

PUBLIC DISCLOSURE

August 3, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First State Bank Minnesota
Certificate Number: 10162

102 West Main Street
Le Roy, Minnesota 55951

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.

TABLE OF CONTENTS

INSTITUTION RATING.....	1
DESCRIPTION OF INSTITUTION.....	2
DESCRIPTION OF ASSESSMENT AREAS	3
SCOPE OF EVALUATION	3
CONCLUSIONS ON PERFORMANCE CRITERIA	4
DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW.....	5
MSA ASSESSMENT AREA – Full-Scope Review	6
Non-MSA ASSESSMENT AREA – Full-Scope Review.....	9
APPENDICES.....	13
SMALL BANK PERFORMANCE CRITERIA	13
GLOSSARY	14

INSTITUTION RATING

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

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

First State Bank Minnesota's satisfactory Community Reinvestment Act (CRA) performance under the applicable performance criteria supports the overall rating. The following points summarize the bank's performance.

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and the assessment areas' credit needs.
- A majority of the small farm and small business loans reviewed were located inside the assessment areas.
- The geographic distribution of small farm and small business loans reflects reasonable dispersion throughout the assessment areas.
- The distribution of borrowers reflects excellent penetration among farms and businesses of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

DESCRIPTION OF INSTITUTION

First State Bank Minnesota is headquartered in Le Roy, Minnesota and operates one branch in Spring Valley, Minnesota. The institution continues to be controlled by First LeRoy Bancorporation, Inc., a one-bank holding company based in Le Roy, Minnesota. First State Bank Minnesota received a Satisfactory rating at its previous FDIC Performance Evaluation dated October 1, 2015, which was based on Interagency Small Institution Examination Procedures. Since the previous CRA evaluation, the bank has not open or closed any offices, and no merger or acquisition activities have occurred.

The bank offers various loan products including commercial, agricultural, home mortgage, and consumer loans. Agricultural loans continue to represent the institution’s primary business line, followed by commercial and home mortgage loans to a lesser degree. Additionally, the bank offers loans through the Small Business Administration.

The institution provides a variety of deposit services including checking, savings, money market, individual retirement accounts, and certificates of deposit. In addition to traditional banking services, customers have access to bank-owned and operated automated teller machines; online banking, including electronic bill pay; periodic statements; and mobile banking, including mobile deposit.

As of March 31, 2021, assets totaled approximately \$86,379,000, loans totaled \$49,527,000, and deposits totaled \$77,047,000.

Loan Portfolio Distribution as of 03/31/2021		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	1,092	2.2
Secured by Farmland	20,461	41.3
Secured by 1-4 Family Residential Properties	4,052	8.2
Secured by Multifamily (5 or more) Residential Properties	0	0.0
Secured by Nonfarm Nonresidential Properties	1,315	2.7
Total Real Estate Loans	26,920	54.4
Commercial and Industrial Loans	4,085	8.2
Agricultural Production and Other Loans to Farmers	16,705	33.7
Consumer Loans	1,817	3.7
Total Loans	49,527	100.0
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that affect the bank’s ability to meet its assessment area’s credit needs.

DESCRIPTION OF ASSESSMENT AREAS

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. First State Bank Minnesota designated two contiguous assessment areas consisting of a portion of the Rochester, Minnesota Metropolitan Statistical Area (MSA) and portions of the non-metropolitan areas of Minnesota and Iowa. These assessment areas will be discussed as the MSA Assessment Area and the Non-MSA Assessment Area in this evaluation. Both assessment areas have changed since the previous evaluation. Additional details regarding assessment area changes, demographics, and other information can be found in the Conclusions on Performance section for each respective assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the previous evaluation dated October 1, 2015, to the current evaluation dated August 3, 2021. Examiners used Interagency Small Institution Examination Procedures to evaluate First State Bank Minnesota's CRA performance. These procedures focus on the bank's performance under the Lending Test as outlined in the Small Bank Performance Criteria appendix.

Examiners determined it was most appropriate to complete full scope reviews of both assessment areas when considering the volume of loan activity and distribution of offices amongst the assessment areas. Furthermore, both assessment areas have changed since the previous evaluation. To assess the overall performance, examiners gave greater weight to conclusions derived from the MSA Assessment Area, as this is where the majority of the bank's lending activity occurs.

