

PUBLIC DISCLOSURE

February 10, 2020

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bridgewater Bank
Certificate Number: 58210

4400 Excelsior Boulevard
Saint Louis Park, Minnesota 55416

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 **Outstanding**.

An institution in this group has an outstanding record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Bridgewater Bank’s Community Reinvestment Act (CRA) performance under the Lending, Investment, and Service Tests supports the overall rating. The following table indicates the performance level with respect to the Lending, Investment, and Service Tests.

PERFORMANCE LEVELS	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding	X		
High Satisfactory		X	X
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			
* The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.			

The following points summarize the bank’s Lending, Investment, and Service Test performance.

The Lending Test is rated Outstanding.

- Lending levels reflect excellent responsiveness to credit needs, including a substantial majority of loans originated in the assessment area.
- The geographic distribution of home mortgage and small business lending reflects excellent penetration throughout the assessment area.
- The distribution of borrowers reflects good penetration among individuals of different income levels and businesses of different revenue sizes.
- The institution exhibits a good record of serving the credit needs of the most economically disadvantaged area of its assessment area, low-income individuals, and very small businesses.
- The institution is a leader in making community development loans.
- The institution makes limited use of innovative and/or flexible lending practices in order to serve assessment area credit needs.

The Investment Test is rated High Satisfactory.

- The institution has a significant level of qualified community development investments grants, particularly those that are not provided by private investors, occasionally in a leadership position.
- The institution exhibits good responsiveness to credit and community economic development needs.
- The institution occasionally uses innovative and/or complex investments to support community development initiatives.

The Service Test is rated High Satisfactory.

- Delivery systems are reasonably accessible to all portions of the institution's assessment area.
- To the extent changes have been made, the institution's opening and closing of branches has improved the accessibility of its delivery systems, particularly in low- and moderate-income geographies and to low- and moderate-income individuals.
- Services (including business hours) do not vary in a way that inconveniences portions of the assessment area, particularly low- and moderate-income geographies and individuals.
- The institution provides a relatively high level of community development services.

DESCRIPTION OF INSTITUTION

Background

Bridgewater Bank is a full-service financial institution headquartered in Saint Louis Park, Minnesota. The bank is a subsidiary of Bridgewater Bancshares, Inc., a one-bank holding company located in Bloomington, Minnesota. There are no affiliates or subsidiaries involved in lending. Bridgewater Bank received a Satisfactory rating at the previous FDIC evaluation dated January 20, 2017, based on Interagency Intermediate Small Institution Examination Procedures.

Operations

Bridgewater Bank operates seven full-service offices and one ATM. In addition to the main office in Saint Louis Park, the bank operates branch offices in the following cities: Bloomington, Greenwood, Orono, Saint Paul, and two branches in Minneapolis (Uptown and Downtown). Changes in branch structure since the previous evaluation include the opening of the Saint Paul office in September 2018 and the April 2019 relocation of the Bloomington office to a new facility located approximately 1.6 miles away. The only bank-owned ATM is located at the Uptown Minneapolis office.

Bridgewater Bank specializes in multi-family housing development lending, but also offers a range of other loan products, including commercial, home mortgage, and consumer loans. Commercial loans include construction, land development, commercial real estate, lines of credit, multi-family dwelling, working capital, and commercial and industrial loans. The bank also continues to offer loan products tailored to small businesses through participation in government programs such as those through the U.S. Small Business Administration. Home mortgage products include bridge, home equity, home improvement, interim construction, and lot loans.

In addition to loan products, Bridgewater Bank offers various types of retail deposit products such as checking, savings, money market, certificates of deposit, and individual retirement accounts. Alternative banking products or services include debit and ATM cards; direct deposit; wire transfers; foreign currency exchange services; electronic statements; and telephone, mobile, and online banking.

Ability and Capacity

According to the Consolidated Report of Condition and Income (Report of Condition) dated December 31, 2019, Bridgewater Bank had total loans of \$1.9 billion; total deposits of \$1.8 billion; and total assets of \$2.2 billion. These figures represent a significant increase from the previous evaluation when total loans were \$942.9 million, total deposits were \$991.1 million, and total assets were \$1.2 billion. Growth in assets, deposits, and loans is attributed to favorable economic conditions and expansion of the bank's client base. The following table details the loan portfolio composition, which has remained relatively consistent since the previous CRA evaluation.

