

PUBLIC DISCLOSURE

June 3, 2024

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Kaw Valley State Bank
Certificate Number: 13413

739 Main Street
Eudora, Kansas 66025

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

1100 Walnut Street, Suite 2100
Kansas City, Missouri 64106

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

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INSTITUTION RATING

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

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

The bank's Community Reinvestment Act (CRA) performance under all applicable criteria supports the overall rating. The following points summarize this performance.

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- A majority of the small business and home mortgage loans reviewed are located inside the assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects reasonable penetration of loans 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 rating.

DESCRIPTION OF INSTITUTION

Kaw Valley State Bank (KVSb) is a full-service financial institution headquartered in Eudora, Kansas. Eudora Bancshares, Inc., a one-bank holding company in Eudora, Kansas, continues to wholly own the institution's outstanding stock. The institution received a Satisfactory rating at its previous FDIC Performance Evaluation dated June 11, 2018, based on Interagency Small Institution Examination Procedures. The institution does not have any affiliates or subsidiaries that perform lending activities.

The bank operates solely from its main office in Eudora, which is in northeast Kansas. The bank did not open or close any branches, or have any merger or acquisition activities since the previous evaluation. The bank offers traditional home mortgage, commercial, agricultural, and consumer loans. Small business and home mortgage loans are the primary focuses for the bank. Home mortgage lending includes loans retained in the portfolio, as well as loans sold on the secondary market.

KVSb offers a variety of deposit products and services, including checking accounts, savings accounts, and certificates of deposit. Alternative banking services include internet and mobile banking, electronic bill pay, and two bank-owned ATMs.

As of March 31, 2024, KVSBS reported \$77.2 million in total assets, which is an increase of 54.2 percent from the previous evaluation. Also, the bank reported total loans of \$26.9 million, and total deposits of \$67.1 million. The loan portfolio distribution is illustrated in the following table.

Loan Portfolio Distribution as of March 31, 2024		
Loan Category	\$(000s)	%
Construction and Land Development	1,699	6.3
Secured by Farmland	1,368	5.1
1-4 Family Residential	7,999	29.8
Multi-family (5 or more) Residential	–	–
Commercial Real Estate	2,506	9.3
Total Real Estate Loans	13,572	50.5
Commercial and Industrial	6,805	25.3
Agricultural	906	3.4
Consumer	4,082	15.2
Other	1,519	5.6
Less: Unearned Income	–	–
Total Loans	26,884	100.0
<i>Source: Reports of Condition and Income</i>		

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

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which its performance will be evaluated. KVSBS designated one assessment area comprised of adjacent census tracts covering parts of Douglas, Johnson, and Leavenworth counties, which are all in Kansas. Douglas County is located in the Lawrence, Kansas Metropolitan Statistical Area (MSA), while Johnson and Leavenworth counties are located in the Kansas City, Kansas-Missouri MSA. The assessment area has not changed since the previous evaluation. Below is a list of the census tracts in the assessment area by county:

- Douglas County – 1, 2.01, 2.02, 3.01, 3.02, 4, 5.01, 5.02, 6.02, 6.03, 6.04, 7.01, 7.03, 7.04, 7.97, 8.01, 8.02, 9.02, 9.03, 9.04, 10.01, 10.02, 12.01, 12.02, and 12.03
- Johnson County – 527.01 and 527.02
- Leavenworth County – 714

Although the assessment area includes portions of two MSAs, examiners reviewed them together as one assessment area since the bank operates from a single location, and the assessment area is contiguous.

Economic and Demographic Data

According to 2020 U.S. Census data, the assessment area includes 7 moderate-income, 13 middle-income, 6 upper-income, and 2 census tracts that have no income classification. KFSB is located in a middle-income census tract. The moderate-income tracts are all concentrated in the city of Lawrence, approximately 10 miles west of the bank’s sole location. The following table provides demographic information on the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	28	—	25.0	46.4	21.4	7.1
Population by Geography	123,295	—	20.0	48.3	24.1	7.6
Housing Units by Geography	52,387	—	24.0	47.5	24.8	3.7
Owner-Occupied Units by Geography	24,877	—	17.5	52.9	29.4	0.1
Occupied Rental Units by Geography	24,370	—	30.4	42.7	20.2	6.7
Vacant Units by Geography	3,140	—	25.8	42.0	23.3	8.9
Businesses by Geography	10,653	—	23.2	45.2	27.1	4.5
Farms by Geography	425	—	16.9	50.4	32.5	0.2
Family Distribution by Income Level	27,283	20.0	18.7	22.4	38.9	—
Household Distribution by Income Level	49,247	25.8	16.2	17.1	40.9	—
Median Family Income MSA – Kansas City, MO-KS MSA		\$86,562	Median Housing Value			\$214,794
Median Family Income MSA – Lawrence, KS MSA		\$90,062	Median Gross Rent			\$942
			Families Below Poverty Level			6.7%
<i>Source: 2020 U.S. Census and 2023 D&B Data. Due to rounding, totals may not equal 100.0%.</i>						
<i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

The 2023 D&B data indicates that service industries represent the largest portion of businesses in the assessment area at 40.2 percent, followed by non-classifiable establishments at 18.5 percent, and retail trade at 11.4 percent. This data also indicates that a notable number of area businesses are relatively small with 91.5 percent having nine or fewer employees, and 91.1 percent operating from a single location.

