending supports this conclusion. Examiners focused on the percentage of loans to business and farm operations with gross annual revenues of \$1 million or less. They also focused on the percentage of home mortgage loans to low- and moderate-income borrowers.

Small Business Loans

The distribution of the sampled small business loans reflects reasonable penetration among businesses of different sizes. As shown in the following table, the bank’s lending performance to businesses with revenues of less than \$1 million is lower than D&B data. However, the analysis is somewhat skewed since seven of the loans to businesses with revenues over \$1 million were originated to three borrowers. Further, Glenwood State Bank operates in a competitive market for small business loans. As noted earlier, 2022 aggregate data revealed that 45 lenders reported 1,038 small business loans in the assessment area. Given this information, the bank’s performance is considered reasonable.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
≤\$1,000,000	86.6	37	67.3	5,505	53.7
>\$1,000,000	4.2	18	32.7	4,754	46.3
Revenue Not Available	9.2	0	0.0	0	0.0
Total	100.0	55	100.0	10,259	100.0
<i>Source: 2023 D&B Data; Bank Data</i>					

Home Mortgage Loans

The distribution of borrowers reflects reasonable penetration among individuals of different income levels, including low- and moderate-income borrowers. As shown in the following table, the bank's performance of lending to low-income borrowers is lower than D&B data. However, the bank's performance of lending to moderate-income borrowers exceeds the comparable demographic data. Further, when considering the level of lending to low-income borrowers, it is important to note that 3.9 percent of families in the assessment area are below the poverty level and likely would not qualify for a home mortgage loan. Finally, examiners considered the limited availability of affordable homes for sale as indicated by the community contact. Given the performance context, the bank's home mortgage loan distribution is reasonable.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	13.9	3	6.4	307	3.5
Moderate	18.0	10	24.4	1,199	13.8
Middle	23.3	11	21.3	2,013	23.2
Upper	44.8	16	34.0	4,104	47.3
Not Available	0.0	7	14.9	1,053	12.1
Total	100.0	47	100.0	8,678	100.0
<i>Source: 2020 U.S. Census; Bank Data</i>					
<i>Due to rounding, totals may not equal 100.0%</i>					

Small Farm Loans

The distribution of the sampled small farm loans reflects reasonable penetration to farms with gross annual revenues of \$1 million or less. The table below illustrates the bank's lending performance, which is comparable to 2023 D&B data.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
≤\$1,000,000	98.7	48	94.1	5,693	84.3
>\$1,000,000	0.9	3	5.9	1,060	15.7
Revenue Not Available	0.4	0	0.0	0	0.0
Total	100.0	51	100.0	6,753	100.0
<i>Source: 2023 D&B Data; Bank Data</i>					

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

Glenwood State Bank’s performance under the Community Development Test is Satisfactory. The institution demonstrated adequate responsiveness to the community development needs in its assessment area through community development loans, qualified investments, and community development services. Examiners considered the bank’s capacity and the need and availability of such opportunities within the area. Since the bank was responsive to the community development needs of its assessment area, community development activities benefitting broader statewide or regional areas were also considered in the analysis; however, these activities received less weight.

Community Development Loans

Glenwood State Bank originated 316 community development loans totaling \$62.4 million during the evaluation period. This includes 291 loans totaling \$6.5 million originated under the SBA’s PPP program related to the COVID-19 pandemic that supported economic development efforts. The overall volume of community development loans represents 11.6 percent of total assets and 12.6 percent of net loans as of September 30, 2023. However, the ratios with PPP loans can vary based on many factors, including the number of PPP loans originated, the number of PPP loans submitted for community development consideration, and the types and locations of loans originated within the PPP program. Therefore, a review of the ratios excluding the PPP loans is a better indicator of the bank’s performance. When excluding the SBA PPP loans from the analysis, Glenwood State Bank’s volume of community development loans represents 10.2 percent of total assets and 11.3 percent of net loans. The ratios of similarly-situated institutions, likewise excluding SBA PPP loans, ranged between 4.5 and 8.6 percent of total assets and 9.6 and 11.3 percent of net loans. Therefore, the bank’s performance compares favorably to the performance of similar institutions. The following tables show community development lending activity by rated area, purpose, and year.

Community Development Lending by Assessment Area										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Glenwood State Bank	1	53	0	0	207	7,802	0	0	208	7,855
Broader Statewide/ Regional Area	9	33,169	0	0	97	6,105	2	15,312	108	54,586
Total	10	33,222	0	0	304	13,907	2	15,312	316	62,441
<i>Source: Bank Data</i>										

Community Development Lending by Year										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2021	2	1,960	0	0	294	9,292	0	0	296	11,252
2022	7	31,209	0	0	0	0	1	312	8	31,521
YTD 2023	1	53	0	0	10	4,615	1	15,000	12	19,668
Total	10	33,222	0	0	304	13,907	2	15,312	316	62,441
<i>Source: Bank Data</i>										

Qualified Investments

Glenwood State Bank made 23 qualified investments totaling approximately \$255,000 during the evaluation period, which represent 0.1 percent of total assets and 3.0 percent of total securities as of September 30, 2023. As the bank's average loan-to-deposit ratio of 99.9 percent results in less funds available for investments, the qualified investments as a percentage of total securities ratio is given more weight. Three similarly-situated institutions maintained qualified investments ratios between 0.1 percent and 0.7 percent of total assets and between 1.5 percent and 4.5 percent of total securities. The following tables represent the bank's qualified investments activity by purpose and by year. The tables indicate that the majority of qualified investments, by dollar volume, were made prior to the evaluation period but remain outstanding.

Qualified Investments by Assessment Area										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Glenwood State Bank	4	4	16	59	0	0	0	0	20	63
Broader Statewide/ Regional Area	2	192	1	<1	0	0	0	0	3	192
Total	6	196	17	59	0	0	0	0	23	255
<i>Source: Bank Data</i>										

Qualified Investments by Year										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	2	192	0	0	0	0	0	0	2	192
2021	0	0	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0	0	0
2023	0	0	0	0	0	0	0	0	0	0
Subtotal	2	192	0	0	0	0	0	0	2	192
Qualified Grants & Donations	4	4	17	59	0	0	0	0	21	63
Total	6	196	17	59	0	0	0	0	23	255

Source: Bank Data

Community Development Services

During the evaluation period, bank employees provided 23 instances of financial expertise or technical assistance to 9 different community development-related organizations. Information from similarly-situated institutions indicated staff provided between 8 and 34 instances during their respective evaluation periods. Details of bank involvement are shown in the following tables.

Community Development Services by Assessment Area					
Assessment Area	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
Glenwood State Bank	2	10	8	0	20
Broader Statewide/Regional Area	0	0	3	0	3
Total	2	10	11	0	23

Source: Bank Data

Community Development Services by Year					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2021	0	3	4	0	7
2022	1	3	4	0	8
2023	1	4	3	0	8
Total	2	10	11	0	23

Source: Bank Data

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

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

APPENDICES

INTERMEDIATE SMALL INSTITUTION 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 market, 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 businesses and farms of different sizes and borrowers of different income levels; 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. Institution CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Institution 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 institution:
 - (i) Has not been reported or collected by the institution or an affiliate for consideration in the institution'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 institution's assessment area(s) or a broader statewide or regional area including the institution'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 institution'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.

Multifamily: 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.