

PUBLIC DISCLOSURE

June 22, 2023

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Northeast Bank
Certificate Number: 16659

77 Broadway Street NE
Minneapolis, Minnesota 55413

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

1100 Walnut St, 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. The following points summarize the bank's Community Reinvestment Act (CRA) performance.

The Lending Test is rated Satisfactory.

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

The Community Development Test is rated Outstanding.

- Northeast Bank demonstrated excellent responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services. Examiners considered the bank's capacity and the need and availability of such opportunities for community development in the assessment area.

DESCRIPTION OF INSTITUTION

Northeast Bank is headquartered in Minneapolis, Minnesota and owned by Northeast Securities Corporation, a one-bank holding company also located in Minneapolis. Besides its main office in Minneapolis, Northeast Bank operates full-service offices in Coon Rapids and New Brighton, Minnesota. In addition, the bank operates deposit-taking ATMs at its Minneapolis and New Brighton offices. The institution has not opened or closed any offices or been involved in any mergers or acquisitions since the prior evaluation. The institution received an Outstanding rating at its previous FDIC Performance Evaluation, dated June 19, 2020, based on Interagency Intermediate Small Institution Examination procedures.

Commercial loans continue to represent Northeast Bank's primary business focus. Additionally, the bank is involved in various loan programs offered through a community development financial institution, community development organizations, economic development agencies, and the Small Business Administration (SBA), including participation in the SBA Paycheck Protection Program (PPP). These programs are generally designed to assist small businesses that may not qualify for loans through conventional financing methods. Since the prior evaluation, the bank originated 264 PPP loans totaling \$43.1 million, which assisted businesses struggling with the impact of the Coronavirus Disease (COVID-19) pandemic. Northeast Bank also offers consumer loans, home equity lines of credit, and has a home loan referral arrangement with a local mortgage lender.

Northeast Bank provides a full line of traditional deposit products, including checking and savings accounts, individual retirement accounts, health savings accounts, and certificates of deposit. Alternative banking services include online and mobile banking, mobile deposit, bill pay, and electronic periodic statements. Customers also have access to bank owned ATMs and to surcharge-free ATMs through the MoneyPass network.

The bank's March 31, 2023, Consolidated Report of Condition and Income (Report of Condition) reflected total assets of \$712.8 million, total loans of \$477.5 million, and total deposits of \$651.5 million. The following table illustrates the institution's loan portfolio distribution.

Loan Portfolio Distribution as of March 31, 2023		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	4,148	0.9
Secured by Farmland	0	0.0
Secured by 1-4 Family Residential Properties	63,319	13.3
Secured by Multi-Family (5 or more) Residential Properties	35,951	7.5
Secured by Nonfarm Nonresidential Properties	276,483	57.9
Total Real Estate Loans	379,901	79.6
Commercial and Industrial Loans	85,449	17.9
Agricultural Production and Other Loans to Farmers	0	0.0
Consumer Loans	639	0.1
Obligations of States and Political Subdivisions in the U.S.	11,519	2.4
Other Loans	0	0.0
Lease Financing Receivables (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	477,508	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 AREA

The CRA requires financial institutions to define one or more assessment areas within which examiners will evaluate CRA performance. Northeast Bank has designated one assessment area in the State of Minnesota, which has not changed since the last evaluation. The assessment area includes Anoka, Hennepin, and Ramsey counties. All three counties are part of the Minneapolis-St. Paul-Bloomington, MN-WI Metropolitan Statistical Area (Minneapolis MSA).

