

PUBLIC DISCLOSURE

May 3, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Valley State Bank
Certificate Number: 10412**

**204 South Fourth Street
P.O. Box 1108
Lamar, Colorado 81052-1108**

Federal Deposit Insurance Corporation

**Division of Supervision and Consumer Protection
1910 Pacific Avenue, Suite 1900
Dallas, Texas 75201**

NOTE: 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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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Valley State Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **May 3, 2004**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated **Outstanding**.

The FDIC rated the institution "Outstanding" at its previous February 9, 1998 evaluation.

Valley State Bank is a \$103 million, three-office bank located in Lamar, Colorado. Examiners reviewed the small bank performance factors: loan-to-deposit ratio, lending inside the assessment area, lending to farms and businesses of different sizes, geographic distribution of loans, and response to complaints. The bank received no written consumer complaints since the previous evaluation; therefore, examiners did not consider this factor in the overall rating. In addition, at management's request, examiners considered the bank's community development lending, investment, and service activities.

The bank demonstrated an outstanding level of performance regarding its loan-to-deposit ratio and a good record of lending inside the assessment area; examiners then reviewed the bank's record regarding its distribution of loans by borrower profile and geographic distribution when arriving at the overall rating. The borrower profile is given more weight as this factor is more reflective of who the bank is lending too. When reviewing the small bank performance factors, agricultural and commercial loan samples were used to determine the bank's performance. Examiners weighted more heavily the record for agricultural loans when arriving at the applicable performance factors' conclusions.

When combined with its strong level of lending activity as reflected in its loan-to-deposit ratio as well as the excellent record of granting community development loans, the bank demonstrated near exceptional CRA lending performance regarding the small bank performance factors.

The institution's sound record of purchasing qualified investments and the strong record of providing community development services warrant the overall higher rating.

Conclusions for the applicable performance factors are summarized below. A detailed discussion of each factor is provided elsewhere in this Public Evaluation.

Small Bank Performance Factors

- Considering the bank's resources and business strategy as well as the assessment area's credit needs and other similar bank's ratios, the institution's average loan-to-deposit ratio of 84 percent reflects an outstanding level of performance.
- Valley State Bank's lending within the assessment area is good given the size of the assessment area, the office structure, the asset size, and the loan products reviewed. The majority of both agricultural and commercial loans sampled by number (75 percent) and dollar (76 percent) are within the assessment area.
- The institution's performance of lending to farms and businesses of different sizes is outstanding. Supporting this conclusion is the strong agricultural and commercial lending record to small farms and small businesses. Also, supporting this rating is the significant percent of small-sized loans that were made by the institution. Furthermore, the institution participates in loan programs geared toward meeting community credit needs and assists borrowers in completing special loan program documents.
- The geographic distribution of loans throughout its assessment areas is satisfactory. The bank's satisfactory agricultural and commercial lending supports this conclusion.

Community Development Lending

- Valley State Bank has made excellent efforts to extend loans that have community development as their primary purpose. The institution extended three community development loans totaling \$1,491,820. These loans revitalize or stabilize moderate-income areas and promote affordable housing.

Investments and Services

- Valley State Bank demonstrated a sound record in purchasing qualified investments totaling \$1,015,000 and providing donations totaling \$118,770 to the community. The level of the bank's dollar amount of investments and the instruments' responsiveness to community development needs support this conclusion. Examiners also identified some leadership by bank personnel in assisting with the creation of one of the investments.
- The bank displayed a strong record of providing community development services. The level of these services, the degree to which these services serve lower income people and needs of the assessment area, and the level of leadership demonstrated by bank personnel support this conclusion. Examiners noted involvement in 15 qualifying organizations.

DESCRIPTION OF INSTITUTION

Valley State Bank is a three-office, \$103 million institution headquartered in Lamar, Colorado, with \$69 million in total loans. All offices are located in the southeastern plains of Colorado with Lamar situated approximately 28 miles west of the Kansas border. The institution has been in operation since May 1, 1920. The institution has two offices located in Lamar (Prowers County) and one office located in Eads (Kiowa County). According to the 2000 US Census data, all three offices are located in moderate-income census tracts. Both offices in Lamar offer drive-up facilities. The branch office in Lamar also has a 24 hour drive-up ATM.

The bank reported \$103,287,000 in assets as of December 31, 2003. Assets are comprised primarily of loans (65 percent), and securities (21 percent). Comparing financial data from the last evaluation to December 31, 2003 Call Report information, total assets have increased 21 percent, total deposits have increased 13 percent, and net loans have increased 18 percent.

The institution's lending composition has remained relatively stable since the last evaluation. Most recent Call Report information shown in Table 1 reveals that the bank's major product lines are agricultural and commercial lending. Additionally, the institution's loan portfolio revealed that 74 percent of the dollars lent by the bank in 2003 were for agricultural or commercial purposes. Management confirmed that agricultural and commercial lending is representative of both the bank's lending efforts and strategic plan. According to the December 31, 2003 Call Report residential real estate lending comprises 22 percent of the bank's lending activity; however, in reviewing the bank's loan portfolio, only about 10 percent of the loans originated in 2003 were residential real estate loans.

Table 1: Loan Portfolio Mix as of December 31, 2003		
Loans secured by real estate:	<i>(\$000)</i>	<i>(Percent)</i>
Construction and land development	\$ 1,529	2%
Commercial real estate	6,116	9%
Multifamily residential real estate	245	<1%
1-4 family residential real estate	15,052	22%
Farmland	8,960	13%
Farm loans	\$16,916	25%
Commercial and Industrial loans	\$9,881	14%
Loans to individuals	\$9,837	14%
Other loans and leases	\$494	<1%
Total loans	\$69,030	100%

Source: Call Report Data.

Valley State Bank offers convenient hours of operation to serve customers and the institution offers an array of deposit services and credit products. There are no legal or financial impediments that exist which would prohibit the bank from meeting the credit needs of the

community. As of December 31, 2003, the bank's Return on Assets was 1.68 percent, Net Interest Margin was 4.54 percent, and Tier One Leverage Capital was 9.66 percent, demonstrating the bank has the financial capacity to serve the community's credit needs.