Activities Reviewed

Examiners determined that the bank's major product lines are agricultural loans followed by commercial loans. This conclusion considered discussions with management regarding the bank's business strategy, review of bank records of the number and dollar volume of loans originated during the evaluation period, and a review of the Consolidated Report of Condition and Income (Report of Condition). Small farm lending received the most weight when deriving overall conclusions. This is consistent with the bank's loan portfolio composition, volume of loans recently originated, and management's stated business focus. Home Mortgage loans were excluded from the evaluation as they are not a business focus of the bank.

Bank records indicate that the lending focus and product mix remained generally consistent throughout the evaluation period. Therefore, examiners reviewed all small farm and small business loans originated or renewed in 2020 from the bank's loan download, as this period was considered representative of the bank's performance during the entire evaluation period. D&B data for 2020 provided a standard of comparison for the bank's small farm and small business lending performance.

For the Lending Test, examiners reviewed the entire universe of loans to evaluate the Assessment Area Concentration criterion. All loans inside the assessment areas were further reviewed to evaluate the Geographic Distribution criterion. Finally, examiners reviewed a sample of small farm

loans and all small business loans originated inside the assessment areas, to evaluate the Borrower Profile criterion. The table below provides information on the number and dollar volume of loan products reviewed.

Loan Products Reviewed				
Loan Category	Universe		Reviewed	
	#	\$(000s)	#	\$(000s)
Small Farm	89	9,305	60	5,904
Small Business	45	2,429	45	2,429
<i>Source: Bank Data</i>				

While the number and dollar volume of loans are presented, examiners emphasized performance by number of loans because it is a better indicator of the number of farms and businesses served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

First State Bank Minnesota demonstrated satisfactory performance under the Lending Test. The bank’s performance under the Loan-to-Deposit Ratio, Assessment Area Concentration, and Geographic Distribution criteria primarily supports this conclusion. The bank’s excellent Borrower Profile performance was also considered, but did not raise the overall performance.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the institution’s size, financial condition, and credit needs in the assessment areas. The bank’s ratio, calculated from Report of Condition data, averaged 73.6 percent over the past 22 calendar quarters from December 31, 2015, to March 31, 2021. Since the previous CRA evaluation, the quarterly net loan-to-deposit ratio has fluctuated. The ratio ranged from a high of 86.7 percent as of June 30, 2019, to a low of 62.6 percent as of December 31, 2020. First State Bank Minnesota maintained a ratio that reasonably compares to the similarly situated institutions shown in the following table. Examiners selected comparable institutions based on their asset size, geographic location, and lending focus.

Loan-to-Deposit (LTD) Ratio Comparison		
Bank	Total Assets as of 03/31/2021 (\$000s)	Average Net LTD Ratio (%)
First State Bank, Minnesota Le Roy, Minnesota	86,379	73.6
Root River State Bank Chatfield, Minnesota	80,771	56.7
First Farmers & Merchants Brownsdale, Minnesota	95,601	83.1
Rushford State Bank Rushford, Minnesota	70,447	83.5
First Farmers & Merchants Grand Meadow, Minnesota	77,903	94.3
<i>Source: Reports of Condition and Income 12/31/2015 – 03/31/2021</i>		

Assessment Area Concentration

First State Bank Minnesota originated a majority of its small farm and small business loans within its assessment areas as shown in the following table.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollars Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Business	40	88.9	5	11.1	45	2,247	92.5	182	7.5	2,429
Small Farm	85	95.5	4	4.5	89	8,995	96.7	310	3.3	9,305
<i>Source: Bank Data</i>										

Geographic Distribution

The geographic distribution of loans reflects overall reasonable dispersion. Neither assessment area includes any low-income geographies; therefore, the evaluation is based on performance in the moderate-income geographies in each assessment area. The reasonable lending performance in both the MSA Assessment Area and Non-MSA Assessment Area support this conclusion.

Borrower Profile

The distribution of borrowers reflects excellent penetration of loans overall among farms and businesses of different sizes. This is consistent with the excellent performance in the MSA Assessment Area. The Non-MSA Assessment Area had reasonable performance; however, when arriving at conclusions, more weight was placed on the bank's lending performance in the MSA Assessment Area.

Response to Complaints

The institution has not received 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 inconsistent with helping to meet community credit needs.

MSA ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN MSA ASSESSMENT AREA

The MSA Assessment Area contains all six census tracts in Fillmore County. Fillmore County is part of the Rochester, Minnesota MSA. This assessment area has changed since the previous CRA evaluation when it contained only a portion of Fillmore County.