Economic and Demographic Data

According to 2020 U.S. Census data, the bank's assessment area includes 49 low-income census tracts, 144 moderate-income census tracts, 205 middle-income census tracts, 155 upper-income census tracts, and 9 census tracts without an income classification. The Coon Rapids and Minneapolis locations are located in moderate-income census tracts and the New Brighton office is located in a middle-income census tract. 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)	562	8.7	25.6	36.5	27.6	1.6
Population by Geography	2,197,804	8.3	24.8	36.8	28.9	1.2
Housing Units by Geography	893,592	7.6	24.2	37.9	29.3	1.0
Owner-Occupied Units by Geography	552,071	3.9	20.5	41.6	33.9	0.1
Occupied Rental Units by Geography	301,553	14.0	31.1	31.8	20.7	2.4
Vacant Units by Geography	39,968	10.8	24.1	33.7	29.9	1.5
Businesses by Geography	282,970	6.0	20.8	35.5	36.6	1.2
Farms by Geography	4,487	3.5	19.0	37.1	40.0	0.4
Family Distribution by Income Level	506,038	21.7	18.0	21.5	38.7	0.0
Median Family Income – Minneapolis MSA		\$103,977	Median Housing Value			\$286,601
			Median Gross Rent			\$1,156
			Families Below Poverty Level			6.3%
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, service industries represent the largest portion of business operations at 37.0 percent; followed by non-classified establishments at 26.0 percent; finance, insurance, and real estate at 10.8 percent; retail trade at 8.5 percent; and construction at 6.4 percent. Additionally, 60.0 percent of assessment area businesses have four or fewer employees, and 93.0 percent operate from a single location.

Median family income levels were used to help analyze the bank's activities under the Community Development Test. The Federal Financial Institutions Examination Council's (FFIEC) 2020-2022 median family incomes for the Minneapolis MSA and the respective low-, moderate-, middle-, and upper-income categories are presented below.

Minneapolis MSA Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2020 (\$97,300)	<\$48,650	\$48,650 to <\$77,840	\$77,840 to <\$116,760	≥\$116,760
2021 (\$100,600)	<\$50,300	\$50,300 to <\$80,480	\$80,480 to <\$120,720	≥\$120,720
2022 (\$117,800)	<\$58,900	\$58,900 to <\$94,240	\$94,240 to <\$141,360	≥\$141,360
<i>Source: FFIEC</i>				

Competition

The assessment area is a highly competitive market for credit products and financial services. According to Reports of Condition data filed by financial institutions, there are 87 financial institutions operating 416 locations within the assessment area. These institutions range from small community banks to larger national financial institutions. Northeast Bank is ranked 20th with 0.3

percent of the deposit market share. The top two financial institutions make up approximately 66.9 percent of the deposit market share in the assessment area.

Northeast Bank is not required to collect or report small business CRA loan data and has elected not to do so. Therefore, examiners did not compare the bank's small business lending performance to aggregate CRA data within this evaluation. However, the aggregate CRA data provides an indication of the level of demand for small business loans and the level of competition within the assessment area. According to 2021 aggregate CRA data (most recent available), 198 CRA data reporters collectively reported 58,371 small business loans originated within the assessment area. These figures do not include the number of loans originated by smaller institutions that are not required to report small business lending data but operate within the assessment area. The overall volume of small business lending in the assessment area reflects a highly competitive market.

Community Contacts

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 performance evaluation, examiners reviewed two recent community contact interviews. One interview was conducted with a representative from a community development entity and the second interview was conducted with representative from an economic development agency. Both entities serve portions of the assessment area.

One contact stated that the local economy has improved and stabilized since the pandemic. The contact indicated that most businesses in the area have improved, with some businesses expanding or starting up; however, employers continue to struggle to hire skilled workers. One contact noted that lending standards, regulatory limits, and credit education are challenges businesses and consumers face in the community. The contact further stated that local community banks are in a very competitive market for loans and that interest rate movements between financial institutions contribute to the competitive market.

Small business loans were identified as one of the primary credit needs within the area by one contact. The second contact stated that there are community development opportunities available for financial institution involvement. Both contacts noted that lenders, especially SBA lenders, have been responsive in helping to meet the credit needs of the area. Further, one contact specifically mentioned that Northeast Bank does a great job in helping meet credit needs of the community.

Credit and Community Development Needs and Opportunities

Examiners considered community contact comments, information received from bank management, and demographic and economic data when determining the needs and opportunities in the assessment area. Examiners concluded that small business lending represents the primary credit need. In addition, community development opportunities in the area include economic development; revitalization and stabilization efforts; increased availability of affordable housing; and community services for low- and moderate-income individuals.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the previous evaluation dated June 19, 2020, to the current evaluation dated June 22, 2023. Examiners used Interagency Intermediate Small Institution Examination Procedures to evaluate Northeast Bank's CRA performance. These procedures focus on the bank's performance under the Lending and Community Development Tests, which are described in the Appendices. Banks must achieve at least a Satisfactory rating under each test to obtain an overall Satisfactory rating.