Loan Portfolio Distribution as of December 31, 2019		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	196,776	10.3
Secured by Farmland	1,357	0.1
Secured by 1-4 Family Residential Properties	260,612	13.7
Secured by Multifamily (5 or more) Residential Properties	515,014	27.0
Secured by Nonfarm Nonresidential Properties	657,030	34.5
Total Real Estate Loans	1,630,789	85.6
Commercial and Industrial Loans	258,972	13.6
Agricultural Production and Other Loans to Farmers	0	0.0
Consumer Loans	4,208	0.2
Obligations of State and Political Subdivisions in the U.S.	8,296	0.4
Other Loans	8,900	0.5
Lease Financing Receivable (net of unearned income)	131	0.0
Less: Unearned Income	5,512	0.3
Total Loans	1,905,784	100.0
<i>Source: Reports of Condition</i>		

There are no financial, legal, or other impediments, other than legal lending limits, that affect the bank's ability to meet the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment area within which its performance will be evaluated. Bridgewater Bank has designated one assessment area comprised of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington Counties. The assessment area includes 7 of the 15 centrally located counties within the Minneapolis-St. Paul-Bloomington Minnesota-Wisconsin (Minneapolis) Metropolitan Statistical Area (MSA) and has not changed since the previous evaluation.

The bank's main office in Saint Louis Park, and the Bloomington, Greenwood, and Uptown Minneapolis branch offices are all located in upper-income census tracts. The Orono and Downtown Minneapolis branch offices are located in middle-income census tracts. The Saint Paul branch office is located in a moderate-income census tract.

Economic and Demographic Data

According to 2015 American Community Survey (ACS) data, the assessment area is comprised of 704 census tracts (54 low-, 157 moderate-, 291 middle-, 195 upper-income, and 7 tracts that have not been assigned an income classification). Since the previous CRA evaluation, the percentage of low- and upper-income census tracts decreased, the percentage of moderate-income census tracts increased, and the percentage of middle-income census tracts remained consistent. The following table illustrates select demographic characteristics of the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	704	7.7	22.3	41.3	27.7	1.0
Population by Geography	2,952,114	6.5	19.7	41.9	31.6	0.3
Housing Units by Geography	1,206,738	6.0	20.5	43.1	30.1	0.4
Owner-Occupied Units by Geography	785,412	2.4	15.6	45.2	36.9	0.1
Occupied Rental Units by Geography	364,742	13.3	30.5	38.9	16.5	0.9
Vacant Units by Geography	56,584	10.2	24.0	40.9	24.0	0.9
Businesses by Geography	260,131	5.2	17.2	42.6	34.7	0.3
Farms by Geography	5,824	2.0	12.2	48.6	37.2	0.1
Family Distribution by Income Level	730,755	20.4	17.0	21.7	41.0	0.0
Household Distribution by Income Level	1,150,154	23.9	16.1	18.2	41.8	0.0
Minneapolis-St. Paul-Bloomington, MN-WI MSA Median Family Income		\$84,589	Median Housing Value			\$232,413
			Median Gross Rent			\$966
			Families Below Poverty Level			7.1%
<i>Source: 2015 ACS Census and 2019 D&B Data Due to rounding, totals may not equal 100.0</i>						
<i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

Within the assessment area, service industries represent the largest portion of businesses at 45.7 percent; followed by non-classifiable establishments (11.6 percent); retail trade (10.9 percent); and finance, insurance, and real estate (9.6 percent). In addition, 67.1 percent of area businesses have 4 or fewer employees, and 89.8 percent operate from a single location.

The Federal Financial Institutions Examination Council (FFIEC) updated median family income level is used to analyze home mortgage loans under the Borrower Profile criterion and to analyze activities under the Community Development Test. The low-, moderate-, middle-, and upper-income categories for 2017-2019 (most recent available) are presented in the following table.

Minneapolis MSA Median Family Income				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2017 (\$89,800)	<\$44,900	\$44,900 to <\$71,840	\$71,840 to <\$107,760	≥\$107,760
2018 (\$93,600)	<\$46,800	\$46,800 to <\$74,880	\$74,880 to <\$112,320	≥\$112,320
2019 (\$93,000)	<\$46,500	\$46,500 to <\$74,400	\$74,400 to <\$111,600	≥\$111,600
<i>Source: FFIEC</i>				

Competition

There is a significant level of competition for financial services within the assessment area. According to 2018 Report of Condition data filed by financial institutions, there are 154 financial institutions that operate 608 branches within the assessment area. Of these institutions, Bridgewater Bank ranked 12th in market share with approximately 1.0 percent of the assessment area's deposits.

Bridgewater Bank faces strong competition for small business and home mortgage loans from financial institutions and credit card lenders within the assessment area. To illustrate the level of competition and demand for home mortgage and small business loans, 2018 Home Mortgage Disclosure Act (HMDA) and CRA aggregate lending data is used as a comparison. Aggregate lending data for both products shows numerous lenders originating loans within the assessment area. Specifically, 640 HMDA reporting institutions originated or purchased 108,943 home mortgage loans in the assessment area. Bridgewater Bank ranked 60th with a market share of 0.4 percent. Additionally, 144 CRA reporting institutions originated 59,139 small business loans in the assessment area. Bridgewater Bank ranked 29th with a market share of 0.3 percent.