According to 2015 ACS data, the assessment area includes three moderate- and three middle-income census tracts. The Spring Valley branch is located in Fillmore County, in a middle-income census tract.

Economic and Demographic Data

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

Demographic Information of the Assessment Area MSA Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	6	0.0	50.0	50.0	0.0	0.0
Population by Geography	20,843	0.0	44.4	55.6	0.0	0.0
Housing Units by Geography	9,813	0.0	47.0	53.0	0.0	0.0
Owner-Occupied Units by Geography	6,682	0.0	45.6	54.4	0.0	0.0
Occupied Rental Units by Geography	1,849	0.0	43.4	56.6	0.0	0.0
Vacant Units by Geography	1,282	0.0	59.1	40.9	0.0	0.0
Businesses by Geography	1,737	0.0	47.0	53.0	0.0	0.0
Farms by Geography	362	0.0	56.9	43.1	0.0	0.0
Family Distribution by Income Level	5,701	24.6	23.6	26.2	25.6	0.0
Household Distribution by Income Level	8,531	31.0	19.2	19.9	29.9	0.0
Median Family Income MSA - 40340 Rochester, MN MSA	\$81,036	Median Housing Value				\$141,867
		Median Gross Rent				\$594
		Families Below Poverty Level				7.4%
<i>Source: 2015 ACS and 2020 D&B Data Due to rounding, totals may not equal 100.0% (*) The NA category consists of geographies that have not been assigned an income classification.</i>						

According to 2020 D&B data, service industries represent the largest portion of farm and business operations at 28.7 percent; followed by agriculture, forestry, and fishing at 17.3 percent; and retail trade at 11.8 percent. Additionally, 69.7 percent of assessment area businesses and farms have 4 or fewer employees, and 91.0 percent operate from a single location.

Competition

The assessment area is a moderately competitive market for credit products and financial services. Competing institutions range from small community banks to larger national financial institutions. According to Report of Condition data filed by financial institutions, 11 financial institutions operate either a main or branch office in the assessment area and hold deposits between \$17.5 million and \$92.0 million within the area. First State Bank Minnesota ranked 12th with approximately 3.9 percent of the deposit market share.

Community Contact

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

The contact stated that the economy is primarily driven by agriculture and tourism. Some businesses have closed due to the pandemic as many tourism-driven communities continue to struggle. Many downtown areas include vacant commercial buildings; however, there has been expansion for manufacturing-related companies within or adjacent to the assessment area. The contact mentioned that many residents of the smaller communities commute elsewhere for employment, particularly to Rochester or Winona, Minnesota. Local farmers continue to struggle to recover from low commodity prices, although some are looking to diversify their operations. The contact estimated that nearly one-third of farm operations are smaller with around 50 to 100 acres.

Credit Needs

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

CONCLUSIONS ON PERFORMANCE CRITERIA IN MSA ASSESSMENT AREA

LENDING TEST

First State Bank Minnesota demonstrated reasonable performance under the Lending Test in the MSA Assessment Area. This conclusion is primarily based on the bank's Geographic Distribution performance. The excellent Borrower Profile performance was also considered, but did not raise the overall Lending Test performance.

Geographic Distribution

The geographic distribution of loans reflects overall reasonable dispersion throughout the assessment area. The bank's reasonable small farm and small business lending performance primarily supports this conclusion.

Small Farm Loans

The geographic distribution of small farm loans reflects reasonable dispersion throughout the

assessment area. The following table indicates that the lending performance in moderate-income census tracts lags demographic data. However, there are factors to consider in the evaluation of the bank’s performance. According to the 2017 Census of Agriculture, the percentage of farmers that did not pay interest in Fillmore County was 49.1 percent. Therefore, nearly half of farms do not appear to have credit needs. Management stated that many farmers in the area have additional sources of off-farm income, with many traveling to the Rochester area for employment with the Mayo clinic and other employers. The community contact echoed this statement. Management added that this off-farm income supplements farm income and leads to less need for financing. The 2017 Census of Agriculture supports this statement and shows that approximately 57.0 percent of farms in Fillmore County are considered hobby farms, with the primary income not related to farming. The community contact stated that an estimated one-third of Fillmore County farms are small, ranging from 50-100 acres. As stated previously, there is a competitive market for small farm loans in the assessment area, with 11 financial institutions operating 16 offices in Fillmore County. The top three deposit market share holders, accounting for 38.1 percent of market share and have branches in the moderate-income census tracts, while First State Bank Minnesota does not. Further, management stated there are several alternative financing entities within the area vying for the limited number of small farm loan borrowers. This statement was repeated by the community contact. Considering these factors, the bank’s performance is considered reasonable.