Competition

The assessment area is a highly competitive market for deposits and loans. According to June 30, 2023 FDIC Deposit Market Share data, there are 73 banks operating 302 offices within the 3 counties that are partially included in the bank’s assessment area. Of these institutions, KFSB ranked 57th with a deposit market share of 0.2 percent.

Community Contacts

Examiners contact third parties active in the assessment area to help gain insight into the area economy, demographic trends, and business environment. This information not only helps in identifying credit needs and opportunities, but also assists in determining whether local financial institutions are responsive to those needs.

For this evaluation, examiners relied on information from two community contacts conducted recently in the assessment area. Both individuals were knowledgeable of the assessment area through involvement in organizations. One contact stated the area is largely comprised of young professionals. The individual noted that economic conditions are rebounding from the pandemic, and have remained stable. The contact stated the credit needs for the area are affordable housing and commercial loans (real estate and general credit). The second individual emphasized the need for affordable housing in the area. Both contacts noted financial institutions in general are meeting the credit needs of the area.

Credit Needs

Based on information from economic and demographic data, the community contacts, and bank management, examiners determined that small business and home mortgage loans are the primary credit needs in the assessment area. The area demographics on the number of businesses and housing units in the assessment area support this conclusion.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated June 11, 2018, to the current evaluation dated June 3, 2024. Examiners used Interagency Small Institution Examination Procedures to evaluate the bank's CRA performance.

Activities Reviewed

Examiners reviewed small business and home mortgage loans to evaluate performance for this evaluation. Examiners selected the loan products based on the bank's business strategy, and loan volume during the evaluation period. Small business loans received the most weight when drawing conclusions based on the bank's small business lending volume. The small farm loan category was not reviewed because the bank's agricultural lending activity is minimal.

Examiners reviewed all small business and home mortgage loans originated or renewed during 2023. Additionally, examiners reviewed all home mortgage loans originated or renewed during 2022, because the volume of loans in 2023 was limited. Bank management stated lending in 2022 and 2023 is representative of the bank's performance during the entire review period. Bank records showed 56 small business loans totaling \$3.0 million in 2023, 19 home mortgage loans totaling \$2.2 million in 2022, and 8 home mortgage loans totaling \$2.0 million in 2023. However, a significant majority of the bank's home mortgage lending was non-owner occupied residential loans for investment purposes (i.e. rental units). Therefore, examiners evaluated the bank's home mortgage performance only on this loan type. Specifically, the bank's non-owner occupied loans included 15 loans totaling \$1.9 million in 2022, and 6 loans totaling \$1.7 million in 2023.

For the Lending Test, examiners reviewed all of the above loans for the Assessment Area Concentration criterion. For the Geographic Distribution criterion, examiners reviewed all small business and home mortgage loans made in the assessment area. For the Borrower Profile criterion, examiners reviewed all small business loans made in the assessment area. Examiners did not review home mortgage loans for this criterion because the analysis focused on non-owner occupied

residential loans, which were not originated to individual borrowers. Therefore, the analysis would not have provided meaningful conclusions.

Examiners used 2023 D&B data as a standard of comparison for the bank’s small business lending performance, and 2020 U.S. Census data as the standard of comparison for the bank’s home mortgage lending performance. Although both the number and dollar volume of loans were analyzed, examiners emphasized performance by number of loans because it is a better indicator of the number of individuals and businesses served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

KVSB demonstrates satisfactory performance under the Lending Test. The bank’s performance under all applicable 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 performance was evaluated based on the average of the 24 quarterly loan-to-deposit ratios since the previous evaluation. As shown in the table below, the bank’s resulting average net loan-to-deposit ratio is somewhat lower than the ratio of another similarly situated institution. Examiners select the similarly situated bank based on various factors including asset size, market served, product offerings, loan portfolio composition, and branching structure.

