

PUBLIC DISCLOSURE

January 6, 2025

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Prairie Bank of Kansas
Certificate Number: 4775

200 South Main Street
Stafford, Kansas 67578

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.

Prairie Bank of Kansas’ Community Reinvestment Act (CRA) performance under the Lending Test supports the overall rating. The following points summarize the bank’s Lending Test performance.

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

DESCRIPTION OF INSTITUTION

Prairie Bank of Kansas is headquartered in Stafford, Kansas, and operates in three counties in central Kansas. The bank continues to be wholly owned by Farmers National Bancshares, Inc., a one-bank holding company also located in Stafford. The bank received a Satisfactory rating at its previous FDIC Performance Evaluation, dated December 10, 2018, based on Interagency Small Institution Examination Procedures.

In addition to the main office in Stafford, the bank has three full-service branch offices located in Buhler, Hutchinson, and Inman. The bank offers traditional loan products including agricultural, commercial, home mortgage, and consumer loans, with an emphasis on agricultural lending. Prairie Bank of Kansas provides traditional deposit products including checking, savings, certificates of deposit, and individual retirement accounts. Alternative banking services include internet and mobile banking, mobile deposit, and electronic bill pay. Bank customers also have access to four non-deposit taking ATMs located onsite at bank branches. The bank did not open or close any branches, and no merger or acquisition activities occurred since the previous evaluation.

As of September 30, 2024, the bank had total assets of \$131.6 million, total loans of \$74.8 million, and total deposits of \$117.9 million. The composition of the loan portfolio is illustrated in the following table.

Loan Portfolio Distribution as of 09/30/24		
Loan Category	\$(000s)	%
Construction and Land Development	3,033	4.1
Secured by Farmland	15,912	21.3
Secured by 1-4 Family Residential Properties	15,897	21.2
Secured by Multifamily (5 or more) Residential Properties	543	0.7
Secured by Nonfarm Nonresidential Properties	9,340	12.5
Total Real Estate Loans	44,725	59.8
Commercial and Industrial Loans	6,913	9.3
Agricultural Loans	18,643	24.9
Consumer Loans	1,844	2.5
Other Loans	2,635	3.5
Total Loans	74,760	100.0
<i>Source: Reports of Condition and Income</i>		

In addition to the above loans within its portfolio, the bank originates residential loans that are sold on the secondary market. Although the loans are sold and are not reflected in the above portfolio composition, the bank retains the servicing. Bank records indicate Prairie Bank of Kansas is currently servicing over \$9.0 million of these sold home mortgage loans.

Examiners did not identify any financial, legal, or other impediments that affect the bank’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 CRA performance will be evaluated. Prairie Bank of Kansas designated a single assessment area that consists of all of Stafford and Reno counties, and the adjacent southern and western portions of McPherson County. All three of these central Kansas counties are categorized as nonmetropolitan areas. There have been no changes to the bank’s assessment area since the previous CRA evaluation.

Economic and Demographic Data

The assessment area consists of the same 21 census tracts as noted at the prior evaluation. Of these 21 tracts, 1 is upper-income, 17 are middle-income, 2 are moderate-income, and 1 is low-income. The low-income and moderate-income tracts are in the central and southern portions of the City of Hutchinson in Reno County. 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)	21	4.8	9.5	81.0	4.8	0.0
Population by Geography	74,820	3.5	9.6	79.7	7.2	0.0
Housing Units by Geography	34,921	4.0	10.0	80.8	5.2	0.0
Owner-Occupied Units by Geography	21,834	1.2	7.9	84.1	6.7	0.0
Occupied Rental Units by Geography	8,646	9.1	14.9	73.3	2.6	0.0
Vacant Units by Geography	4,441	7.8	10.2	78.8	3.2	0.0
Businesses by Geography	5,806	10.0	6.2	76.1	7.6	0.0
Farms by Geography	728	0.8	0.8	94.0	4.4	0.0
Family Distribution by Income Level	19,396	17.0	20.3	22.8	39.9	0.0
Household Distribution by Income Level	30,480	20.2	17.8	19.9	42.0	0.0
Median Family Income Non-MSAs - KS		\$65,467	Median Housing Value			\$111,614
			Median Gross Rent			\$708
			Families Below Poverty Level			7.2%
<i>Source: 2020 U.S. Census and 2023 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

The 2023 D&B data indicates that of the 6,534 farms and businesses in the assessment area, 31.1 percent are service industries, 11.3 percent are retail trade, and 11.1 percent are agricultural. The data also indicates that a notable number of businesses are relatively small, with 66.2 percent having 4 or fewer employees, and 88.4 percent operating from 1 location.