Geographic Distribution of Small Farm Loans – MSA Assessment Area					
Tract Income Level	% of Farms	#	%	\$(000s)	%
Moderate	56.9	12	28.0	1,562	33.8
Middle	43.1	31	72.0	3,053	66.2
Total	100.0	43	100.0	4,615	100.0
<i>Source: 2020 D&B Data; Bank Data</i>					

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion. The following table indicates that the bank’s lending performance in moderate-income census tracts lags demographic data. While opportunities exist for small business financing in the moderate-income census tracts, there are several other financial institutions lending in these areas. Four of the six small towns located in moderate-income census tracts have competing financial institution locations. The two towns that do not have financial institutions are located the farthest from First State Bank Minnesota. First State Bank Minnesota does not have an office within the moderate-income geographies. A review of the location of the bank’s loans confirmed no small business lending outside of a small radius around the bank’s Spring Valley office. Considering these factors, the bank’s performance is reasonable.

Geographic Distribution of Small Business Loans – MSA Assessment Area					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate	47.0	7	33.3	212	24.6
Middle	53.0	14	66.7	647	75.4
Total	100.0	21	100.0	859	100.0
<i>Source: 2020 D&B Data; Bank Data</i>					

Borrower Profile

The distribution of borrowers reflects overall excellent penetration among farms and businesses of different revenue sizes. Examiners focused on the percentage of small farm and small business loans to operations with gross annual revenues of \$1 million or less

Small Farm Loans

The distribution of sampled small farm loans reflects excellent lending penetration to farms with gross annual revenues of \$1 million or less. The bank originated all 30 sampled small farm loans to borrowers with gross annual revenues of \$1 million or less. This revenue category contains 98.6 percent of farms within the assessment area according to 2020 D&B data.

Small Business Loans

The distribution of small business loans reflects excellent lending penetration to businesses with gross annual revenues of \$1 million or less. The bank originated all 21 small business loans located within the assessment area to businesses with gross annual revenues of \$1 million or less. This revenue category contains 84.3 percent of businesses in the assessment area according to 2020 D&B data.

NON-MSA ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN NON-MSA ASSESSMENT AREA

The Non-MSA Assessment Area contains all census tracts in Mower County in Minnesota, as well as all census tracts in Howard and Mitchell counties, Iowa. All counties are part of the non-metropolitan portions of their respective states. This assessment area was changed since the previous CRA evaluation when it included all of Mitchell County and only portions of Mower and Howard counties.

According to 2015 ACS data, the assessment area includes 2 moderate-, 13 middle-, and 2 upper-income census tracts. The main office in Le Roy is located in Mower County, in a middle-income geography.

Economic and Demographic Data

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

Demographic Information of the Assessment Area						
Non-MSA Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	17	0.0	11.8	76.5	11.8	0.0
Population by Geography	59,483	0.0	14.4	72.4	13.2	0.0
Housing Units by Geography	26,254	0.0	14.6	73.4	12.0	0.0
Owner-Occupied Units by Geography	17,818	0.0	9.2	78.0	12.9	0.0
Occupied Rental Units by Geography	5,832	0.0	31.8	59.0	9.3	0.0
Vacant Units by Geography	2,604	0.0	13.7	74.3	12.0	0.0
Businesses by Geography	4,119	0.0	12.7	77.3	10.0	0.0
Farms by Geography	784	0.0	0.9	87.6	11.5	0.0
Family Distribution by Income Level	15,409	18.3	19.3	21.5	40.9	0.0
Household Distribution by Income Level	23,650	24.4	16.5	17.9	41.2	0.0
Median Family Income Non-MSAs - IA		\$61,681	Median Housing Value			\$110,429
Median Family Income Non-MSAs - MN		\$63,045	Median Gross Rent			\$659
			Families Below Poverty Level			8.2%
<i>Source: 2015 ACS and 2020 D&B Data</i> <i>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>						

According to 2020 D&B data, service industries represent the largest portion of farm and business operations at 31.1 percent; followed by agriculture, forestry, and fishing at 16.0 percent; and retail trade at 11.6 percent. Additionally, 68.5 percent of assessment area businesses and farms have 4 or fewer employees, and 89.4 percent operate from a single location.