Further analysis revealed KVSB’s loan volume increased \$2.7 million, or 11.1 percent, during the review period. In comparison, the bank’s deposit volume increased by \$20.8 million, or 45.0 percent during the review period. A substantial portion of the deposit growth was from public funds, which increased from \$8.7 million on March 31, 2018, to \$20.5 million on March 31, 2024. Public funds currently comprise approximately 30.6 percent of the bank’s total deposits, which is considerably higher than the percentage for most institutions. These public funds have securities pledged to them, which reduces the availability of funding for lending activities. Given these factors, the bank’s performance is reasonable.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 3/31/2024 (\$000s)	Average Net Loan-to-Deposit Ratio (%)
Kaw Valley State Bank, Eudora, Kansas	77,163	43.1
The Baldwin State Bank, Baldwin City, Kansas	101,795	53.6
<i>Source: Reports of Condition and Income 6/30/2018 - 3/31/2024 (24 quarters)</i>		

Assessment Area Concentration

Overall, a majority of the reviewed small business and home mortgage loans, by both number and dollar volume, are located within the assessment area. Although the bank’s home mortgage lending within the assessment area by number of loans was less than a majority in 2022, the following year the bank made all home mortgage loans within the assessment area. The following table shows these results.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Business	34	60.7	22	39.3	56	1,844	62.2	1,122	37.8	2,966
Home Mortgage										
2022	7	46.7	8	53.3	15	1,194	64.3	663	35.7	1,857
2023	6	100.0	0	0.0	6	1,670	100.0	0	0.0	1,670
Subtotal	13	61.9	8	38.1	21	2,864	81.2	663	18.8	3,527
Totals	47	61.0	30	39.0	77	4,708	72.5	1,785	27.5	6,493
<i>Source: Bank Data</i>										

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. Examiners focused on the percentage of loans in the assessment area’s moderate-income census tracts, while also considering the location of the bank’s office in relation to these tracts. The bank’s reasonable small business and home mortgage lending performance supports this conclusion.

Small Business

The geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area. As the following table shows, the bank’s lending in the moderate-income census tracts lags corresponding demographic data. However, the moderate-income tracts are all in Lawrence, which is a considerable distance away from the bank, and there are several institutions operating in Lawrence to serve the area’s credit needs.

Examiners noted that a significant portion of KVSb’s lending in the assessment area is near the bank’s sole office in Eudora, which is in a middle-income tract. Thus, examiners evaluated the bank’s small business lending activity in Lawrence separately. The analysis revealed 2 of the 10 Lawrence borrowers (20.0 percent) were in the moderate-income tracts, compared to demographic data, which showed 32.2 percent of Lawrence businesses are in those tracts. Based on these additional considerations, KVSb’s performance is reasonable.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate	23.2	2	5.9	150	8.1
Middle	45.2	29	85.3	1,552	84.2
Upper	27.1	3	8.8	142	7.7
Not Available	4.5	—	—	—	—
Totals	100.0	34	100.0	1,844	100.0
<i>Source: 2023 D&B Data; Bank Data.</i>					

Home Mortgage

Overall, the geographic distribution of the bank’s non-owner occupied home mortgage loans reflects reasonable performance. The performance was measured against the percentage of occupied rental housing units (demographic data) in the assessment area. The bank lending performance in the moderate-income census tracts lags demographic data in 2022; however, the bank’s lending performance in 2023 exceeds demographic data. Considering the bank’s overall performance, the geographic distribution of home mortgage loans is reasonable. See the following table for more information.

Geographic Distribution of Non-Owner Occupied Home Mortgage Loans					
Tract Income Level	% of Occupied Rental Units	#	%	\$(000s)	%
Moderate					
2022	30.4	1	14.3	56	4.7
2023	30.4	3	50.0	892	53.4
Middle					
2022	42.7	6	85.7	1,138	95.3
2023	42.7	3	50.0	778	46.6
Upper					
2022	20.2	—	—	—	—
2023	20.2	—	—	—	—
Not Available					
2022	6.7	—	—	—	—
2023	6.7	—	—	—	—
Totals					
2022	100.0	7	100.0	1,194	100.0
2023	100.0	6	100.0	1,670	100.0
<i>Source 2020 U.S. Census data; Bank Data.</i>					

Borrower Profile

The distribution of loans to borrowers reflects reasonable penetration. The bank’s reasonable small business lending performance supports this conclusion. Examiners focused on the percentage of small business loans to operations with gross annual revenues of \$1 million or less.

Small Business Loans

The distribution of loans to businesses of different revenue sizes is reasonable. As illustrated in the following table, the bank’s level of lending to businesses with revenues of \$1 million or less is comparable to the demographic data for this revenue category.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
≤\$1,000,000	87.2	29	85.3	1,527	82.8
>\$1,000,000	3.4	5	14.7	317	17.2
Revenue Not Available	9.4	—	—	—	—
Totals	100.0	34	100.0	1,844	100.0

Source: 2023 D&B Data; Bank Data.

Home Mortgage Loans

Examiners did not review home mortgage loans for this criterion because the analysis focused on non-owner occupied residential loans, which were not originated to individual borrowers. Therefore, the analysis would not have provided meaningful conclusions.

Response to Complaints

The bank has not received any CRA-related complaints since the previous evaluation. Accordingly, this criterion did not affect the rating.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank’s compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

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.