Examiners used Federal Financial Institutions Examination Council (FFIEC) median family income data to analyze home mortgage loans under the Borrower Profile criterion. The following table details the FFIEC’s estimated median family income and respective income categories for nonmetropolitan Kansas in 2023.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2023 (\$73,400)	<\$36,700	\$36,700 to <\$58,720	\$58,720 to <\$88,080	≥\$88,080
<i>Source: FFIEC</i>				

Competition

There is notable competition for financial services in the assessment area. According to June 30, 2024 FDIC Deposit Market Share data, there are 21 banks operating 52 offices within the 3 counties that are either wholly or partially included in the bank’s assessment area. Prairie Bank of Kansas ranked 7th with 4.3 percent of the deposit market share. In addition to the financial institutions

included in the market share report, the bank also faces competition for lending services from other agencies and institutions including credit unions and farm service agencies.

Community Contact

As part of the evaluation process, examiners contact third parties in the assessment area to help gain insight into the area's economy, demographic trends, and business environment. This information helps determine whether local financial institutions are responsive to these needs. It also identifies what credit opportunities are available.

For this evaluation, examiners reviewed comments from a recently conducted interview with a person knowledgeable of the economic conditions in the assessment area. The contact indicated the area's economy is good but starting to slow due to less conducive farming conditions. The contact stressed the importance of agricultural loans for farmers looking to carry over debt in the current economic conditions. Further, the contact identified a need for home mortgage loans due to increasing rent costs. Area financial institutions continue to serve a vital role in providing loans for agricultural, business, residential, and other consumer purposes. Overall, the contact indicated that area financial institutions have been responsive to the area's credit needs.

Credit Needs

Considering the community contact and economic and demographic information, examiners determined that small farm, small business, and home mortgage loans are the primary credit needs in the assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated December 10, 2018, to the current evaluation dated January 6, 2025. Examiners used the Interagency Small Institution Examination Procedures to evaluate Prairie Bank of Kansas' CRA performance.

Activities Reviewed

Examiners determined that the bank's major product lines are small farm, small business, and home mortgage loans. This conclusion considered the bank's business focus, and the number and dollar volume of loans originated during the evaluation period. Management confirmed agricultural lending remains the bank's primary lending focus, and it represents the largest component of the loan portfolio. Accordingly, examiners placed greater weight on the bank's small farm lending performance.

For all three loan categories reviewed, examiners focused on loans originated or renewed in 2023, as bank management indicated that the 2023 lending patterns are generally representative of the bank's lending during the entire review period. The bank's 2023 records showed 57 small farm loans totaling \$4.9 million, 20 small business loans totaling \$2.2 million, and 12 home mortgage loans totaling \$1.4 million.

For the Lending Test, examiners reviewed all of the above loans to evaluate the Assessment Area Concentration criterion. Additionally, all loans originated inside the assessment area were further reviewed to evaluate the Geographic Distribution and Borrower Profile criteria.

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

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Prairie Bank of Kansas demonstrates satisfactory performance under the Lending Test. The bank’s performance in 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 loan-to-deposit ratio, calculated from the Reports of Condition and Income data, averaged 61.5 percent over the past 24 calendar quarters from December 31, 2018, to September 30, 2024. The ratio fluctuated throughout the review period, ranging from a high of 70.8 percent as of June 30, 2019, to a low of 51.7 percent as of June 30, 2021, and gradually increasing again thereafter. As shown in the following table, the bank’s average loan-to-deposit ratio is commensurate with similarly situated institutions. Examiners selected the similarly situated institutions based on their asset size, geographic location, and lending focus.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 9/30/2024 (\$000s)	Average Net Loan- to-Deposit Ratio (%)
Prairie Bank of Kansas, Stafford, Kansas	131,598	61.5
The Farmers State Bank, McPherson, Kansas	162,030	55.6
The Lyons State Bank, Lyons, Kansas	94,110	73.8
<i>Source: Reports of Condition and Income 12/31/18 through 9/30/24</i>		

Assessment Area Concentration

Overall, the bank made a substantial majority of small farm, small business, and home mortgage loans, by number and dollar volume, within the assessment area. See the following table.

