

# **PUBLIC DISCLOSURE**

August 7, 2023

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Farmers and Merchants State Bank of Springfield  
Certificate Number: 13382

101 N Marshall Ave  
Springfield, Minnesota 56087

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

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Kansas City, Missouri 64106

This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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## INSTITUTION RATING

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

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

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

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.
- The institution made a majority of its small farm, small business, and home mortgage loans within the assessment area.
- The distribution of borrowers reflects reasonable penetration among farms and businesses of different revenue sizes and individuals of different income levels.
- The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

## DESCRIPTION OF INSTITUTION

Farmers and Merchants State Bank of Springfield (F&M) is chartered in Springfield, Minnesota and is owned by Piesco, Inc., a two-bank holding company also located in Springfield, Minnesota. F&M has one affiliate bank, Citizens State Bank Norwood Young America, located in Norwood Young America, Minnesota. The bank has not been involved in any merger or acquisition activities since the previous evaluation nor has the bank opened or closed any branches since the previous evaluation. The bank operates its main office in Springfield and a branch office in Morgan, Minnesota. F&M received a Satisfactory rating at its previous FDIC Performance Evaluation dated July 6, 2017, based on Interagency Small Institution Examination Procedures.

F&M's primary business focus continues to be agricultural lending. The bank also offers a variety of commercial, residential real estate, and consumer loan products to meet the needs of the communities served. The bank participates in government loan programs offered through the Small Business Administration (SBA). This includes originating 415 loans, totaling approximately \$8.9 million, through the SBA's Paycheck Protection Program (PPP), which assisted businesses struggling with the Coronavirus Disease 2019 (COVID-19) pandemic.

F&M offers a variety of deposit account services, including checking, savings, money market, individual retirement accounts, and certificates of deposit. In addition to traditional banking services, customer have access to a network of ATMs, including three bank-owned ATMs; electronic banking services, which includes online and mobile banking; bill payment services; and e-statements.

The bank's March 31, 2023, Consolidated Report of Condition and Income (Reports of Condition and Income) reflects total assets of \$138.3 million, total loans of \$76.6 million, and total deposits of \$122.8 million. The following table illustrates the bank's loan portfolio distribution.

<b>Loan Portfolio Distribution as of March 31, 2023</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	0	0.0
Secured by Farmland	28,577	37.3
Secured by 1-4 Family Residential Properties	8,938	11.7
Secured by Multifamily (5 or more) Residential Properties	0	0.0
Secured by Nonfarm Nonresidential Properties	2,151	2.8
<b>Total Real Estate Loans</b>	<b>39,666</b>	<b>51.8</b>
Commercial and Industrial Loans	7,041	9.2
Agricultural Production and Other Loans to Farmers	28,561	37.3
Consumer Loans	1,323	1.7
Obligations of State and Political Subdivisions in the U.S.	0	0.0
Other Loans	5	0.0
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
<b>Total Loans</b>	<b>76,596</b>	<b>100.0</b>
<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 assessment area needs.

## **DESCRIPTION OF ASSESSMENT AREA**

The CRA requires financial institutions to define one or more assessment areas within which examiners will evaluate CRA performance. F&M continues to delineate one assessment area that includes census tracts 9604, 9605, 9606, and 9607 of Brown County, and census tracts 7501 and 7506 of Redwood County. Both Brown and Redwood counties are located in the nonmetropolitan area of Minnesota. The assessment area remains unchanged since the previous evaluation and the 2020 U.S. Census did not impact census tract income designations. According to 2020 U.S. Census data, the assessment area includes all middle-income census tracts.

**Economic and Demographic Data**

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

<b>Demographic Information of the Assessment Area</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	6	0.0	0.0	100.0	0.0	0.0
Population by Geography	19,498	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	9,183	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	6,367	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	1,739	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	1,077	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	1,990	0.0	0.0	100.0	0.0	0.0
Farms by Geography	572	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	5,394	17.6	19.2	25.1	38.0	0.0
Household Distribution by Income Level	8,106	22.4	16.6	20.3	40.7	0.0
Median Family Income Non-MSAs - MN		\$74,737	Median Housing Value			\$141,763
Families Below Poverty Level		4.9%	Median Gross Rent			\$628

Source: 2020 U.S. Census and 2022 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.