Community Contacts

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 financial institutions are responsive to these needs. It also helps reveal what credit and community development opportunities are available.

For this evaluation, examiners reviewed comments from two previously conducted interviews of assessment area representatives. One interviewee was a representative of a community development organization, and the other interviewee was a representative of a business network organization. Both contacts commented that the local economy is strong and businesses are generally doing well. However, one contact noted the retail industry continues to decline as a result of increasing online shopping. The contact also noted some businesses are having a difficult time finding employees due to the low unemployment rate. Both contacts discussed the need for small business financing, particularly for startup businesses. However, one contact noted obtaining financing, particularly for startup businesses, can be difficult due to a lack of collateral and insufficient capital. The contact stated local startup businesses are obtaining financing through area Community Development Financial Institutions and Community Development Corporations, as well as through local financial institutions that provide home equity and credit card products.

In regard to housing, both contacts noted the need for more affordable housing options. The contacts stated that land is expensive and existing housing stock is being purchased, improved, and then offered for sale at a higher price that is not affordable. One contact mentioned the need for additional financing options to assist with front-end development costs to construct affordable housing. Overall, the contacts indicated that financial institutions have been responsive to the credit and community development needs of the assessment area. It was noted that the area is well-banked and that local financial institutions are meeting the credit needs of local businesses and individuals.

Credit and Community Development Needs and Opportunities

Considering information from the community contacts, bank management, and demographic and economic data, examiners determined that small business and home mortgage lending represent the primary credit needs of the assessment area, and that community development needs include affordable housing, economic development initiatives, and community service activities targeted to low- and moderate-income individuals.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated January 20, 2017, to the current evaluation dated February 10, 2020. Examiners used the Interagency Large Institution Examination Procedures to evaluate Bridgewater Bank's CRA performance within its designated assessment area. These procedures include the Lending, Investment, and Service Tests, which are described in detail in the Appendix.

Banks must achieve at least a Low Satisfactory rating under the Lending Test to receive an overall rating of Satisfactory or higher. Examiners analyzed small business, home mortgage, and community development loans for the Lending Test. Examiners reviewed community development investments and services for the Investment and Service Test, respectively. This evaluation does not include any lending, investment, or service activity performed by affiliates. Regulatory personnel found no evidence of CRA-related complaints since the previous evaluation.

Activities Reviewed

Examiners determined that the bank's major product lines are commercial and home mortgage lending. This conclusion considered management's comments regarding the bank's business strategy and bank records of the number and dollar volume of loans originated during the evaluation period. Based on the December 31, 2019, Report of Condition, commercial loans and home mortgage loans (secured by 1-4 and multi-family residential properties) represented 48.1 percent and 40.7 percent of the loan portfolio, respectively, based on dollar volume. The bank's home mortgage lending strategy generally includes originating loans to commercial entities for real estate investment purposes and to purchase and maintain multi-family housing developments. Considering this information, examiners weighted small business and home mortgage loans equally in evaluating the bank's CRA performance. Examiners did not evaluate small farm or consumer installment lending activities because they represent a small portion of the loan portfolio, are not a business focus of the institution, and provide no material support for conclusions.

Bridgewater Bank began collecting and reporting CRA loan data in 2018 upon transitioning to a large bank for CRA purposes. Therefore, examiners reviewed small business lending data reported on bank's 2018 CRA Loan Register to analyze lending performance. The bank originated 223 small business loans totaling \$240.1 million in 2018.

Examiners also reviewed home mortgage loans reported on the 2017 and 2018 Loan Application Registers pursuant to the HMDA. The bank originated or purchased 394 home mortgage loans totaling \$310.9 million in 2017, and 441 loans totaling \$366.1 million in 2018.

To help evaluate Bridgewater Bank's lending performance, examiners used various comparative data. Specifically, examiners used aggregate CRA lending data and D&B data to evaluate the bank's small business lending performance. For home mortgage lending, examiners used aggregate HMDA lending data and 2015 ACS Census data. Examiners compared the bank's lending performance to both the aggregate lending and demographic data; however, placed more weight on comparisons to aggregate lending data. This is because aggregate lending data is typically a better indicator of market conditions and loan demand in the assessment area than demographic data.

As noted above, examiners reviewed multiple years of HMDA data. Examiners did not identify any significant anomalies or trends in performance that would materially affect conclusions or ratings among the various years of data. Therefore, this performance evaluation only presents and discusses information for 2018, which is the most recent year where aggregate lending data is available.