Lending Inside and Outside of the Assessment Area										
	Number of Loans					Dollar Amount of Loans \$(000s)				
Loan Category	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$	%	\$	%	\$(000s)
Small Farm	52	91.2	5	8.8	57	4,519	92.2	381	7.8	4,900
Small Business	20	100.0	0	0.0	20	2,200	100.0	0	0.0	2,200
Home Mortgage	10	83.3	2	16.7	12	1,031	73.2	377	26.8	1,409
Total	82	92.1	7	7.8	89	7750	91.1	758	8.9	8509

Source: Bank Data

Geographic Distribution

The geographic distribution of loans is reasonable. The bank’s reasonable small farm, small business, and home mortgage performance supports this conclusion. For this criterion, examiners focused on the percentage of loans in low- and moderate-income census tracts.

Small Farm Loans

The geographic distribution of small farm loans reflects reasonable dispersion. As shown in the following table, the bank did not originate any loans in low- or moderate-income census tracts; however, the lending opportunities are limited with only 1.6 percent of farming operations located in these low- and moderate-income tracts.

Geographic Distribution of Small Farm Loans					
Tract Income Level	% of Farms	#	%	\$(000s)	%
Low	0.8	0	0.0	0	0.0
Moderate	0.8	0	0.0	0	0.0
Middle	94.0	52	100.0	4,519	100.0
Upper	4.4	0	0.0	0	0.0
Totals	100.0	52	100.0	4,519	100.0

Source: 2023 D&B Data, Bank Data.

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion. As shown in the following table, the bank’s level of lending is commensurate to corresponding demographic data for low-income tracts, and exceeds the demographic data for moderate-income tracts.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	10.0	2	10.0	530	24.1
Moderate	6.2	2	10.0	147	6.7
Middle	76.1	15	75.0	523	23.8
Upper	7.6	1	5.0	1,000	45.5
Totals	100.0	20	100.0	2,200	100.0

Source: 2023 D&B Data, Bank Data.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the assessment area. As shown in the following table, the bank did not make any home mortgage loans in low- or moderate-income census tracts. However, the low- and moderate-income tracts are concentrated in and around Hutchinson, where the bank faces notable competition from other financial institutions. Additionally, management noted an overall decline in home mortgage lending given the current interest rate environment. Considering these factors, the bank's performance is reasonable.

Geographic Distribution of Home Mortgage Loans					
Tract Income Level	% of Owner-Occupied Housing Units	#	%	\$(000s)	%
Low	1.2	0	0.0	0	0.0
Moderate	7.9	0	0.0	0	0.0
Middle	84.1	9	90.0	827	80.2
Upper	6.7	1	10.0	204	19.8
Total	100.0	10	100.0	1,031	100.0

Source: 2020 U.S. Census, Bank Data.

Borrower Profile

Overall, the distribution of borrowers reflects excellent penetration. The bank's excellent small farm and small business lending performance supports this conclusion. Examiners focused on the percentage of small farm and small business loans to operations with gross annual revenues of \$1 million or less, and the percentage of loans extended to low- and moderate-income borrowers.

Small Farm Loans

The distribution of small farm loans reflects excellent penetration to farms with revenues of \$1 million or less. All of the 52 loans were originated to operations with revenues of \$1 million or less. This exceeds demographic data, which indicates that 99.3 percent of assessment area farms are in this same revenue category.

Small Business Loans

The distribution of small business loans reflects excellent penetration to businesses with revenues of \$1 million or less. As illustrated in the following table, the bank's level of lending to businesses with revenues of \$1 million or less exceeds the percentage of businesses in this same revenue category.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	82.5	18	90.0	700	31.8
>\$1,000,000	5.1	2	10.0	1,500	68.2
Revenue Not Available	12.4	0	0.0	0	0.0
Total	100.0	20	100.0	2,200	100.0

Source: 2023 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%

Home Mortgage Loans

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, is reasonable. Although the bank did not make any loans to low-income borrowers, it is important to note that 7.2 percent of low-income families generate incomes below the poverty level. These families likely face significant difficulties in qualifying for traditional home mortgage loans. Additionally, the bank's penetration of loans to moderate-income borrowers is comparable to the corresponding demographic data. Given the overall performance and mitigating factor, the distribution of home mortgage lending is reasonable.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	17.1	0	0.0	0	0.0
Moderate	20.3	2	20.0	165	15.9
Middle	22.8	1	10.0	150	14.5
Upper	39.9	7	70.0	717	69.5
Not Available	0.0	0	0.0	0	0.0
Total	100.0	10	100.0	1,031	100.0

Source: 2020 U.S. Census, Bank Data. Due to rounding, totals may not equal 100.0%

Response to Complaints

The bank did not receive 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; therefore, this consideration did not affect the institution's overall CRA rating.

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.