Competition

The assessment area is a moderately competitive market for credit products and financial services. Competing institutions range from small community banks to larger national financial institutions. According to Report of Condition data filed by financial institutions, 24 financial institutions collectively operate 32 branches in the assessment area and hold deposits of between \$4.3 million and \$327.0 million. Deposit market share ranking information was not available for First State Bank Minnesota within this assessment area.

Community Contact

Examiners reviewed a previously conducted community contact with a person familiar with the economic conditions in the assessment area. The contact stated that many small businesses are struggling due to the COVID-19 pandemic and many of those with ten or fewer employees have

closed. The contact added that the agricultural economy continues to suffer due to commodity prices.

Credit Needs

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

CONCLUSIONS ON PERFORMANCE CRITERIA IN NON-MSA ASSESSMENT AREA

LENDING TEST

First State Bank Minnesota demonstrated reasonable performance under the Lending Test in the Non-MSA Assessment Area. The Geographic Distribution and Borrower Profile performance supports this conclusion.

Geographic Distribution

The geographic distribution of loans reflects overall reasonable dispersion throughout the assessment area. The bank's reasonable small farm and small business lending performance supports this conclusion.

Small Farm Loans

The geographic distribution of small farm loans reflects reasonable dispersion. First State Bank Minnesota did not originate any small farm loans in moderate-income census tracts. However, very few small farms are located in these tracts, as indicated by 2020 D&B data that notes only 0.9 percent of farms located in those areas. Further, the Le Roy branch is located in a middle-income census tract, and competition in the small moderate-income area is notable. Considering these factors, the bank's performance is reasonable.

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion. The following table indicates that the bank's lending performance in moderate-income census tracts lags demographic data. First State Bank Minnesota did not originate any small business loans in moderate-income census tracts. However, it should be noted that the limited moderate-income geographies within this assessment area are located in Austin, Minnesota, approximately 33 miles from the bank's Le Roy office. Austin is a more urban city and is served by no less than 13 financial institutions. Le Roy is considered a rural area, and management does not intend to compete with the institutions located within Austin. Review of the location of the small business loans revealed no lending beyond a small radius surrounding the bank's location. Considering these factors, the bank's performance is reasonable.

Geographic Distribution of Small Business Loans – Non-MSA Assessment Area					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate	12.7	0	0.0	0	0.0
Middle	77.3	16	84.2	1,200	86.5
Upper	10.0	3	15.8	187	13.5
Total	100.0	19	100.0	1,387	100.0
<i>Source: 2020 D&B Data; Bank Data</i>					

Borrower Profile

The distribution of borrowers reflects overall reasonable penetration among farms and businesses of different revenue sizes. The bank’s reasonable small farm lending performance primarily supports this conclusion. The excellent small business lending performance was also considered, but carried less weight when forming overall conclusions.

Small Farm Loans

The distribution of sampled small farm loans reflects reasonable lending penetration to farms with gross annual revenues of \$1 million or less. As shown in the following table, the bank’s performance is comparable to demographic data.

Distribution of Small Farm Loans by Gross Annual Revenue Category – Non-MSA Assessment Area					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
≤ \$1,000,000	98.6	29	96.7	2,929	95.1
> \$1,000,000	0.9	1	3.3	150	4.9
Revenue Not Available	0.5	0	0.0	0	0.0
Total	100.0	30	100.0	3,079	100.0
<i>Source: 2020 D&B Data; Bank Data</i>					

Small Business Loans

The distribution of small business loans reflects excellent lending penetration to businesses with gross annual revenues of \$1 million or less. As shown in the following table, the bank’s lending performance to borrowers with gross annual revenues of \$1 million or less exceeds demographic data.

Distribution of Small Business Loans by Gross Annual Revenue Category – Non-MSA Assessment Area					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
≤ \$1,000,000	82.6	18	94.7	1,287	92.8
> \$1,000,000	5.2	1	5.3	100	7.2
Revenue Not Available	12.2	0	0	0	0.0
Total	100.0	19	100.0	1,387	100.0
<i>Source: 2020 D&B Data; Bank Data</i>					

APPENDICES

SMALL 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) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The institution's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

GLOSSARY

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary

counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

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

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

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

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

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

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

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 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.

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

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.