For the Lending Test, examiners reviewed performance considering the number and dollar volume of lending. While both are presented, examiners emphasized performance by number because the number of loans is a better indicator of the number of businesses and individuals served.

In addition to the loan review outlined above, examiners reviewed community development lending and innovative and flexible lending programs as part of the Lending Test. Examiners reviewed qualified community development investments, donations, and grants for the Investment Test. For the Service Test, examiners analyzed retail banking services and qualified community development services. Examiners reviewed community development activity for the entire review period and presented the information for each year within this performance evaluation. To help evaluate community development performance, examiners make comparisons to peer institutions. For this evaluation, examiners reviewed the activities of three similarly situated institutions that were also evaluated using Interagency Large Institution Examination Procedures during the evaluation period.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Bridgewater Bank demonstrated outstanding performance under the Lending Test. The bank's performance under Lending Activity, Assessment Area Concentration, Geographic distribution, and Community Development Lending supports this conclusion.

Lending Activity

Overall, lending levels reflect excellent responsiveness to the credit needs of the assessment area. Bridgewater Bank's net loan-to-deposit ratio, as of December 31, 2019, was 101.8 percent. The net loan-to-deposit ratio averaged 98.9 percent over the 12 quarters since the previous evaluation. During the review period, the bank's net loan-to-deposit remained consistently high and ranged from a high of 103.5 percent as of September 30, 2018, to a low of 92.8 percent as of March 31, 2017.

Bridgewater Bank continues to be an active lender and exhibited strong market performance in its two primary product lines, small business and home mortgage loans. Based on 2018 CRA and HMDA aggregate data, Bridgewater Bank ranked 29th, by number, out of 144 lenders for originating small business loans and ranked 60th out of 640 lenders by number for originating home mortgage loans. In addition, the bank originated 100 community development loans totaling \$496.8 million since the prior evaluation.

Assessment Area Concentration

Overall, a substantial majority of the home mortgage and small business loans reviewed were made within the assessment area, as shown in the following table. The bank’s performance reflects a strong commitment to meeting the credit needs of the assessment area.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2017	371	94.2	23	5.8	394	259,449	83.4	51,483	16.6	310,932
2018	404	91.6	37	8.4	441	312,990	85.5	53,114	14.5	366,104
Subtotal	775	92.8	60	7.2	835	572,439	84.6	104,597	15.4	677,036
Small Business	198	88.8	25	11.2	223	221,062	92.1	19,088	7.9	240,150
<i>Source: 1/1/2017 - 12/31/2018 HMDA Data; Bank Data 1/1/2018-12/31/2018 Bank Data. Due to rounding, totals may not equal 100.0</i>										

Geographic Distribution

Overall, the geographic distribution of loans reflects excellent penetration throughout the institution’s assessment area. Good performance regarding small business lending and excellent home mortgage lending performance supports this conclusion. Emphasis under geographic distribution is placed on the bank’s record of lending in low- and moderate-income census tracts.

Small Business Loans

The geographic distribution of small business lending reflects good penetration throughout the assessment area. The following table shows that Bridgewater Bank’s lending performance in both low- and moderate-income geographies is comparable to demographic data and slightly exceeds aggregate data.

Geographic Distribution of Small Business Loans						
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
Low	5.2	4.5	15	7.6	61,437	27.8
Moderate	17.7	16.3	35	17.7	61,170	27.7
Middle	44.6	44.5	66	33.3	68,966	31.2
Upper	32.2	34.5	82	41.4	29,489	13.3
Not Available	0.4	0.2	0	0	0	0
Totals	100.0	100.0	198	100.0	221,062	100.0

*Source: 2018 D&B Data; 1/1/2018-12/31/2018 Bank Data; 2018 CRA Aggregate Data.
Due to rounding, totals may not equal 100.0*

Home Mortgage Loans

The geographic distribution of home mortgage lending reflects excellent penetration throughout the assessment area. As illustrated in the following table, Bridgewater Bank’s lending performance greatly exceeds both demographic and aggregate data in both low- and moderate-income tracts within the assessment area.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low	2.5	3.3	38	9.4	30,967	9.9
Moderate	16.5	17.2	111	27.5	85,718	27.4
Middle	46.3	46.0	140	34.7	139,171	44.5
Upper	34.6	33.4	112	27.7	56,291	18.0
Not Available	0.1	0.1	3	0.7	843	0.3
Totals	100.0	100.0	404	100.0	312,990	100.0

*Source: 2015 ACS Census Data; 1/1/2018 - 12/31/2018 Bank Data; 2018 HMDA Aggregate Data.
Due to rounding, totals may not equal 100.0*

Borrower Profile

The distribution of borrowers reflects good performance based on good penetration among businesses of different revenue sizes, and adequate penetration among individuals of different income levels in the assessment area. Emphasis under borrower profile is placed on the bank’s record of lending to businesses with gross annual revenues of \$1 million or less and to low- and moderate-income individuals within the assessment area.