According to 2022 D&B data, the services industry represents the largest portion of business operations at 25.3 percent; followed by agriculture, forestry, and fishing at 22.3 percent; and non-classifiable establishments at 15.7 percent. Additionally, 70.0 percent of the assessment area businesses have four or fewer employees, and 91.2 percent operate from a single location.

Examiners used the Federal Financial Institutions Examination Council (FFIEC) estimated median family income to analyze home mortgage loans under the Borrower Profile criterion. The low-, moderate-, middle-, and upper-income categories for the assessment area are presented in the following table.

<b>Median Family Income Ranges</b>				
<b>Median Family Incomes</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
<b>MN NA Median Family Income (99999)</b>				
2022 (\$83,600)	<\$41,800	\$41,800 to <\$66,880	\$66,880 to <\$100,320	≥\$100,320

Source: FFIEC

**Competition**

The assessment area is a competitive market for credit products and financial services. According to Reports of Condition filed by financial institutions in 2022, 7 financial institutions operate 10

branches within the assessment area, all of which are small community banks. Of these institutions, F&M ranked 2<sup>nd</sup> with 15.7 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 additionally shows what credit opportunities are available. For this performance evaluation, examiners reviewed a recently conducted community contact interview with a representative from an economic development organization that serves the assessment area.

The contact mentioned that a significant challenge related to the pandemic was the diverse influx of funding from many sources. The previously low interest rate environment spurred a lot of lending activity whereas lending activity has now slowed significantly given the rising interest rates. The contact noted the continued need for affordable housing, lack of quality childcare, and need for access to broadband internet in rural areas as the area's economic issues. Financing for start-up businesses is also challenging given the lack of historical data and unknown financial performance. The contact stated the area continues to experience underserved areas and businesses; especially minority- and women-owned businesses, but continued collaborations with financial institutions and the financial sector are in process to address these needs. Finally, the contact stated that financial institutions have been extremely receptive to working with all of the area's initiatives.

### **Credit Needs**

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

## **SCOPE OF EVALUATION**

### **General Information**

This evaluation covers the period from the previous evaluation, dated July 6, 2017, to the current evaluation, dated August 7, 2023. Examiners used Interagency Small Institution Examination Procedures to evaluate F&M's CRA performance. These procedures focus on the bank's performance under the Lending Test as outlined in the Small Bank Performance Criteria appendix.

### **Activities Reviewed**

Bank data indicates the lending focus and product mix remained generally consistent throughout the evaluation period. Management noted that a review of loans originated in 2022 is representative of the bank's performance during the evaluation period. Examiners determined that the bank's major product line is agricultural lending, followed by commercial lending, and home mortgage lending to a lesser extent. Therefore, examiners reviewed small farm, small business, and home mortgage loans for this performance evaluation. Small farm lending received the most weight when reaching overall conclusions. This is followed by small business lending, and the least amount of weight given for home mortgage lending. This is consistent with management's stated business focus, Reports of Condition data, and loans originated. Examiners did not review consumer installment lending activities because it represents a minimal portion of the loan portfolio, is not a primary

business product for the bank, and does not provide material support for conclusions.

For the Assessment Area Concentration analysis, examiners reviewed all small farm, small business, and home mortgage loans originated or renewed in 2022. Examiners reviewed a sample of small farm loans originated inside the assessment area and reviewed all small business loans and home mortgage loans within the assessment area for the Borrower Profile criterion. D&B data for 2022 provided a standard of comparison for small farm and small business lending performance. The 2020 U.S. Census data provided a standard of comparison for the bank’s home mortgage lending performance. The following table details the loan universes and volume of loans reviewed under the Borrower Profile criterion.

<b>Loan Products Reviewed</b>				
<b>Loan Category</b>	<b>Universe</b>		<b>Reviewed/Sampled</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Small Farm	131	20,132	47	8,056
Small Business	35	4,811	26	2,866
Home Mortgage	30	3,472	27	2,712

*Source: 2022 Bank Data*

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

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

### **LENDING TEST**

F&M demonstrates satisfactory performance under the Lending Test. The Loan-to-Deposit Ratio, Assessment Area Concentration, and Borrower Profile performance support this rating.