DESCRIPTION OF ASSESSMENT AREA

Valley State Bank has designated their assessment area as Prowers County and Kiowa County. Prowers County (1,640 square miles) is comprised of three moderate-income and three middle-income census tracts. Kiowa County (1,771 square miles) is comprised of one moderate-income census tract. The bank operates two locations in Prowers County, in the town of Lamar. Valley State Bank has one location in Kiowa County, in the town of Eads, located approximately 35 miles north of the main premises in Lamar. Valley State Bank's branch in Eads is the only banking facility in Kiowa County. All three banking locations are located in moderate-income census tracts.

Demographic and Economic Data

Located in Southeastern Colorado, both counties are located in the Southeast Colorado Enterprise Zone. Colorado's Urban and Rural Enterprise Zone Act of 1986 established a program for the designation of state enterprise zones. The enterprise zone program provides incentives for private enterprise to expand and for new businesses to locate in economically distressed areas of the state. The Economic Development Commission (EDC) designates certain economically distressed areas of the state as Enterprise Zones. There are currently 16 Rural Enterprise Zones in Colorado. Businesses located in a zone may qualify for ten different Enterprise Zone Tax Credits and Incentives to encourage job creation and investment in these zones.

Prowers and Kiowa Counties are members of the Southeast Colorado Enterprise Development, Inc. (SECED). SECED is a non-profit organization which covers the 5 southeast counties of Baca, Bent, Crowley, Kiowa, and Prowers. The SECED has helped counties and communities find ways to position themselves to attract and accept new businesses. The mission of the SECED is to challenge citizens to continually reach for superior social and economic characteristics. Utilize natural resources to the fullest potential in cooperation with a multi-agricultural economy. Assert a vigorous campaign for esthetic improvements to enhance business recruitment and retention. The SECED provides incentives and develops promotional activities that will market and advertise the advantages of locating a business in the Southeast Colorado area, create a positive identity, encourage retention and expansion of existing businesses, promote redevelopment, expand the region's tourism industry, attract new businesses, and generally enhance the economic growth of the area.

Some of the enterprise zone development plan objectives include:

- Realize stabilization of annual growth patterns.
- Retain the existing job base and increase the population through the expansion of existing industries.
- Increase agricultural sales receipts by 10 percent.
- To seek ways to improve the efficiency of water and land use.

The bank's assessment area serves a total population of 16,105 as reported by the 2000 Census. As of July 2002, the estimated population of Prowers County is 14,209 and of Kiowa County is 1,492. Prowers County and Kiowa County have seen little population growth and no housing permits were issued in 2003. According to the Bureau of Labor Statistics both Prowers County and Kiowa County reported a negative employment growth rate, -1.9 and -3.3, respectively in 2003. However, the unemployment rates of Prowers County at 3.8 percent and Kiowa County at 4.6 percent as of year end 2003 are below the states average of 5.5 percent. While agriculture is a large contributor of the labor force and the regional economy, they do not report unemployment statistics.

In Southeast Colorado a record 4,681 individuals and businesses filed for bankruptcy in 2001 as the region experienced its first major economic slowdown in a decade, according to the U.S. Bankruptcy Court in Denver¹. The Administrative Office of the U.S. Courts shows that personal bankruptcies have continued to climb. Kiowa County ranks 12th and Prowers County ranks 40th out of 63 counties in 2003 in terms of the number of personal bankruptcies.

The largest employment sectors in Prowers County are Agriculture Services, Manufacturing, Retail Trade, Services, and Government. Agriculture is a large segment of the Prowers County economy that overlaps into other sectors such as Food Processing in the Manufacturing or Transportation sectors². The average single family home sales price in 2000 varied from \$36,167 in Wiley to \$64,888 in Lamar. Negligible home sales in Kiowa County limit the usefulness of sales data.

A recent review of the Southeast regional economy³ reveals the areas average wages of \$22,039 are 60 percent of the Colorado average at \$37,166. Agriculture and agricultural-related activities in the region are significant. Although wage and salary jobs within the agricultural sector represent only 6.7 percent of the total, other nonagricultural sectors such as trucking, warehousing, and wholesale trade are directly impacted by the activity within this sector. The region generated 11.6 percent of all agricultural sales in Colorado in 1999, and the region's farms and ranches earned 21.8 percent of the state's direct agricultural income. Retail sales increased by 2.7 percent in 2000; however, this substantially lagged the 11.7 percent average increase statewide.

Table 2 details selected demographic characteristics of the bank's assessment area. Statistics are based on 2000 Census data unless indicated otherwise. In terms of community development initiatives, it is important to note that 50 percent of the population resides in moderate-income tracts, 54 percent of the families in the assessment area are low- or moderate-income, and the moderate-income census tracts comprise well over seventy-five percent of the geographic area (land mass) in the assessment area.

1 Source: Colorado Economic Chronicle, March 2002.

2 Source: Southeast Colorado Enterprise Development, Inc. Economic Review #4, Autumn 2001

3 Southeast Colorado Economic Review #4 – Autumn 2001

Table 2: Assessment Area Characteristics

Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	7	0	57	43	0	0
Population by Geography	16,105	0	50	50	0	0
Owner-Occupied Housing by Geography	1,987	0	54	63	0	0
Business by Geography	1,104	0	62	38	0	0
Farms by Geography	249	0	69	31	0	0
Family Distribution by Income Level	4,222	28	26	22	24	0
Distribution of Low and Moderate Income Families throughout AA Geographies	2,266	0	54	46	0	0
Median Family Income HUD Adjusted Median Family Income for 2003 Families Below Poverty Level		\$46,017 \$50,200 14.0%	Median Housing Value Unemployment Rate (2000 US Census)		\$52,100 3.0%	

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2003 HUD updated MFI

Information regarding the characteristics of farms, by county, from the 1997 Census of Agriculture is listed in Table 3. Information indicates that although most farms are located in Prowers County, the median size of farms in Kiowa County is much larger than Prowers County.