Small Business Loans

The distribution of small business loans reflects good penetration among businesses of different sizes. As illustrated in the following table, Bridgewater Bank’s small business lending slightly exceeds comparable small business aggregate lending, but lags D&B demographic data. Overall,

the bank’s performance demonstrates good responsiveness to the credit needs of smaller businesses, especially considering the high level of competition for small business loans, as noted previously.

Distribution of Small Business Loans by Gross Annual Revenue Category						
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
<=\$1,000,000	84.1	53.3	120	60.6	102,890	46.5
>1,000,000	6.8	46.7	77	38.9	117,672	53.2
Revenue Not Available	9.1	--	1	0.5	500	0.2
Totals	100.0	100.0	198	100.0	221,062	100.0
<i>Source: 2018 D&B Data; 1/1/2018-12/31/2018 Bank Data; 2018 CRA Aggregate Data. Due to rounding, totals may not equal 100.0</i>						

Home Mortgage Loans

The distribution of home mortgage lending in the assessment area reflects adequate penetration to individuals of different income levels, including low- and moderate-income individuals. The following table illustrates that Bridgewater Bank’s distribution of home mortgage loans to low- and moderate-income borrowers lags demographic and HMDA aggregate lending data. However, as previously mentioned, a substantial majority of the bank’s home mortgage loans are made to commercial entities for multi-family housing development projects or for real estate investment purposes and are not based on individual borrower incomes. These loans are reported as “Not Available” in the following table. Considering this factor, the overall distribution of lending to borrowers of various income levels is reasonable.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	20.4	9.0	4	1.0	584	0.2
Moderate	17.0	21.5	10	2.5	1,923	0.6
Middle	21.7	21.9	3	0.7	506	0.2
Upper	41.0	30.4	27	6.7	9,353	3.0
Not Available	0.0	17.2	360	89.1	300,624	96.0
Totals	100.0	100.0	404	100.0	312,990	100.0
<i>Source: 2015 ACS Census Data; 1/1/2018 - 12/31/2018 Bank Data; 2018 HMDA Aggregate Data. Due to rounding, totals may not equal 100.0</i>						

Innovative or Flexible Lending Practices

Bridgewater Bank makes limited uses of innovative and flexible lending practices in order to serve assessment area credit needs. Although limited, the loan programs in use are considered innovative and flexible. The programs help support small businesses and meet the affordable housing needs of low-and moderate-income individuals, which shows a responsiveness to identified credit needs in

the assessment area. Following are details of innovative and flexible loan activity since the previous evaluation.

Forward Commitment Loan Program

This innovative program provides commercial borrowers with a commitment to originate a permanent loan upon the completion of construction of an affordable multi-family housing property. This program provides borrowers with a commitment to deliver long term financing and the ability to lock in the terms roughly 24 months before the loan is funded. Loans originated through this program involve projects which qualify for Low-Income Housing Tax Credits. During the evaluation period the bank signed 8 Forward Commitments totaling approximately \$21.1 million and provided permanent financing to 4 borrowers for approximately \$6.1 million. These loans help create 195 affordable housing units within the assessment area.

U.S. Small Business Administration (SBA) Loans

Bridgewater Bank continues to originate loans under several flexible SBA loan programs. Government guaranteed SBA loans provide flexibility to eligible borrowers and support small businesses. During this evaluation period the bank originated 9 SBA loans to small businesses totaling approximately \$7.0 million.

Community Development Loans

Bridgewater Bank is a leader in making community development loans. Since the previous evaluation, the bank significantly increased its community development lending by dollar volume by 340.7 percent. The bank made loans to numerous borrowers throughout the assessment area primarily to help support affordable housing, but also to promote economic development, which demonstrates a responsiveness to the identified credit needs to the assessment area. In addition, community development loans also aid in the revitalization and stabilization of a low- and moderate-income geographies. Because the bank was responsive to its assessment area's credit needs, qualified community development lending activity that benefitted the greater statewide area was also included.

Bridgewater Bank's community development lending volume represents 26.4 percent of net loans and 21.9 percent of total assets. This community development lending performance significantly exceeds the performance of all three similarly-situated institutions. Specifically, comparable bank ratios of community development loans to net loans ranged from 4.3 to 8.1 percent; and the ratios of community development loans to total assets ranged from 3.5 to 5.0 percent.

