PUBLIC DISCLOSURE

April 2, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Heartland State Bank
401 Main Street
P.O. Box 68
Edgeley, North Dakota 58433
RSSD 837653

Federal Reserve Bank of Minneapolis
90 Hennepin Avenue, P.O. Box 291
Minneapolis, MN 55480-0291

NOTE: 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 the safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

TABLE OF CONTENTS

Definitions for many of the terms used in this performance evaluation can be found in section 228.12 of Regulation BB. For additional convenience, a Glossary of Common CRA Terms is attached as Appendix A at the end of this performance evaluation.

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

The bank's Community Reinvestment Act (CRA) performance was evaluated using the Small Bank CRA Examination Procedures. Given the bank's asset size and financial condition, Heartland State Bank meets the credit needs of the small farms and consumers in its assessment area.

Several factors support the bank's satisfactory rating:

- The bank's lending to farms of different sizes and to borrowers of different income levels is reasonable.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The bank's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and credit needs of the assessment area.
- The bank originated a majority of its loans inside its assessment area.
- The bank has not received any CRA-related complaints since the last examination.

The bank received a Satisfactory rating at the previous evaluation, dated February 24, 2014.

SCOPE OF EVALUATION

The scope of the evaluation covers the bank's major product lines. Examiners based the evaluation on statistical samples of 86 small farm and 58 consumer loans originated between December 1, 2016, and November 30, 2017. Examiners selected small farm and consumer loans for analysis because they represent the bank's major product lines by total number or total dollar amount. Table 1 illustrates total loan activity from January 1, 2016, to December 31, 2016. Although Table 1 does not include 2017 lending activity, the bank's 2017 lending shows similar percentages for the different loan types.

TABLE 1[1]
Loan Originations From January 1, 2016, Through December 31, 2016

Loan Type	*Number of Loans*	*Percentage of Total Number*	*Total Loan Dollars*	*Percentage of Total Dollars*
Construction	2	1.7	$1,750,000	12.8
Consumer	37	32.1	716,695	5.2
Small Business (≤ $1 million)	11	9.6	731,750	5.4
Small Farm (≤ $500,000)	61	53.0	7,502,289	54.9
Agricultural (> $500,000)	4	3.5	2,963,843	21.7
Total	**115**	**100.0**	**$13,664,577**	**100.0**

Examiners analyzed the following criteria to determine the bank's CRA rating:

- Lending to farms of different sizes and to borrowers of different income levels.
- Geographic distribution of loans.
- Net loan-to-deposit ratio.
- Lending inside the assessment area.
- Record of responding to complaints about the bank's CRA performance.

[1]Note: Because the percentages presented in the tables are rounded to the nearest tenth, some columns or rows may not total 100.0%.

Examiners placed the greatest weight on the lending to farms of different sizes and borrowers of different income levels. They placed equal weight on the other criteria. By loan type, examiners placed more weight on small farm loans than on consumer loans, based on the volume of loan origination activity and loan portfolio composition. The bank has not received any CRA-related complaints since the previous evaluation.

The evaluation is based in part on discussions with bank management and interviews with a member of the community familiar with economic issues and demographic characteristics of the assessment area. Examiners used information from these sources to evaluate the bank's CRA performance.

DESCRIPTION OF INSTITUTION

Offices and Delivery Systems. The bank operates two offices: the main office in Edgeley, North Dakota, and a full-service branch in Kulm, North Dakota. Each office has drive-up services, and the Kulm branch operates a cash-dispensing-only ATM at its drive-up. The bank offers reasonable lobby hours at each location and extended drive-up hours Monday through Friday; the main office also offers Saturday drive-up hours. These service hours appear appropriate for the communities the bank serves. Additionally, the bank operates one cash-dispensing-only ATM at a convenience store in Edgeley.

The bank offers Internet banking, allowing customers to view account information, transfer funds, and make loan payments. In addition, the bank offers mobile banking and online periodic statements and bill payment services.

Loan Portfolio. The December 31, 2017, Report of Condition (ROC) shows the bank's assets total $59.6 million. The bank is primarily an agricultural lender. Since the previous evaluation, the loan portfolio increased by 9.8%; however, total assets decreased by 5.3%. The composition of the $40.9 million loan portfolio is 82.2% agricultural, 11.8% commercial, 4.3% consumer, 1.2% residential real estate, and less than 1.0% other loans. Overall, the composition of the loan portfolio has changed very little since the previous evaluation; agricultural and consumer loans increased slightly, while commercial and residential real estate loans decreased slightly. Management attributes the slight increase in agricultural loans to farmers drawing on lines of credit to fund their annual operating needs instead of self-funding their operations.