Activities Reviewed

Examiners determined that the bank's major product line is 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 Reports of Condition data. Bank records indicate that the lending focus and product mix remained generally consistent throughout the evaluation period. Therefore, examiners reviewed all small business loans originated or extended in 2022, as this period was considered representative of the bank's performance during the entire evaluation period. D&B data for 2022 provided a standard of comparison for the bank's 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 area were further reviewed to evaluate the Geographic Distribution criterion. Finally, examiners reviewed a sample of small business loans originated inside the assessment area, to evaluate the Borrower Profile criterion. The table below provides information on the number and dollar volume of loans reviewed.

Loan Products Reviewed				
Loan Category	Universe		Sampled	
	#	\$(000s)	#	\$(000s)
Small Business	328	67,080	143	30,578
<i>Source: 2022 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 businesses served. No other loan types, such as small farm, home mortgage, or consumer loans represent a major product line or a business focus of the bank. Therefore, these loan types were not evaluated as they would not provide any material support for conclusions or ratings.

For the Community Development Test, bank management provided data on community development loans, qualified investments and donations, and community development services from the prior evaluation date of June 19, 2020, to the current evaluation date of June 22, 2023. Examiners reviewed community development activity for the entire review period and presented the information for each year within this performance evaluation.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Northeast Bank demonstrated satisfactory performance under the Lending Test. The bank's performance under all evaluated criteria supports this conclusion.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's net loan-to-deposit ratio, calculated from Reports of Condition data, averaged 77.2 percent over the past 12 calendar quarters from June 30, 2020, to March 31, 2023. The ratio ranged from a low of 65.8 percent as of June 30, 2022, to a high of 100.8 percent as of June 30, 2020. While the bank's performance is lower than comparable institutions, it is still reasonable and only slightly lower than the next lowest comparable institution. Examiners selected comparable institutions based on asset size, geographic location, and lending focus.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 3/31/2023 (\$000s)	Average Net LTD Ratio (%)
21 st Century Bank, Loretto, Minnesota	691,246	97.3
Fidelity Bank, Edina, Minnesota	568,737	90.1
Highland Bank, Saint Michael, Minnesota	665,943	78.0
Northeast Bank, Minneapolis, Minnesota	712,829	77.2
Platinum Bank, Oakdale, Minnesota	474,899	85.7
<i>Source: Reports of Condition and Income 6/30/2020 - 3/31/2023</i>		

Assessment Area Concentration

Northeast Bank originated a substantial majority of small business loans reviewed within the assessment area as shown in the following table.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total	Dollar Amount of Loans \$(000s)				Total
	Inside		Outside			Inside		Outside		
	#	%	#	%	#	\$	%	\$	%	\$(000s)
Small Business	287	87.5	41	12.5	328	58,626	87.4	8,454	12.6	67,080
Source: Bank Data										
Due to rounding, totals may not equal 100.0%										

Geographic Distribution

The geographic distribution of small business loans reflects excellent dispersion throughout the assessment area. Examiners focused on the percentage of loans made in low- and moderate-income census tracts. The following table shows that the bank's lending performance in low-income census

tracts is comparable to demographic data, while lending performance in moderate-income census tracts significantly exceeds demographic data.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	6.0	9	3.1	1,084	1.8
Moderate	20.8	88	30.7	24,134	41.2
Middle	35.5	115	40.1	18,156	31.0
Upper	36.6	70	24.4	14,346	24.5
Not Available	1.2	5	1.7	906	1.5
Total	100.0	287	100.0	58,626	100.0
Source: 2022 D&B Data; Bank Data Due to rounding, totals may not equal 100.0%					