Table 3 – Assessment Area Characteristics – Census of Agriculture

<i>1997 Census of Agriculture information</i>	<i>Kiowa County</i>	<i>Prowers County</i>
Number of Farms	339	522
Median Size of Farm (acres)	1,280	560
Average market value of agricultural products sold per farm	\$182,077	\$288,652

Competition

According to the Summary of Deposits as of June 30, 2003, the bank's assessment area has 5 commercial banks with 9 offices. Valley State Bank's office is the only financial institution in Kiowa County.

Community Contacts

Interviews with two community leaders provided additional information regarding community credit needs, the condition of the local economy, and changes in area demographics. The contacts indicated that more than fifty percent of the Southeast Colorado economy is directly dependent upon agriculture. For the past few years, the economy has been adversely affected by the ongoing drought. Due to the drought, the Governor had previously declared Prowers County a disaster area. A challenge for the Southeast Colorado economy has been the demise of independent rural banks. These independent rural banks serve as a funding source for small farms. Small farms and small businesses often may not meet the rigid standards that large, regional banks require. Interviewees indicated the local banks are aware of and interested in

meeting the needs of small farms and businesses. The contacts pointed out that all financial institutions in the area are involved in community affairs and business initiatives.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

SAMPLING METHODOLOGIES AND UNIVERSE:

Loan data from the institution was obtained to determine the number and types of loans extended since the previous evaluation. Loan data obtained was evaluated to determine areas most representative of lending efforts. As detailed in the *Description of the Institution*, the loan portfolio reflects primary concentrations in agricultural and commercial loans.

Based on available data, management's stated lending emphasis, and the area's credit needs, examiners sampled agricultural and commercial loans to determine the bank's CRA record. Since the previous CRA evaluation dated February 9, 1998, approximately 2,339 loans reflecting original balances totaling \$143,858,619 were extended. In order to form conclusions regarding lending performance criteria, a representative sample was taken based on the type of lending conducted by the institution during 2003. The products were sampled to capture both a majority and representative sample of lending conducted by the institution. The random sampling was conducted using a 90 percent confidence level with a 10 percent precision for loans originated in 2003 to ensure an accurate representation of the universe.

The universe of agricultural loans extended during 2003 was 150. A sample of 58 agricultural loans totaling \$7,299,000 was taken to ascertain performance. Similarly, the universe of commercial lending conducted during 2003 was 121. A sample of 51 commercial loans totaling \$3,542,000 was taken to ascertain performance. Commercial lending was given secondary consideration in arriving at overall conclusions with respect to performance factors. The bank's mortgage lending was not selected for review due to the smaller number of loans originated by the bank during the period relative to other lending categories.

For comparison purposes, agricultural and commercial lending was categorized using 2000 U.S. Census geographies and compared to demographic information resulting from the 2000 Census. The 2003 Dun & Bradstreet⁴ information is available for comparison purposes for both agricultural and commercial lending. While the information is dated, the 1997 Census of Agriculture Data is used for an additional comparison to the bank's agricultural lending performance as the 2002 data is not yet available.

⁴ Dun & Bradstreet: The Dun & Bradstreet Corporation is a provider of business and financial information that is drawn from a global database of more than 50 million businesses.

LOAN-TO-DEPOSIT RATIO

Valley State Bank's lending activity, as measured by the loan-to-deposit ratio reflects outstanding performance. The bank made excellent use of its financial capacity to serve the credit needs of its community. As indicated in Table 4 below, the bank lent-out a substantial majority of its deposits. Records reflect that Valley State Bank provided funding for approximately 2,339 loans reflecting original balances totaling \$143,858,619 since the previous evaluation. As the table shows, the institution's average quarterly loan-to-deposit ratio is 84.38 percent. Examiners determined this figure using the Reports of Condition and Income numbers for the twenty-four quarters ending subsequent to the previous evaluation, dated February 9, 1998. The bank reported a loan-to-deposit ratio of 81.79 percent as of December 31, 2003. The year-end loan-to-deposit ratio is typically the institution's low point for the year due to the seasonal affects of agricultural lending. The loan-to-deposit ratio has remained relatively high and has been increasing since the last evaluation. The average loan-to-deposit ratio for 2003 is 86.95 percent. At these levels, the ratios reflect an exemplary level of lending activity.

Valley State Bank and three reasonably comparable institutions located in Colorado are listed in Table 4 for comparative purposes. The table reflects the average ratios and the December 31, 2003, ratios for other similar institutions and all Colorado banks with total assets between \$100 million and \$250 million. Although not completely similar, the institutions were selected as the most similar in loan mix, location, and, lastly, asset size. All financial institutions listed below are located in Prowers County. Banks are listed in alphabetical order by name with no inference of ranking or preference.

Table 4: Loan-to-Deposit Ratio Comparison			
Bank Name	Avg. LTD for Last 24 Quarters	12/31/03 LTD Ratio	Total Assets (000's) as of 12/31/03
Colorado East Bank & Trust, Lamar	70.16%	66.68%	\$259,227
First National Bank in Lamar, Lamar	61.77%	65.67%	\$174,786
The State Bank of Wiley, Wiley	89.16%	83.54%	\$67,553
<i>Valley State Bank, Lamar</i>	84.38%	81.79%	\$103,287
State Average	69.80%	69.90%	\$100,000 - \$250,000

In addition to the activity reflected in the loan-to-deposit ratio, the bank serves as a broker for real estate loans and is also involved in originating real estate loans subsequently sold on the secondary market. The bank does not fund the brokered loans; loans sold on the secondary market are held for no more than 90 days and consequently may not be fully captured in the loan-to-deposit ratio data. Since January 1, 2001, the institution participated in 66 loans totaling \$6,351,455 in which the institution served as a broker. The institution originated approximately

34 loans totaling \$2,115,200 since the last evaluation that were subsequently sold on the secondary market to Colorado Housing and Finance Authority (CHFA loans).

Given the bank’s size, financial condition, branching network, assessment area credit needs and comparison to other financial institution’s in the state, the bank’s loan-to-deposit ratio supports an outstanding commitment to meeting the credit needs of the assessment area.