#### **Loan-to-Deposit Ratio**

The average net loan-to-deposit ratio is reasonable given the institution’s size, financial condition, and credit needs within the assessment area. The bank’s net loan-to-deposit ratio, calculated from Report of Condition data, averaged 74.0 percent over the past 23 calendar quarters from September 30, 2017, to March 31, 2023. The ratio has generally remained steady, with some fluctuations over the review period, from a high of 88.7 percent on March 31, 2018, to a low of 56.6 percent on March 31, 2022. As illustrated in the following table, F&M’s average net loan-to-deposit ratio is similar to the two comparable institutions. Examiners selected comparable institutions based on their asset size, lending focus, and geographic location.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 3/31/2023 (\$000s)	Average Net LTD Ratio (%)
Americana Community Bank, Sleepy Eye, Minnesota	166,228	79.4
<b>Farmers and Merchants State Bank of Springfield, Springfield, Minnesota</b>	<b>138,304</b>	<b>74.0</b>
The Wanda State Bank, Wanda, Minnesota	182,574	67.9
<i>Source: Reports of Condition and Income 9/30/2017 through 3/31/2023</i>		

### **Assessment Area Concentration**

F&M originated a majority of small farm, small business, and home mortgage loans within the assessment area as illustrated in the following table.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total	Dollar Amount of Loans \$(000s)				Total
	Inside		Outside			Inside		Outside		
	#	%	#	%	#	\$	%	\$	%	\$(000s)
Small Farm	105	80.2	26	19.8	131	15,941	79.2	4,191	20.8	20,132
Small Business	26	74.3	9	25.7	35	2,866	59.6	1,945	40.4	4,811
Home Mortgage	27	90.0	3	10.0	30	2,712	78.1	760	21.9	3,472
<i>Source: Bank Data</i>										

### **Geographic Distribution**

The assessment area does not include any low- and moderate-income geographies, and a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.

### **Borrower Profile**

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

#### ***Small Farm***

The distribution of borrowers reflects reasonable penetration among farms with gross annual revenues of \$1 million or less. As shown in the following table, the bank's lending to farms with gross annual revenues of \$1 million or less is below comparable demographic data for the assessment area. However, according to the 2017 Census of Agriculture (the most recent available data), the percentage of farmers that did not pay interest in Brown and Redwood counties was 55.2 percent. Therefore, there is a considerable population of farms that do not appear to have credit needs. Considering this factor, the bank's performance is reasonable.

<b>Distribution of Small Farm Loans by Gross Annual Revenue Category</b>					
<b>Gross Revenue Level</b>	<b>% of Farms</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<=\$1,000,000	98.6	40	85.1	6,523	81.0
>\$1,000,000	0.9	7	14.9	1,533	19.0
Revenue Not Available	0.5	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>47</b>	<b>100.0</b>	<b>8,056</b>	<b>100.0</b>
<i>Source: 2022 D&amp;B Data, Bank Data. Due to rounding, totals may not equal 100.0%</i>					

### ***Small Business***

The distribution of borrowers reflects reasonable penetration among businesses with gross annual revenues of \$1 million or less. As shown in the following table, the bank's lending to businesses with gross annual revenues of \$1 million or less is comparable to the demographic data for the assessment area.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<=\$1,000,000	84.2	23	88.5	1,546	53.9
>\$1,000,000	4.9	3	11.5	1,320	46.1
Revenue Not Available	10.9	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>26</b>	<b>100.0</b>	<b>2,866</b>	<b>100.0</b>
<i>Source: 2022 D&amp;B Data, Bank Data. Due to rounding, totals may not equal 100.0%</i>					

### ***Home Mortgage***

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, is reasonable. As shown in the following table, the bank's lending performance to low- and moderate-income borrowers is comparable to demographic data.

<b>Distribution of Home Mortgage Loans by Borrower Income Level</b>					
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low	17.6	3	11.1	259	9.5
Moderate	19.2	4	14.8	261	9.6
Middle	25.1	7	25.9	432	15.9
Upper	38.0	13	48.1	1,760	64.9
<b>Totals</b>	<b>100.0</b>	<b>27</b>	<b>100.0</b>	<b>2,712</b>	<b>100.0</b>
<i>Source: 2020 U.S. Census; Bank Data. Due to rounding, totals may not equal 100.0%</i>					

**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.

## 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 bank'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 bank under the requirements of the Community Reinvestment Act.

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

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

**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.