Borrower Profile

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 below the comparable demographics data for the assessment area. While not captured in the small business loan universe reviewed, of all SBA PPP loans originated since the prior evaluation, approximately 68.9 percent by number were to borrowers with loan sizes of \$100,000 or less. This information demonstrates the bank's willingness to serve the needs of smaller businesses. Additionally, the bank actively participates in other SBA loan programs and other lending relationships to help support small business lending throughout the assessment area as previously mentioned. Since the prior evaluation, the bank has originated 80 SBA loans totaling \$55.6 million. Lastly, examiners compared the bank's performance to three similarly situated institutions (SSI) operating in the assessment area and evaluated for CRA performance during the review period. The SSI's had a distribution of small business loans to business with revenues of less than or equal to \$1 million by number of 38.7, 45.0 and 63.8 percent. Two of the SSI's performance was assessed as reasonable and the lowest performance was assessed as poor. The bank's performance is comparable to those assessed as reasonable. Considering these factors, the bank's performance is reasonable.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	89.3	72	50.3	13,742	44.9
>\$1,000,000	3.9	71	49.7	16,836	55.1
Revenue Not Available	6.8	0	0.0	0	0.0
Total	100.0	143	100.0	30,578	100.0
Source: 2022 D&B Data; Bank Data Due to rounding, totals may not equal 100.0%					

Response to Complaints

The institution has not received any CRA-related complaints since the previous evaluation;

therefore, this criterion did not affect the Lending Test rating.

COMMUNITY DEVELOPMENT TEST

Northeast Bank demonstrated outstanding performance under the Community Development Test. The bank's performance illustrates a strong commitment and excellent responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services. Examiners considered the bank's capacity and the need and availability of such opportunities. Northeast Bank was particularly responsive to the community development needs of its assessment area; therefore, community development activity that benefitted a broader statewide area was also considered.

Comparable institutions are also used in the analysis of a financial institution to help provide perspective on a bank's performance. For this evaluation, examiners reviewed the activities of three institutions that operate in the bank's assessment area, have a similar lending focus, and were evaluated using Interagency Intermediate Small Institution Examination Procedures since March of 2022. All three institutions' performance included two full years of PPP lending (2020 and 2021), which were considered for community development loans; however, this evaluation of Northeast Bank's CRA performance includes only 8 PPP loans from 2020 and the remainder from 2021 given the timeframe covered by the previous evaluation. Northeast Bank's community development performance overall exceeds the comparable institutions when considering all community development activities.

Community Development Loans

During the CRA review period, the bank originated or extended 506 community development loans totaling approximately \$116.6 million throughout its assessment area and broader statewide area. The bank was responsive to lending opportunities and extended loans primarily in an effort to promote economic development by supporting permanent job creation, retention, or improvement to low- and moderate-income persons or in low- and moderate-income areas, followed by loans to assist community service organizations that serve primarily low- and moderate-income individuals. Community development loans also helped support the revitalization and stabilization of low- and moderate-income income geographies and affordable housing initiatives.

Community development lending activity includes 240 SBA PPP loans totaling approximately \$37.7 million originated during 2020 and 2021. These loans helped finance small businesses as they struggled with the impact of the COVID-19 pandemic. Of the \$37.7 million in PPP funding, \$34.9 million in PPP funds provided directly benefitted the bank's assessment area. The bank's community development loans to total assets ratio (16.4 percent) and community development loans to net loans ratio (24.7 percent) were in-line with the ratios of comparable institutions, which ranged from 14.0 to 22.9 percent and 21.2 to 27.0 percent, respectively and also included PPP loans. As mentioned previously, comparable institutions had two full years of PPP lending in their evaluations where a majority of PPP lending considered in this evaluation was done in 2021. The following tables provide a breakdown of the community development loans by area benefitted and activities by year for each community development purpose.

Community Development Lending by Area										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Assessment Area	14	4,667	86	14,729	353	79,368	9	9,680	462	108,444
Broader Statewide Area	1	1,240	15	318	28	6,599	0	0	44	8,157
Total	15	5,907	101	15,047	381	85,967	9	9,680	506	116,601
<i>Source: Bank Data</i>										

Community Development Lending										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2020 (partial year)	3	1,463	20	772	23	6,659	1	7,000	47	15,894
2021	10	4,100	27	1,321	296	54,876	5	2,485	338	62,782
2022	2	344	37	8,642	56	22,252	2	120	97	31,358
YTD 2023	0	0	17	4,312	6	2,180	1	75	24	6,567
Total	15	5,907	101	15,047	381	85,967	9	9,680	506	116,601
<i>Source: Bank Data</i>										

Qualified Investments

Qualified investments and donations 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. Northeast Bank received consideration for 319 qualified investments totaling approximately \$18.1 million. This total included 299 donations totaling \$437,126. Of the qualified donations provided, a significant volume were provided by the Walter C. Rasmussen – Northeast Bank Foundation, a registered 501(c) nonprofit organization created by the founder of the bank. The foundation’s mission is to make a difference in the community by supporting education, housing, culture, and health initiatives. Further, since the prior CRA evaluation, Northeast Bank increased its investment and donation activity by 40.0 percent by dollar volume.