LENDING IN ASSESSMENT AREA

Valley State Bank extended a majority, 75 percent by number and 76 percent by dollar, of the sampled loans in the bank’s assessment area, which is good given the assessment area’s size in relation to the bank’s office structure, asset size, and loan products reviewed. Bank records for all loan products reviewed, by both number and dollar volume, support this conclusion. The institution’s record of agricultural lending is satisfactory, while the record of commercial lending is strong. Table 5 depicts the bank’s lending performance inside and outside the assessment area.

Table 5– Distribution of Loans Inside and Outside of the Assessment Area										
Loan Category or Type	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural	36	62	22	38	58	5,083	70	2,216	30	7,299
Commercial	46	90	5	10	51	3,143	89	399	11	3,542
Total	82	75	27	25	109	8,226	76	2,615	24	10,841

Source: Bank Records.

Even with two counties as the bank’s assessment area, there are several agricultural loans located outside of the assessment area. A couple of factors which may affect this distribution are the drought and the nature of the area. The area is sparsely populated and primarily ranching and farming. Prowers County and Kiowa County have 8.8 and 0.9 people per square mile, respectively, in comparison to the State of Colorado’s 41.5. These factors contribute to the bank’s lending outside of their assessment area; however, the bank is originating a substantial majority of their loans in the local area.

Table 5 reflects a majority of the sampled agricultural loans were originated inside the assessment area; a further review of the loans originated outside the assessment area was conducted. Of the 22 agricultural loans originated outside the assessment area, 14 loans totaling

\$927,826 were originated in census tracts that are immediately adjacent to the bank's current assessment area. If these loans were considered inside the assessment area, 86 percent of the number and 82 percent of the dollar volume of agricultural loans would be inside the assessment area. The overall effect on the distribution would be 88 percent of the total number and 84 percent of the total dollar volume of loans being originated inside the assessment area. The distribution of the commercial loans is already strong; however, a couple commercial loans are in this area immediately adjacent to the current assessment area making the total number 90 percent and total dollar volume 86 percent. Therefore, a substantial majority of the sampled loans are made to borrowers within the institution's assessment area or in the census tracts immediately adjacent to the bank's assessment area.

The bank's performance for this assessment factor is good. Examiners emphasized the institution's record for agricultural loans when arriving at the overall conclusion.

LOANS TO FARMS AND BUSINESSES OF DIFFERENT SIZES

Lending to farms and businesses of different sizes (measured by gross annual revenues), given the product lines offered by Valley State Bank, reflects outstanding performance. Strong performance regarding small farm and small business lending supports this conclusion.

Thirty-four small farm and forty-six small business loans were evaluated to ascertain the farm and business profile and arrive at overall conclusions regarding performance. The sample included only loans located within the assessment area. More consideration was given to small farm lending in arriving at overall conclusions under this factor. Emphasis was placed on the bank's number of loans generated as opposed to the dollar volume due to the fact that the dollar volume can be easily affected by the disposition of a few large loans. Additionally, the institution has participated in several programs which further assist in meeting the credit needs of the community.

Small Farm Lending

Management has demonstrated outstanding performance in meeting the credit needs of small farms in the assessment area. Loan size and the gross annual revenues of the farms are used as indicators of the bank's performance in meeting the credit needs of small farms. Management has concentrated their agricultural lending efforts on extending small-sized loans to small farms. Both indicators were given equal weight in the analysis.

Of the bank's farm loans sampled, 94 percent were small farm loans. Small farm loans, by definition, are those loans in amounts of \$500,000 or less. The evaluation of loans by gross annual revenue and loan size only considers farm loans under \$500,000 in loan size. Therefore, 34 small farm loans were evaluated to determine lending dispersion by loan size and gross annual revenue levels.

Table 6 details the distribution of the institution's small farm borrowers by loan size. Small farm loans were analyzed by loan size as an additional proxy for the size of the farm financed.

Table 6: Distribution of Small Farm Loans by Loan Size				
Loan Size (000s)	Sample			
	#	%	\$ (000s)	%
≤ \$50	20	59	401	16
> \$50 < \$100	7	20	545	22
> \$100 ≤ \$250	4	12	605	24
> \$250 ≤ \$500	3	9	955	38
Total	34	100	2,506	100

Source: Bank records.

Table 6 indicates that a majority (59 percent) of loans are extended in amounts less than or equal to \$50,000 and more than three-quarters of the loans are extended in amounts less than or equal to \$100,000. The institution's performance in this area is strong as a large percent of the bank's loans are very small loans to small farms. As previously stated, 94 percent of the institution's farm loans sampled are small farm loans.

Table 7 depicts the distribution small farm loan originations within the assessment area among farms of different gross annual revenue levels.

Table 7: Distribution of Small Farm Loans by Gross Annual Revenues of Farms						
Gross Annual Revenues (000s)	2003 D&B		Sample			
	#	%	#	%	\$ (000s)	%
≤ \$1,000	224	90	32	94	2,011	80
> \$1,000 or NA	25	10	2	6	495	20
Total	249	100	34	100	2,506	100

Source: Bank records.

Table 7 shows that 94 percent of the bank's small farm loans in the assessment area went to farms with gross annual revenues of \$1 million or less. Information obtained from Dun and Bradstreet indicates that 90 percent of farms in the assessment area are farms that receive \$1 million or less in gross annual revenues. In comparison to the Dun and Bradstreet data, the institution is making a slightly greater percentage (94 compared to 90) of their small farm loans to small farms.

When reviewing the bank's record by gross annual revenues, examiners further based the evaluation on an analysis of the small farm loan sample compared with the 1997 Census of Agriculture Data for the assessment area. Table 8 depicts the institution's performance.

Table 8: Distribution of Small Farm Loans by GAR						
GAR (000s)	1997 Agriculture Census Data		Sample			
	#	% of #	#	%	\$ (000s)	%
< \$25	408	47	8	23	293	12
≥ \$25 < \$50	139	16	4	12	70	3
≥ \$50 < \$100	102	12	9	26	545	22
≥ \$100 < \$250	120	14	4	12	429	17
≥ \$250 < \$500	57	7	7	21	675	27
≥ \$500	35	4	2	6	494	19
Total	861	100	34	100	2,506	100

Source: Bank records.

