

PUBLIC DISCLOSURE

April 3, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers State Bank of Watkins
Certificate Number: 8864

170 Meeker Avenue
Watkins, Minnesota 55389

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 (LMI) neighborhoods, in a manner consistent with its resources and capabilities.

Farmers State Bank of Watkins (FSB) demonstrates satisfactory Community Reinvestment Act (CRA) performance under the applicable performance criteria, which supports the overall rating. Examiners did not identify any evidence of discriminatory or other illegal credit practices. The following points summarize the performance of FSB.

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- FSB originated a substantial majority of its small business and small farm loans within the assessment area.
- Because the assessment area does not include any LMI geographies, review of the geographic distribution of loans would not result in meaningful conclusions. Therefore, this factor did not affect the rating.
- The distribution of loans reflects reasonable penetration among businesses and farms of different sizes.
- The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

SCOPE OF EVALUATION

General Information

Examiners used the Interagency Small Bank Examination Procedures to evaluate the CRA performance of FSB. This evaluation covers the period from the previous evaluation dated July 6, 2011, to the current evaluation dated April 3, 2017. This evaluation considered the bank's performance in its assessment area according to the following criteria.

- LTD ratio
- Assessment area concentration
- Geographic distribution
- Borrower profile
- Response to CRA-related complaints

This evaluation does not include any lending activity performed by affiliates.

Loan Products Reviewed

Examiners determined that the bank's major product lines are small business and small farm loans. This conclusion considered the bank's business strategy and the number and dollar volume of loans originated during the evaluation period.

Small business loans include loans with original amounts of \$1 million or less secured by nonfarm or nonresidential real estate or classified as commercial and industrial loans. Small farm loans include loans with original amounts of \$500,000 or less secured by farmland or classified as loans to finance agricultural production and other loans to farmers. Examiners reviewed all small business and small farm loans originated or renewed between January 1, 2016, and December 31, 2016. The following loans were included in the scope:

- 30 small business loans totaling approximately \$2,835,470
- 20 small farm loans totaling approximately \$1,620,329

This period of time (2016) was considered representative of performance during the entire evaluation period. D&B data for 2016 provided a standard of comparison for the bank's small business and small farm lending performance. FSB originated only 5 home mortgage loans from January 1, 2016, through December 31, 2016. Home mortgage lending is not a primary business focus of the bank; therefore, examiners did not review this loan product.

Evaluation results were weighted by loan type. Examiners placed the most emphasis on small business lending followed by small farm lending when arriving at overall conclusions. This weighting is consistent with FSB's stated business focus and loan portfolio. Lastly, while 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 and farms served.

DESCRIPTION OF INSTITUTION

Background

FSB is chartered as a full-service financial institution operating from one location in Watkins, Minnesota. FSB is owned by Neisen Bancshares, Inc., a one-bank holding company also located in Watkins, Minnesota. FSB received a “Satisfactory” rating at its previous FDIC Performance Evaluation, dated July 6, 2011, based on Interagency Small Bank Examination Procedures.

Operations

FSB operates its sole office in northern Meeker County, Minnesota, and has not opened or closed any branches, nor been involved in any merger or acquisition activities since the previous evaluation. FSB offers various loan products including commercial, agricultural, home mortgage, and consumer loans. Bank management stated that the primary business focus during the evaluation period is commercial lending. Management also stated that the bank has a diverse mix of agricultural, commercial, home mortgage, and consumer loans.

FSB offers various checking and savings deposit products, individual retirement accounts, certificates of deposit, online banking, and electronic statements. FSB operates one non deposit-taking automated teller machine at its sole office in Watkins, Minnesota.

Ability and Capacity

As of December 31, 2016, assets totaled approximately \$44.8 million, loans totaled \$20.1 million, and deposits totaled \$39.4 million. Examiners did not identify any financial, legal, or other impediments that affect the bank’s ability to meet the assessment area’s credit needs. Commercial lending represents 37.9 percent of the total loan portfolio, which represents an increase since the previous evaluation when commercial lending comprised 30.4 percent. Home mortgage lending represents 30.0 percent of the bank’s total loan portfolio, which represents an increase since the previous evaluation when home mortgage lending comprised 26.3 percent. Agricultural lending represents 18.0 percent of the bank’s total loan portfolio, which represents a decrease since the previous evaluation when agricultural lending comprised 29.1 percent. The loan portfolio is illustrated in the following table.