The following tables provide a breakdown of the community development loans by area benefited and activities by years for each community development purpose. Data for 2017 (since the previous evaluation date) and 2020 (up until the current evaluation date) is partial year data for community development purposes throughout this evaluation.

Community Development Lending Area Benefited										
Area Benefited	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Assessment Area	63	268,850	0	0	2	1,136	27	173,791	92	443,777
Broader Statewide / Regional Area	8	52,993	0	0	0	0	0	0	8	52,993
Total	71	321,843	0	0	2	1,136	27	173,791	100	496,770

Source: Bank Records

Community Development Lending by Activity Year										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2017	27	119,788	0	0	0	0	9	30,940	36	150,728
2018	26	100,609	0	0	0	0	5	58,603	31	159,212
2019	16	97,786	0	0	2	1,136	12	82,373	30	181,295
YTD 2020	2	3,660	0	0	0	0	1	1,875	3	5,535
Total	71	321,843	0	0	2	1,136	27	173,791	100	496,770

Source: Bank Records

Examples of notable community development loans benefitting the assessment area include:

- One loan totaling \$8.5 million to a non-profit entity to purchase and renovate industrial properties in a moderate-income census tract to build a technical school and training facility to help low-and moderate income individuals learn the skills needed to move out of poverty.
- One loan totaling \$9.0 million to an entity involved in a historic tax credit project to purchase and convert a vacant office building into multi-family affordable housing for low-and moderate-income individuals. All 143-units were rent restricted and met Low-Income Housing Tax Credit (LIHTC) program requirements.
- One loan totaling \$10.7 million to an entity to construct a non-profit grocery store and 80-unit apartment complex in a low-income census tract. Rent rates for the apartment complex will be set at or below fair market value and the grocery store will offer a program to provide families in need with access to healthy food at discounted prices. The project qualified under the New Market Tax Credit program.
- During the review period the bank originated 16 LIHTC bridge loans totaling \$43.7 million. These short-term loans provided borrowers with the funding needed to acquire, construct, and rehabilitate several multi-family housing projects and create approximately 1,419 designated affordable housing units.

INVESTMENT TEST

Bridgewater Bank demonstrated high satisfactory performance under the Investment Test. The high level of community development investments and donations received the most consideration when determining the overall Investment Test performance rating.

Investment and Grant Activity

The bank has a significant level of qualified community development investments and grants, particularly those that are not routinely provided by private investors, and occasionally in a leadership position. Qualified investments and donations funded since the previous evaluation were considered under this criterion as well as qualifying investments purchased prior to this evaluation that are still outstanding as of the date of this evaluation.

As of December 31, 2019, Bridgewater Bank's qualified investment volume represents 7.0 percent of total securities and 0.9 percent of total assets. This qualified investment performance is comparable to the performance of the three similarly situated institutions. Specifically, comparable bank ratios of qualified investments to total securities ranged from 3.4 to 7.4 percent and the ratios of qualified investments to total assets ranged from 0.6 to 1.0 percent.

The following tables illustrate the bank's qualified investments by area benefited and activities by years for each community development purpose.

Qualified Investments by Location										
Investment Location	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Assessment Area	70	9,311	60	236	2	506	5	2,243	137	12,296
Broader Statewide / Regional Area	0	0	0	0	8	6,109	2	1,455	10	7,564
Total	70	9,311	60	236	10	6,615	7	3,698	147	19,860
<i>Source: Bank Records</i>										

Qualified Investments by Activity Year										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	5	3,443	0	0	2	420	5	1,658	12	5,521
2017	2	1,625	0	0	1	500	1	1,000	4	3,125
2018	4	4,079	0	0	3	2,690	1	1,040	8	7,809
2019	0	0	0	0	1	1,000	0	0	1	1,000
YTD 2020	0	0	0	0	2	2,000	0	0	2	2,000
Subtotal	11	9,147	0	0	9	6,610	7	3,698	27	19,455
Qualified Grants & Donations	59	164	60	236	1	5	0	0	120	405
Total	70	9,311	60	236	10	6,615	7	3,698	147	19,860
<i>Source: Bank Records</i>										

Examples of new investments, grants, and donations include:

- Three donations totaling \$36,000 to an organization that helps communities throughout the assessment area provide affordable housing options to individuals with income restrictions.
- Two investments totaling approximately \$2.0 million in two Small Business Investment Company (SBIC) equity funds. These funds provide financial assistance to qualifying small business owners through the SBA.

Responsiveness to Credit and Community Development Needs

Bridgewater Bank exhibits good responsiveness to credit and community economic development needs. The bank has displayed a commitment to community development through the disbursement of funds to organizations that have a qualified community development purpose and help provide affordable housing, revitalize or stabilize low- and moderate-income geographies, and promote economic development. Additionally, qualified donations have been made to organizations that provide community services targeted to low- and moderate-income individuals, which assists in ensuring that these community development organizations have sustained funding.