Focusing on the percentages by number of loans for the three categories below \$100,000, Table 8 data shows that the bank granted 61 percent of its loans in these categories for 2003 relative to the 75 percent of farms reporting these income levels. The same information for all categories below \$500,000 reflects the bank granted 94 percent for 2003 compared to 96 percent of farms. Although slightly lower than comparative figures, the bank's figures are comparable to demographic data, indicating a good level of performance.

It is important to note that the \$0 - \$25,000 category includes part-time or hobby farmers, even those earning as little as \$500. Although the institution makes loans to very small farms, farms of this size frequently do not have credit needs due to the small amounts of operating cash flow needed. Consequently, it is not unusual to see a large disparity between a bank's figures and the demographics in this lowest category.

As stated above, this further breakdown of the loans shows that the bank is making 61 percent of their loans to farms with gross annual revenues less than \$100,000. The Dun and Bradstreet data was given more emphasis in the rating of this factor due to the staleness of the Census of Agriculture Data. Therefore, the bank's lending efforts to small farms is exceptional and indicates that the bank is meeting the credit needs of small-sized farms.

Special loan programs

Additionally, the evaluation of the bank's lending activity included four farm related loan programs through which the institution participates. These programs assist the institution in meeting the community credit needs. The following information describes these programs and shows the number and dollar amount of loans that have been originated under these programs. Management has not specifically tracked the usage of these loan programs; therefore, the number and dollar volume is based on loans currently outstanding that were originated since the last evaluation.

The institution originated four loans totaling \$523,829 extended under **Colorado Agricultural Development Authority's (CADA) Beginning Farmer Program** since the last evaluation. CADA is an independent public body whose mission is to encourage the investment of private capital in the agricultural sector through publicly-financing low-interest loans. To qualify as a beginning farmer, an individual must not have had any direct or indirect ownership in substantial farmland in which such individual materially participated. The Beginning Farmer Program involves a three-way transaction between the lender, the borrower, and CADA. Loan officers assist the borrowers in completing the paperwork which is required by CADA to participate in this program.

The institution offers a loan program whereby youth participating in **Future Farmers of America (FFA) and 4-H** can receive a loan from the bank to cover the purchase price and expenses incurred in raising their animal to show at the fair. This program is open to any student/minor and will not be turned down. Without this loan program, these students/minors typically would have no other means of purchasing and raising their fair animal. These loans are short term, generally six to nine months in length, minimal amounts ranging from \$100 to \$2,000, and generally are charged a discounted interest rate. Funds are dispersed to individuals to use in raising animals and when the animal sells, the proceeds from the sale will pay off the note. Valley State Bank has been originating these loans since 1995. Since the last evaluation, the institution has originated loans to 16 students, totaling approximately \$26,000.

Currently the institution has one loan for \$64,500 at a rate of 4.6 percent under the **Farm Service Agency's (FSA) Loans for Beginning Farmers/Ranchers Program**. Anyone who is just starting out in the farming industry is eligible to participate in this loan program. This loan program is for a real estate/farm land purchase. The program normally requires a 20 percent down payment. The individual pays for 5 percent of the down payment funds, while the remaining 15 percent is covered by the FSA. The institution assists the applicant in completing the paperwork required by the FSA. The term of the note is 20 to 30 years. Usually the income restrictions are for low- to moderate-income individuals.

Valley State Bank has 7 loans totaling \$949,500 under the **FSA Guaranteed Loan Program**. The institution completes the government application for the borrower and submits it to the FSA.

Small Business Lending

Management has demonstrated outstanding performance in meeting the credit needs of small businesses in the assessment area. Loan size and the gross annual revenues of the businesses are used as indicators of the bank's performance in meeting the credit needs of small businesses. Management has concentrated their commercial lending efforts on extending small-sized loans to small businesses. Both indicators were given equal weight in the analysis.

Of the bank's commercial loans sampled, 100 percent were small business loans. Small business loans, by definition, are those loans in amounts of \$1 million or less. The evaluation of loans by gross annual revenue and loan size only considers commercial loans under \$1 million in loan size. Therefore, 46 small business loans were evaluated to determine lending dispersion by loan size and gross annual revenue levels.

Table 9 details the distribution of the institution's small business borrowers by loan size. Small business loans were analyzed by loan size as an additional proxy for the size of the business financed.

Table 9: Distribution of Small Business Loans by Loan Size				
Loan Size (000s)	Sample			
	#	%	\$ (000s)	%
≤ \$50	36	78	624	20
> \$50 < \$100	5	11	343	11
> \$100 ≤ \$250	2	4	310	10
> \$250 ≤ \$1,000	3	7	1,866	59
Total	46	100	3,143	100

Source: Bank records.

Table 9 indicates that a majority (78 percent) of loans are extended in amounts less than or equal to \$50,000. The institution's performance in this area is strong as a large percent of the bank's loans are very small loans to small businesses. As previously stated, 100 percent of the institution's commercial loans sampled are small business loans.

Table 10 depicts the distribution of small business loan originations within the assessment area among businesses of different gross annual revenue levels.

Table 10: Distribution of Small Business Loans by Gross Annual Revenues of Business				
Gross Annual Revenues (000s)	Sample			
	#	%	\$ (000s)	%
< \$50	8	17	241	8
≥ \$50 < \$100	7	15	210	7
≥ \$100 < \$250	15	33	841	27
≥ \$250 < \$500	5	11	261	8
≥ \$500 ≤ \$1,000	8	17	1,495	47
> \$1,000 or NA	3	7	95	3
Total	46	100	3,143	100

Source: Bank records.

Table 10 shows that 93 percent of the bank’s small business loans in the assessment area went to businesses with gross annual revenues of \$1 million or less. Information obtained from Dun and Bradstreet indicates that 64 percent of businesses in the assessment area are businesses that receive \$1 million or less in gross annual revenues. In comparison to the Dun and Bradstreet data, the institution is making a much greater percentage (93 compared to 64) of their small business loans to small businesses. A further breakdown of the loans shows that the bank is making 65 percent of their loans to businesses with gross annual revenues less than \$250,000.