Loan Portfolio Distribution as of 12/31/2016		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	573	2.8
Secured by Farmland	1,506	7.5
Secured by 1-4 Family Residential Properties	5,963	29.6
Secured by Multi-family (5 or more) Residential Properties	76	0.4
Secured by Non-farm Non-Residential Properties	5,789	28.7
Total Real Estate Loans	13,907	69.0
Commercial and Industrial Loans	1,864	9.2
Agricultural Production and Other Loans to Farmers	2,123	10.5
Consumer	2,148	10.7
Obligations of States and Political Subdivisions in the United States	107	0.5
Other Loans	12	0.1
Lease Financing Receivables (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	20,161	100.0
<i>Source: Reports of Condition and Income (Call Report)</i>		

DESCRIPTION OF ASSESSMENT AREA

The CRA requires financial institutions to define one or more assessment areas within which examiners will evaluate CRA performance. The following sections discuss demographic and economic information for the assessment area.

Economic and Demographic Data

The assessment area is comprised of census tracts 5601.00 – 5605.00 in Meeker County and census tracts 0110.00 – 0112.00 and 0113.02 in Stearns County. Meeker County is part of the non-metropolitan area of Minnesota, and Stearns County is part of the St. Cloud, Minnesota MSA. The assessment area is composed of nine middle-income census tracts, according to the 2010 U.S. Census. FSB's sole office is located in census tract 5602.00 in Meeker County. The following table highlights relevant demographic information 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)	9	0.0	0.0	100.0	0.0	0.0
Population by Geography	44,568	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	20,159	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	14,663	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	2,661	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	2,835	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	3,045	0.0	0.0	100.0	0.0	0.0
Farms by Geography	603	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	12,815	15.3	18.0	27.2	39.5	0.0
Household Distribution by Income Level	17,324	18.5	14.8	19.8	46.9	0.0
Median Family Income MSA - 41060 St. Cloud, MN MSA		\$64,993	Median Housing Value			\$188,283
Median Family Income Non-MSAs - MN		\$57,683	Median Gross Rent			\$646
			Families Below Poverty Level			5.4%
<i>Source: 2010 U.S. Census and 2016 D&B Data</i>						
<i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

According to 2010 U.S. Census data, the total population of the assessment area is 44,568. As of 2015, the population is projected to have declined by only 0.1 percent. Of the 20,159 housing units in the assessment area, 72.7 percent are owner-occupied, 13.2 percent are occupied rental units, and 14.1 percent are vacant.

The following table portrays average annual unemployment rates and trends for the United States, State of Minnesota, and Meeker and Stearns Counties. Since the previous evaluation, unemployment levels for Meeker and Stearns Counties have steadily declined along with national and state averages. Lastly, unemployment levels for Meeker County are higher than state averages while unemployment levels for Stearns County are more comparable to the state averages.

Average Annual Unemployment Rates						
Area	2011	2012	2013	2014	2015	2016
	%	%	%	%	%	%
United States	8.9	8.1	7.4	6.2	5.3	4.9
State of Minnesota	6.5	5.6	5.0	4.2	3.7	3.9
Meeker County	7.7	6.6	5.5	4.6	4.2	*
Stearns County	6.3	5.4	4.9	4.1	3.6	*

*Source: Bureau of Labor Statistics; * annual average not yet available*

According to 2016 D&B Data, there are 3,045 businesses in the assessment area, of which 86.1 percent have gross annual revenues (GARs) of \$1 million or less, 5.3 percent have GARs greater than \$1 million, and the remaining 8.6 percent did not report revenues. According to this same data, there are 603 farms in the assessment area, of which 98.3 percent have GARs of \$1 million or less, 1.3 percent have GARs greater than \$1 million, and the remaining 0.4 percent did not report revenues.

The services industry represents the largest portion of businesses at 37.7 percent; followed by agriculture, forestry, and fishing at 16.5 percent; construction at 12.9 percent; retail trade at 10.6 percent; finance, insurance and real estate at 6.0 percent; and manufacturing at 4.7 percent. In addition, 79.5 percent of area businesses have four or fewer employees, and 92.4 percent operate from a single location.