Community Development Initiatives

Although not particularly innovative, the bank continues to support occasional use of complex investments for community development initiatives. More details on Bridgewater Bank's investment activities are described previously in the "Investment and Grant Activity" section.

SERVICE TEST

Bridgewater Bank demonstrated high satisfactory performance under the Service Test. The high level of community development services and changes in branch locations received the most consideration when determining the overall Service Test performance rating.

Accessibility of Delivery Systems

Bridgewater Bank’s delivery systems are reasonably accessible to essentially all portions of the institution’s assessment area. As discussed previously, the bank operates seven full-service branch offices and one bank-owned ATM (deposit-taking and cash dispensing) throughout its assessment area. To increase accessibility to ATMs, the bank retains its partnership with the MoneyPass interbank network and waives all surcharges and bank fees for transactions completed at any MoneyPass ATM. MoneyPass ATMs are part of a nationwide network of ATMs and can be found in a number of low-and moderate-income geographies within the assessment area.

Overall, Bridgewater Bank’s facilities provide reasonable access to banking services for individuals throughout the assessment area, including individuals in low- and moderate-income geographies. The following table outlines the distribution of offices and the ATM throughout the assessment area in comparison to the census tracts and population based on tract income level.

Branch and ATM Distribution by Geography Income Level												
Tract Income Level	Census Tracts		Population		Branches		ATMs		Open Branches		Closed Branches	
	#	%	#	%	#	%	#	%	#	%	#	%
Low	54	7.7	191,151	6.5	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	157	22.3	582,083	19.7	1	14.3	0	0.0	1	50.0	0	0.0
Middle	291	41.3	1,235,870	41.9	2	28.6	0	0.0	0	0.0	1	100.0
Upper	195	27.7	932,795	31.6	4	57.1	1	100.0	1	50.0	0	0.0
NA	7	1.0	10,215	0.3	0	0.0	0	0.0	0	0.0	0	0.0
Totals	704	100.0	2,952,114	100.0	7	100.0	1	100.0	2	100.0	1	100.0

Source: 2015 ACS Census & Bank Data. Due to rounding, totals may not equal 100.0

Bridgewater Bank offers alternative delivery systems to enhance accessibility to financial services. In addition to its physical branch and ATM network, the bank offers electronic delivery systems that include telephone, mobile, and internet banking. Bank customers have 24-hour telephone access, through which customers can verify balances, transfer funds between accounts, and obtain other account information. Mobile banking is available for customers to access account information, transfer funds, and make deposits. The bank also operates a website that has general information on the bank’s products and services and provides customers access to online banking services, including accessing account information, making transfers, and making bill payments.

Changes in Branch Locations

The institution’s record of opening and closing branches has improved the accessibility of its delivery systems, particularly in a moderate-income geography and to low- and moderate-income individuals. As discussed previously in the Description of Institution section of this evaluation, since the previous evaluation the bank opened a new branch office in St. Paul, which is located in a moderate-income census tract. The opening of this branch improved accessibility to this geography and to low- and moderate-income individuals residing in or near this geography. The relocation of

the Bloomington office from a middle-income census tract to a new facility located an upper-income census tract approximately 1.6 miles away did not impact accessibility.

Reasonableness of Business Hours and Services

Services, including business hours, do not vary in a way that inconveniences portions of the assessment area, particularly low- and moderate-income geographies or individuals. Operating hours and services do not vary significantly from branch to branch, or from hours and services offered by other banks within the assessment area. In addition, two branch offices offer extended hours through drive-up windows, including on Saturdays. Branch hours are considered convenient and are comparable to other local financial institutions.

Bridgewater Bank continues to participate in the Interest on Lawyer's Trust Account (IOLTA) and Interest on Real Estate Trust Accounts (IORETA) programs, which permits lawyers and real estate brokers to deposit funds into interest-bearing trust accounts. The interest generated from IOLTAs is donated to the Minnesota Lawyer Trust Account Board to provide legal assistance to low- and moderate-income individuals. The interest generated from IORETAs is donated to the Minnesota Housing Trust Fund to provide housing assistance to low- and moderate-income individuals. As of December 31 2019, Bridgewater Bank had 46 IOLTAs and 67 IORETAs benefitting the State of Minnesota.

Community Development Services

Bridgewater Bank provides a relatively high level of community development services. While most of the community development services are not particularly innovative, these services demonstrate the bank's responsiveness to community development needs considering its resources, business strategy, area competition, and available opportunities. The bank's community development services are standard in nature and include serving on boards and committees to provide financial or technical expertise to qualifying community development organizations. Of particular note, is the bank's commitment to providing financial literacy courses to students attending schools in which the majority of students receive free or reduced-price lunch.