Therefore, the bank’s lending efforts to small businesses is exceptional and indicates that the bank is meeting the credit needs of small-sized businesses.

Special loan programs

Additionally, the evaluation of the bank’s lending activity included a small business loan referral program. While the institution does not originate loans under this program, the institution is assisting business owners in obtaining financing and therefore assisting in meeting the community credit needs. The following information describes the assistance provided by the financial institution to businesses. Management has not tracked the number of times the bank has provided such assistance.

The **Southeast Colorado Enterprise Development, Inc. (SECED)** was established as a non-profit organization on April 27, 2002. Valley State Bank has referred business applicants to the SECED because the institution recognizes that SECED can provide loans to these businesses at

reduced rates or better payment terms than the institution can offer. Since the SECED looks favorably on businesses that will bring employment to the area, they offer more advantageous terms than the institution can offer. Valley State Bank encourages any business that can take advantage of these opportunities offered by SECED and also assists the businesses, if necessary, in completing the paperwork required for SECED programs.

Farmers Home Administration guaranteed/Colorado Housing and Finance Authority

Although the bank's mortgage lending was not selected for review due to the smaller number of loans originated by the bank during the period relative to other lending categories, it is noteworthy to discuss the bank's involvement in making affordable home loans. As previously noted, the institution originated approximately 34 loans totaling \$2,115,200 since the last evaluation under this program. The institution initially provides the financing for the loans, and then sells the loans to the Colorado Housing and Finance Authority (CHFA). The Colorado General Assembly established CHFA for the purpose of increasing the supply of decent, safe, and sanitary housing for low- and moderate-income families in Colorado.

The CHFA bond program provides funds for various affordable housing programs based on income and family size limitations. Participants are subject to not having owned an interest in a principal residence during the previous three years, purchase price limitations, and homebuyer education seminars. Further, the bond programs are specifically targeted for low- and moderate-income individuals or families in Colorado. Conforming loans must be insured or guaranteed. One acceptable guarantee is provided by FmHA's Rural Development program. Therefore, Valley State Bank originates loans using both programs: one that provides the financing, the other providing the guaranty.

CHFA has created the "Simply Perfection Award" to recognize people who help make these loans happen. CHFA staff nominates lender employees for perfect Compliance or Purchase loan packages or for going the extra mile to get a file complete. A Valley State Bank officer was nominated in March 2004 for this award. The employee has received previous recognition by Colorado Rural Development in 1999 for the employee's commitment to the loan program.

GEOGRAPHIC DISTRIBUTION OF LOANS

The institution's record of lending to moderate-income geographic areas is satisfactory. This conclusion is supported by the satisfactory record of small farm and small business lending. More emphasis was placed on the bank's small farm lending performance.

Tables 11 and 12 depict the distribution of small farm and small business loans in the assessment area. Emphasis was placed on the bank's number of loans generated as opposed to the dollar volume due to the fact that the dollar volume can be easily affected by the disposition of a few large loans. The tables only show those loans that meet the definitions of small farm and small business loans as previously discussed.

Small Farm Lending

The institution's small farm lending in census tracts of varying income levels is considered satisfactory. The 2003 Dun and Bradstreet data is shown for comparative purposes.

Table 11 depicts the distribution of small farm loans in the assessment area.

Table 11: Distribution of Small Farm Loans By Income Category of the Census Tract						
Census Tract Income Level	2003 D&B		Sample			
	#	%	#	%	\$	%
Low	0	0	0	0	0	0
Moderate	173	69	21	62	1,722	69
Middle	76	31	13	38	784	31
Upper	0	0	0	0	0	0
\$0/NA Income	0	0	0	0	0	0
Total	249	100	34	100	2,506	100

Source: Sample of bank's farm loans originated in 2003.

The bank's distribution of small farm lending in moderate-income (62 percent) census tracts is similar to the Dun and Bradstreet data (69 percent). Additionally, the institutions dollar volume of small farm loans originated in moderate-income census tracts equals the percent of farms in moderate-income census tracts. The bank's geographical distribution of small farm loans throughout the assessment area is satisfactory.

Small Business Lending

The institution's small business lending in census tracts of varying income levels is considered satisfactory. The 2003 Dun and Bradstreet data is shown for comparative purposes.

Table 12 depicts the distribution of small business loans in the assessment area.

Table 12: Distribution of Small Business Loans By Income Category of the Census Tract						
Census Tract Income Level	2003 D&B		Sample			
	#	%	#	%	\$	%
Low	0	0	0	0	0	0
Moderate	682	62	23	50	1,080	34
Middle	422	38	23	50	2,063	66
Upper	0	0	0	0	0	0
\$0/NA Income	0	0	0	0	0	0
Total	1,104	100	46	100	3,143	100

Source: Sample of bank's commercial loans originated in 2003.

The bank's distribution of small business lending in moderate-income (50 percent) census tracts is slightly lower than the Dun and Bradstreet data (62 percent). Consideration of performance context factors is warranted and mitigates the bank's performance. The entire assessment area is in an enterprise zone; therefore, loans in all areas are considered to have a revitalizing and stabilizing effect. As noted under the *Loans to Farms and Businesses of Different Sizes*, the institution has helped small businesses obtain loans from the SECED as the SECED offers more favorable terms. Small business lending performance is considered satisfactory in light of performance context considerations.

Community Development Lending

The bank exhibited an excellent record of granting community development loans. The institution has been proactive and responsive to opportunities presented. Valley State Bank has made excellent efforts to extend loans that have community development as their primary purpose. In particular, management originated loans that revitalize or stabilize moderate-income areas and promote affordable housing. Additionally, all three loans benefit a designated enterprise zone.

With the exception of multifamily housing loans, only loans that are not first counted as a home mortgage, small business, or small farm loan, may be counted as community development loans.

Since the last evaluation, Valley State Bank originated the following 3 loans totaling approximately \$1.5 million to 2 separate borrowers.