When aggregated for the evaluation period, the bank’s qualified investments to total assets ratio was 2.5 percent and represented 8.1 percent of total securities. Northeast Bank’s qualified investments to total assets ratio was greater than the peer institutions, whose ratios ranged from 0.4 to 1.8 percent. Further, the bank’s qualified investments to total securities ratio was within range of the comparable institutions, whose ratios ranged from 3.1 to 14.7 percent. Overall, Northeast Bank’s community development investment and donation activity are responsive to the needs within the assessment area. The following tables illustrate the bank’s qualified investments by area benefited and by year and activity for each community development purpose.

Qualified Investments by Area										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Assessment Area	41	60	178	763	48	71	38	2,183	305	3,077
Broader Statewide Area	3	7,934	0	0	11	7,045	0	0	14	14,979
Total	44	7,994	178	763	59	7,116	38	2,183	319	18,056
<i>Source: Bank Data</i>										

Qualified Investments										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	0	0	0	0	6	1,740	5	2,140	11	3,880
2020 (partial year)	0	0	0	0	0	0	0	0	0	0
2021	0	0	0	0	0	0	0	0	0	0
2022	3	7,934	1	500	5	5,305	0	0	9	13,739
YTD 2023	0	0	0	0	0	0	0	0	0	0
Subtotal	3	7,934	1	500	11	7,045	5	2,140	20	17,619
Qualified Grants & Donations	41	60	177	263	48	71	33	43	299	437
Total	44	7,994	178	763	59	7,116	38	2,183	319	18,056
<i>Source: Bank Data</i>										

Community Development Services

Northeast Bank is a leader in providing community development services, and the bank is extremely responsive to the needs of the assessment area. Specifically, during the CRA review period, bank employees provided 150 instances of financial expertise or technical assistance totaling approximately 4,098 hours to 44 different community development-related organizations. These services directly benefited the assessment area. The bank's level of community development services is significantly higher than comparable institutions, whose community development services ranged from 8 to 37 during their respective evaluation periods. Further, the bank significantly increased the number of community development service hours of 2,800 at the prior evaluation. The following tables provide a breakdown of community development services by year for each community development purpose.

Community Development Services					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2020 (partial year)	0	22	20	4	46
2021	2	28	17	2	49
2022	1	32	20	2	55
Total	3	82	57	8	150
<i>Source: Bank Data</i>					

In addition to the services noted above, Northeast Bank's headquarters in Minneapolis (with one bank-owned deposit-taking ATM) and the Coon Rapids office are located in moderate-income geographies. In addition, the bank continues to waive surcharges and bank fees at Money Pass network ATMs and provide no-cost electronic and mobile banking services. Branch hours provide residents easy access to personalized services, while electronic banking services provide convenient 24-hour access to account information. Northeast Bank offers two low-cost checking accounts and two low-cost savings accounts for consumers. The bank also offers several low-cost checking and savings accounts for businesses, including accounts specifically designed for non-profit organizations. Lastly, the bank supports community groups and organizations by providing meeting space for use at the Minneapolis and New Brighton offices free-of-charge. Several organizations who utilize the space have a mission or goals that meet the purpose of community development.

Overall, the bank provides reasonable access to products and services specifically designed to meet the needs of the communities served, including low- and moderate-income residents.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution's overall CRA rating.

APPENDICES

INTERMEDIATE 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).

Community Development Test

The Community Development Test considers the following criteria:

- 1) The number and amount of community development loans;
- 2) The number and amount of qualified investments;
- 3) The extent to which the bank provides community development services; and
- 4) The bank's responsiveness through such activities to community development lending, investment, and service needs.

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.

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 areas, 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. Institution CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Institution 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 institution:
 - (i) Has not been reported or collected by the institution or an affiliate for consideration in the institution'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 institution's assessment area(s) or a broader statewide or regional area including the institution'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 institution'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 Areas 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 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.

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.

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.

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 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.