Competition

FSB’s assessment area is a competitive market for deposits. According to Call Report data filed in 2015, 14 depository institutions operated 16 branches within the assessment area. Of these institutions, FSB ranked 8th with 5.2 percent of the deposit market share. The 14 depository institutions include smaller community banks, regional banks, and large national banks. A community contact stated that there is strong competition for agricultural financing and moderate competition for all other financing.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit and community development needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit and community development opportunities are available. Examiners reviewed one recently conducted community contact and conducted one community contact in conjunction with this evaluation. All contacts were familiar with particular economies within the assessment area.

Examiners spoke with an individual that serves as a representative of an economic development organization within Meeker County. The contact indicated that the overall economy has been generally stable with supported long-term industries. The contact discussed concerns with lack of housing, both owner- and rental-occupied, and mentioned the lack of available housing for low-income individuals. The contact stated that most available housing is aged or requires fix-

up funding. Relating to the agricultural sector, the contact stated that it has been generally strong with weak points in recent years. The contact stated that agricultural and home mortgage lending would be most prevalent; however, additional financing for start-up or venture capital funding is needed. The contact stated that banking is a competitive environment within the community.

A contact that serves as a representative of a community development organization within Stearns County stated that the economy is stable and there has been an influx of residents in recent years. The contact stated that there is a shortage of affordable housing (rental- and owner-occupied) and people with the necessary skills to fill local positions. Additionally, the contact stated that the health care industry and commercial transportation employ a substantial number of people in the service area. The contact stated that housing construction is typically not for entry-level housing because of the return on profit given the high expenses. Lastly, the contact stated that financial institutions actively meet the credit needs of the community.

CONCLUSIONS ON PERFORMANCE CRITERIA

Examiners primarily considered the Borrower Profile criterion when arriving at overall conclusions.

Loan-to-Deposit Ratio

The average net LTD ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The average net LTD ratio, calculated from Call Report data, averaged 58.9 percent over the past 22 calendar quarters from September 30, 2011, to December 31, 2016. The ratio ranged from a low of 50.5 percent as of December 31, 2016, to a high of 64.0 percent as of June 30, 2015.

Examiners also compared the bank's average net LTD ratio to four similarly situated banks (SSBs) operating within FSB's assessment area. Examiners selected SSBs based upon asset size, geographic location, and lending focus. The table below displays this comparison.

Management stated that the declining loan demand in 2015 and 2016 contributes to the lower average net LTD ratio. Additionally, home mortgage lending at FSB has greatly declined as applicant's desire long-term mortgage loans that are not offered by FSB. Discussions with management and community contacts indicates that the vast majority of residents commute to larger metropolitan areas for employment and some consumers may opt to obtain financial services in the cities where they are employed.

LTD Ratio Comparison		
Bank	Total Assets as of 12/31/2016 \$(000s)	Average Net LTD Ratio (%)
Farmers State Bank of Watkins	44,799	58.9
First State Bank of Grove City	23,555	74.9
Perennial Bank	98,760	36.8
State Bank of Cold Spring	57,748	60.4
State Bank of Richmond	93,497	58.5
<i>Source: Call Report data from 9/30/2011 through 12/31/2016</i>		

Assessment Area Concentration

Overall, FSB made a substantial majority of its small business and small farm loans, by number and dollar volume, within its assessment area, as shown in the following table.

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	24	80.0	6	20.0	30	2,331	82.2	504	17.8	2,835
Small Farm	20	100.0	0	0.0	20	1,620	100.0	0	0.0	1,620
<i>Source: 1/1/2016 - 12/31/2016 Bank Data</i>										

Geographic Distribution

The geographic distribution analysis shows the dispersion of loans in low-, moderate-, middle-, and upper-income census tracts. The assessment area does not include any LMI geographies; therefore, a review of the geographic distribution criterion would not result in meaningful conclusions.

Borrower Profile

The borrower profile analysis shows the distribution of lending to businesses and farms of different revenue sizes. Examiners focus on the percentage of small business and small farm loans to operations with GARs of \$1 million or less and compare the bank's performance to D&B data. The D&B data includes all businesses and farms in a given area that voluntarily respond to a survey request, including a large number of very small businesses and farms with limited or no credit needs. As a result, the D&B data regularly indicates a majority of businesses and farms in a given area are the smallest businesses and farms. Therefore, D&B data is only used as a general indicator of business and farm demographics within the assessment area. Overall, the distribution of borrowers reflects reasonable penetration among businesses and farms of different sizes.