- ***Municipal loan*** – In 2003, Valley State Bank extended a loan totaling \$1,134,000 to a municipality located in Kiowa County which is a moderate-income census tract. The institution extended this interim financing loan for a water project upgrade which included replacing water lines, a new water storage tank, and additional fire hydrants. This loan was complex as it combines funding from the institution, grant money, a guarantee for the interim financing by Rural Development during the completion of the project, and a commitment from Rural Development to provide the long-term financing. The total project cost was approximately \$2 million.
- ***Nonprofit Economic Development Organization*** – In 2003, Valley State Bank extended a loan totaling \$200,000 to this organization to purchase 200 acres in Kiowa County which is a moderate-income census tract. The institution extended this loan with a favorable interest rate. The organization was formed to promote and manage the growth and development of the county while maintaining a high quality of life. The planned development of the property is a 20 room assisted living facility whereby half of the rooms will be for individuals on Medicare. Future plans also include developing a housing unit and commercial district in this location.
- ***Municipal loan*** – In 2002, Valley State Bank extended a lease totaling \$157,820 to a municipality located in Kiowa County which is a moderate-income census tract. The lease was to purchase a trash truck and dumpsters. Prior to this purchase, the municipality was outsourcing trash service. With the acquired equipment, funds will remain within the municipality and trash service can be provided at a more controlled and lower rate to the citizens.

Investments

Valley State Bank demonstrated a sound record in purchasing qualified investments and providing donations in the community. The level of the bank's dollar amount of investments and the instruments' good responsiveness to community development needs support this conclusion. Examiners also identified some leadership by bank personnel in assisting with the creation of one of the investments since the previous evaluation. The institution has made additional donations; however, management has not been tracking the bank's donations. Therefore, management provided the most significant donations for consideration at this evaluation.

The bank's dollar amount of investments reflects a solid commitment to the community. Qualified investment activity totaled \$1,133,770 during the evaluation period, which represents 1.10 and 10.65 percent of December 31, 2003 total assets, \$103,287,000, and total equity capital, \$10,644,000, respectively. These investments represented 12.11 percent of aggregate net income of \$9,366,000 since the last evaluation.

Qualified debt investments of \$1,015,000 comprised 4.7 percent of total securities of \$21,595,000 as of December 31, 2003. Qualified donations as of the evaluation date totaled \$118,770, which represents 1.27 percent of aggregate net income of \$9,366,000 for that period. Focusing on the overall percentages above, the bank demonstrated a solid dollar commitment.

The majority of the bank's investments and donations promote community services targeted to low- and moderate-income individuals and all benefit a designated enterprise zone.

The following write-ups detail the bank's investments.

On December 30, 2003, the bank purchased \$375,000 of **Prowers County, Colorado Sales and Use Tax Revenue Refunding Bonds**. The purpose of this issue was to refund the County's Sales and Use Tax Refunding Bonds, Series 1993 and to fund a reserve account. The funds are used for various county obligations which provide community services for the county. Prowers County is comprised of six census tracts, of which 50 percent are moderate-income and 50 percent are middle-income. The moderate-income areas make up more than half of the county's land mass. Nearly half of the population of Prowers County resides in the moderate-income census tracts and fifty-four percent of the families in Prowers County are low- and moderate-income. Therefore, these services will primarily benefit low- and moderate-income people.

On April 28, 1999, the bank purchased \$30,000 of **Prowers County Hospital District General Obligation Refunding Bonds, Series 1999**. The purpose of this issue was to refund prior bonds which financed the expansion of the emergency room area, physical therapy facilities, and laboratory facilities at the Hospital, as well as the addition of covered access to the neighboring medical office building and the acquisition of hospital equipment. The Hospital has 40 licensed beds, 12 of which are Medicare approved "swing" beds. Medicare and Medicaid accounted for 50 and 52 percent of the net operating revenue in 1997 and 1998, respectively. The Hospital District ranks in the top three employers for the town of Lamar and Prowers County employing approximately 250 people. The Hospital District encompasses all of Prowers County and 5 acres in Baca County. Due to the previously stated demographics of Prowers County, these services will primarily benefit low- and moderate-income people. As noted under the discussion about **Services**, a bank employee of Valley State Bank was instrumental in the success of this project.

On September 30, 2003, the bank purchased \$385,000 of **Dedicated Tax Library Bond**. The purpose of this issue was for financing the construction, renovation, improvement, expansion, and equipping of the Library. In part, the additional space is for community programs. Due to the previously stated demographics of Prowers County, this building will primarily benefit low- and moderate-income people.

On June 18, 1998, the bank purchased \$225,000 for **City of Lamar, Colorado, Lamar Community Building Project**. The proceeds of the bond refund previous bonds that were issued for remodeling, improvement, repair, renovation, and enlargement of the current building. This multipurpose building is used year round for various community service and school functions. Due to the previously stated demographics of Prowers County, these services will primarily benefit low- and moderate-income people.

Grants/Donations

The institution has supported at least 14 organizations in the assessment area, either having community development as their primary purpose or serving an Enterprise Zone, since the last evaluation. Qualified donations made by the bank since the last evaluation totaled \$118,770.

All organizations serve the bank's assessment area. Donations to the following organizations were considered a few of the most significant and responsive of those reviewed.

- ***Kiowa County Health Fair*** – The health fair provides free and low-cost screening to participants. The health fair had disbanded prior to 1999. Valley State Bank donated money for the startup and initiated the return of the health fair for this moderate-income area. Valley State Bank continues to donate money for the health fair to continue its service.
- ***Lamar Community College*** – The institution made a large donation to the college for the purchase of an electronic sign and to purchase scoreboards. The sign is used to promote Lamar Community College services, classes, and activities. Valley State Bank was the sole donor of funds used for purchasing the electronic sign.
- ***Lower Arkansas Valley Water Conservancy District*** was formed to acquire, retain, and conserve native water flowing in the Arkansas River and its tributaries; to insure that such water remain in the valley for the socio-economic benefit of the citizens of Pueblo, Otero, Crowley, Bent and Prowers Counties; and to participate in water-related projects that will embody thoughtful conservation, responsible growth, and beneficial water usage within the Lower Arkansas Valley. Valley State Bank's donation was for the startup of this organization.
- ***Kiowa County Scholarship Program*** is designated for any high school senior in the Kiowa County area. Financial need is one of the criteria in selecting the winners.
- ***Eads High School Bookkeeping Class*** – The institution donates checkbook packets which are used as a training tool by the teacher to teach students how to balance a checkbook. This high school is located in a moderate-income census tract.