Bridgewater Bank provided 172 services within its assessment area that meet the definition of community development under the CRA, and all of the services provided by bank staff relate to the provision of financial services as required by the regulation for consideration under the CRA. This level of involvement signifies the bank's commitment to helping the communities in which it serves, and represents a significant increase in the number of qualified community development services from the previous examination. Management estimates that employees dedicated approximately 1,067 hours to provide financial or technical assistance to promote community development.

Bridgewater Bank's level of community development services is comparable to that of the three similarly-situated institutions whose total reported community development services ranged from 127 to 287 qualified activities. The following tables provide a breakdown of community development services by year for each community development purpose.

Community Development Services by Activity Year					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2017	0	44	0	0	44
2018	1	54	0	0	55
2019	3	69	0	0	72
YTD 2020	1	0	0	0	1
Total	5	167	0	0	172
<i>Source: Bank Records</i>					

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified during this evaluation.

APPENDIX

LARGE BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) through its lending activities by considering a bank's home mortgage, small business, small farm, and community development lending. If consumer lending constitutes a substantial majority of a bank's business, the FDIC will evaluate the bank's consumer lending in one or more of the following categories: motor vehicle, credit card, other secured, and other unsecured. The bank's lending performance is evaluated pursuant to the following criteria:

- 1) The number and amount of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, in the bank's assessment area;
- 2) The geographic distribution of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, based on the loan location, including:
 - i. The proportion of the bank's lending in the bank's assessment area(s);
 - ii. The dispersion of lending in the bank's assessment area(s); and
 - iii. The number and amount of loans in low-, moderate-, middle- and upper-income geographies in the bank's assessment area(s);
- 3) The distribution, particularly in the bank's assessment area(s), of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, based on borrower characteristics, including the number and amount of:
 - i. Home mortgage loans low-, moderate-, middle- and upper-income individuals
 - ii. Small business and small farm loans to businesses and farms with gross annual revenues of \$1 million or less;
 - iii. Small business and small farm loans by loan amount at origination; and
 - iv. Consumer loans, if applicable, to low-, moderate-, middle- and upper-income individuals;
- 4) The bank's community development lending, including the number and amount of community development loans, and their complexity and innovativeness; and
- 5) The bank's use of innovative or flexible lending practices in a safe and sound manner to address the credit needs of low- and moderate-income individuals or geographies.

Investment Test

The Investment Test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through qualified investments that benefit its assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s). Activities considered under the Lending or Service Test may not be considered under the investment test. The bank's investment performance is evaluated pursuant to the following criteria:

- 1) The dollar amount of qualified investments;
- 2) The innovativeness or complexity of qualified investments;
- 3) The responsiveness of qualified investments to available opportunities; and
- 4) The degree to which qualified investments are not routinely provided by private investors.

Service Test

The Service Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the bank's systems for delivering retail banking services and the extent and innovativeness of its community development services.

The bank's retail banking services are evaluated pursuant to the following criteria:

- 1) The current distribution of the bank's branches among low-, moderate-, middle-, and upper-income geographies;
- 2) In the context of its current distribution of the bank's branches, the bank's record of opening and closing branches, particularly branches located in low- or moderate-income geographies or primarily serving low- or moderate-income individuals;
- 3) The availability and effectiveness of alternative systems for delivering retail banking services (*e.g.*, RSFs, RSFs not owned or operated by or exclusively for the bank, banking by telephone or computer, loan production offices, and bank-at-work or bank-by-mail programs) in low- and moderate-income geographies and to low- and moderate-income individuals; and
- 4) The range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

The bank's community development services are evaluated pursuant to the following criteria:

- 1) The extent to which the bank provides community development services; and
- 2) The innovativeness and responsiveness of community development services.

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 nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical area or micropolitan statistical area or a mix of the two, which are linked by economic ties.

Community Development: For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms; or
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster area, or distressed or underserved nonmetropolitan middle-income geographies.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. 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 low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

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

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

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

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

Community Development Loan: A loan that:

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose 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.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Area are the two categories of CBSAs.

Distressed Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or

- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan area. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

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

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (e.g., geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

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

Low Income Housing Tax Credit: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

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.

Nonmetropolitan Area (also known as **non-MSA**): All area outside of metropolitan area. The definition of nonmetropolitan area is not consistent with the definition of rural area. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan area.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Investment Company (SBIC): SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

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

Small Farm Loan: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Underserved Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

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

Urban Area: All territories, populations, and housing units in urbanized area and in places of 2,500 or more persons outside urbanized area. 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 area.