Small Business Loans

The following table demonstrates that FSB originated or renewed 87.5 percent of loans to businesses with GARs of \$1 million or less. This lending performance is comparable to demographic data, which indicates that 86.1 percent of businesses in the assessment area have GARs of \$1 million or less. Overall, the distribution of small business loans reflects reasonable penetration to businesses with GARs of \$1 million or less.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	86.1	21	87.5	1,081	46.4
>1,000,000	5.3	3	12.5	1,250	53.6
Revenue Not Available	8.6	0	0.0	0	0.0
Total	100.0	24	100.0	2,331	100.0

Source: 2016 D&B Data, 1/1/2016 - 12/31/2016 Bank Data

Small Farm Loans

The following table demonstrates that FSB originated or renewed 90.0 percent of loans to farms with GARs of \$1 million or less. This lending performance is slightly lower than demographic data, which indicates that 98.3 percent of farms in the assessment area have GARs of \$1 million or less. According to the 2012 Census of Agriculture, the percentage of hobby farmers in Meeker and Stearns Counties is 51 percent and 45 percent, respectively. According to this same data, 53 percent and 49 percent of farms in Meeker and Stearns Counties reported no interest expense paid.

Management stated that off-farm income and the percentage of hobby farmers does impact the credit needs of farms within the assessment area. Specifically, management stated that very small farms may be able to finance their operations through equity or annual sales. Additionally, management mentioned the availability of alternative agricultural financing and the competitiveness posed by these alternative entities. These factors contribute to the lower level of lending to farms with GARs of \$1 million or less. Overall, the distribution of small farm loans reflects reasonable penetration to farms with GARs of \$1 million or less.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	98.3	18	90.0	1,230	75.9
>1,000,000	1.3	2	10.0	390	24.1
Revenue Not Available	0.4	0	0.0	0	0.0
Total	100.0	20	100.0	1,620	100.0
<i>Source: 2016 D&B Data, 1/1/2016 - 12/31/2016 Bank Data</i>					

Response to Complaints

FSB did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the rating.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices that impact FSB's overall CRA rating.

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.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan 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. Census tract boundaries normally follow visible features, but they may follow governmental unit boundaries and other non-visible features in some instances. They always nest within counties. Census tracts average about 4,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogenous for population characteristics, economic status, and living conditions to allow for statistical comparisons.

Combined Statistical Area (CSA): A combination of several adjacent MSAs 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 LMI individuals;
- (2) Target community services toward LMI individuals;
- (3) Promote economic development by financing small businesses or farms; or
- (4) Provide activities that revitalize or stabilize LMI geographies, designated disaster areas, or distressed or underserved non-metropolitan middle-income geographies; or
- (5) Enable or facilitate projects or activities that address needs regarding foreclosed or abandoned residential properties in designated target areas.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Bank CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit LMI groups, and the investment dollars should not represent an undue risk on the banking organization.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional

financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Community Development Loan: A loan that

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose bank:
 - (i) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
 - (ii) Benefits the bank's assessment area(s) or a broader statewide or regional area including the bank's assessment area(s).

Community Development Service: A service that

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the bank's retail banking services under § 345.24(d).

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

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).

Family Income: Includes the income of all members of a family that are age 15 and older.

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and non-metropolitan 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: Performance under the applicable tests is analyzed considering performance context, quantitative factors (geographic loan distribution, borrower profile loan distribution, and total number and dollar amount of investments), and qualitative factors (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 an MSA 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 Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement, and temporary-to-permanent construction loans.

Home Mortgage Loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans to purchase manufactured homes, and refinancings of home improvement and home purchase loans.

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

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households are only one person, median household income is usually less than median family income.

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: Performance under the applicable tests is analyzed using only quantitative factors (for example, geographic loan distribution, borrower profile loan distribution, total number and dollar amount of investments, and branch distribution).

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

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.

Micropolitan Statistical Area: CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Non-metropolitan Area: All areas outside of metropolitan areas. The definition of non-metropolitan 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 non-metropolitan 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 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.

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.