Services

The bank displayed a strong record of providing community development services. The level of these services, the degree to which these services serve lower income people and needs of the assessment area, and the level of leadership demonstrated by bank personnel support this conclusion.

Since the last evaluation, bank employees have had an active role in organizations with community development as their primary purpose. Examiners noted involvement in 15 qualifying organizations. Involvement includes an economic development organization, services related to affordable housing organizations, community services targeted toward low- and moderate-income people, and initiatives that are directly related to projects and goals of the enterprise zone. All organizations service the Southeast Colorado Enterprise Zone, as described in the ***Description of Assessment Area***. In several instances, bank employees have taken a leadership role by being a founding member of the organization. The following are examples of significant community development services provided by bank employees.

- ***Lower Arkansas Valley Water Conservancy District*** - A bank employee was one of the founding members of this organization. This organization was founded in November 2002 by a vote of the citizens of several counties in Southeastern Colorado. The district was formed to acquire, retain, and conserve native water flowing in the Arkansas River and its tributaries; to insure that such water remain in the valley for the socio-economic benefit of the citizens of Pueblo, Otero, Crowley, Bent, and Prowers Counties; and to participate in water-related projects that will embody thoughtful conservation, responsible growth, and beneficial water usage within the Lower Arkansas Valley. The bank employee was active in the pre-voting lobbying for this district. After the district was formed by a successful vote of the people, the bank employee became a member of the Board. As a founding member and Board member, the employee used his financial expertise to assist the organization in the creation and adoption of the organization's budget. The employee was also instrumental in the development of by-laws, policies and procedures, and the mission statement for this organization. This organization has been actively involved in SECED initiatives. The institution also assisted this organization through a donation as detailed in the *Investments* section of this report.
- ***Southeast Colorado Cancer Initiative (SECCI)*** – A bank employee was one of the founding members of this organization. The SECCI was organized in 2001 by local residents of Southeast Colorado. This employee was instrumental in the creation and adoption of a budget for the organization. Additionally, the employee facilitated in the creation of the organization's by-laws, policies and procedures, and mission statement. The employee was an active fundraiser to startup this organization. In addition to being a founding member, the employee has remained actively involved as a Board member and currently serves as the treasurer for this organization.

SECCI's mission is to collaboratively provide or assist in cancer education, prevention, treatment, and awareness to the community and surrounding areas through the support and actions of the SECCI Board of Directors and group members. One focus of this organization is to assist Southeast Colorado residents who can not pay for their medical expenses related to their cancer treatment. The assistance takes various forms including, but not limited to: medical costs, medical tests, prescriptions, transportation costs for getting to treatments, lodging, etc. This service is available to anyone in Southeast Colorado.

- ***Prowers County Hospital District*** - A bank employee served on the Board for 9 years. This employee was Chairman of the Board from 1998 to 2000. Under the leadership of this bank employee, the hospital district successfully raised interest in improving the hospital district and purchasing additional hospital equipment. This employee facilitated in the process of making bonds available for the renovation and expansion of the Prowers County Hospital. As previously noted the hospital primarily serves low- and moderate-income individuals and is the third largest employer in Prowers County.
- ***Southeast Colorado Economic Development (SECED)*** - An employee provides monthly homeownership counseling services to this organization. Such counseling is required for CHFA and FmHA loan programs. The organization serves Prowers and Kiowa Counties

and sponsors the counseling required by CHFA. As noted, the Colorado General Assembly established CHFA for the purpose of increasing the supply of decent, safe, and sanitary housing for low- and moderate-income families of Colorado.

- ***Southeastern Colorado Water Conservancy District (SECWCD)*** - A bank employee is actively involved in this organization as a general member and as member of the Finance Committee. SECWCD allocation principles allow for domestic use and irrigation use, with 51 percent for municipal purposes and 49 percent for irrigation purposes. SECWCD uses water storage facilities throughout the southeast region of Colorado. SECWCD uses these water storage areas to maintain ample water supplies for continued use all year long and focuses on water quantity and quality for municipal and agricultural uses. This organization has been actively involved in SECED initiatives.

RESPONSE TO CRA-RELATED COMPLAINTS

The institution has not received any CRA-related complaints since the prior evaluation.

FAIR LENDING

Violations of the substantive provisions of anti-discrimination laws and regulations were not identified during the examination.

GLOSSARY

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 statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and 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: (1) Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; (2) Community services targeted to low- or moderate-income individuals; (3) Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or (4) Activities that revitalize or stabilize low- or moderate-income geographies.

Community Development Loan: a loan that: (1) Has as its primary purpose community development; and (2) Except in the case of a wholesale or limited purpose bank: (i) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan; and (ii) Benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

Geography: A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

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.

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.

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.

Qualified Investments: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development to support the following endeavors: 1) affordable housing; 2) community services targeting low- or moderate-income individuals; 3) activities that promote economic development by financing small farms and small businesses; and 4) activities that revitalize or stabilize low- or moderate-income geographies

Qualified Service: A qualified service must be a community development service. A community development service is defined as a service that: 1) has as its primary purpose community development [includes:1) affordable housing; 2) community services targeting low- or moderate-income individuals; 3) activities that promote economic development by financing small farms and small businesses; and 4) activities that revitalize or stabilize low- or moderate-income geographies]; 2) Is related to the provision of financial services; and 3) has not been considered in the evaluations of the bank's retail banking services under Section 345.24(d).

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) and the Thrift Financial Reporting (TFR) 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. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$500,000 or less and typically are either secured by farm real estate or are classified as loans to finance agricultural production and other loans to farmers.

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