Credit Products. The bank offers a variety of traditional, noncomplex loan products to meet the credit needs of the farms, businesses, and consumers in the assessment area. The bank's credit products include open- and closed-end agricultural, commercial, consumer, and residential real estate loans. The bank also participates in Farm Service Agency and Small Business Administration loan programs.

Deposit Market Share. According to the June 30, 2017, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, the bank ranks 11th of 14 FDIC-insured depository institutions operating in Stutsman, Dickey, LaMoure, Logan, and McIntosh counties, with 4.8% of the deposit market share. The majority of other financial institutions are larger national, regional, or community banks with branch offices inside and outside the bank's assessment area. Management and a community contact indicated that other major competitors are credit unions and government-sponsored farm lenders that originate and service agricultural loans.

DESCRIPTION OF ASSESSMENT AREA

Assessment Area. The bank's assessment area includes LaMoure, Logan, and McIntosh counties, and portions of Stutsman and Dickey counties in southeastern North Dakota; it is the same as at the previous evaluation. The bank's assessment area consists of seven census tracts: one moderate-income and six-middle income tracts. The moderate-income census tract includes the town of Ellendale, the county seat of Dickey County. Since the previous evaluation, the total number of tracts in the assessment area has not changed; however, the income classification of one tract (which includes all of McIntosh County) changed from moderate-income in 2016 to middle-income in 2017, based on Federal Financial Institutions Examination Council (FFIEC) adjusted census data. In addition, all of LaMoure, Logan, and McIntosh counties are classified as distressed and underserved, and one rural middle-income census tract in Dickey County is classified as underserved.

Table 2 shows the demographic characteristics of the assessment area based on the 2017 FFIEC adjusted census data[2] and 2016 Dun & Bradstreet data.

TABLE 2
Assessment Area Demographics

Income Categories	***Tract Distribution***		***Families by Tract Income***		***Families < Poverty Level as % of Families by Tract***		***Families by Family Income***	
	#	***%***	***#***	***%***	***#***	***%***	***#***	***%***
Low Income	0	0.0	0	0.0	0	0.0	906	22.7
Moderate Income	1	14.3	342	8.6	39	11.4	748	18.7
Middle Income	6	85.7	3,654	91.4	272	7.4	955	23.9
Upper Income	0	0.0	0	0.0	0	0.0	1,387	34.7
Total Assessment Area	**7**	**100.0**	**3,996**	**100.0**	**311**	**7.8**	**3,996**	**100.0**
Income Categories	***Housing Units by Tract***	***Housing Types by Tract***						
		Owner-Occupied			***Rental***		***Vacant***	
		#	***%***	***%***	***#***	***%***	***#***	***%***
Low Income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate Income	753	378	7.7	50.2	224	29.7	151	20.1
Middle Income	7,272	4,557	92.3	62.7	992	13.6	1,723	23.7
Upper Income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	**8,025**	**4,935**	**100.0**	**61.5**	**1,216**	**15.2**	**1,874**	**23.4**
Income Categories	***Total Businesses by Tract***		***Businesses by Tract and Revenue Size***					
			≤ $1 Million		***> $1 Million***		***Revenue Not Reported***	
	#	***%***	***#***	***%***	***#***	***%***	***#***	***%***
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	80	7.9	66	7.5	10	11.4	4	8.9
Middle Income	929	92.1	810	92.5	78	88.6	41	91.1
Upper Income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	**1,009**	**100.0**	**876**	**100.0**	**88**	**100.0**	**45**	**100.0**
Percentage of Total Businesses:				**86.8**		**8.7**		**4.5**
Income Categories	***Total Farms by Tract***		***Farms by Tract and Revenue Size***					
			≤ $1 Million		***> $1 Million***		***Revenue Not Reported***	
	#	***%***	***#***	***%***	***#***	***%***	***#***	***%***
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	13	2.3	13	2.4	0	0.0	0	0.0
Middle Income	547	97.7	540	97.6	7	100.0	0	0.0
Upper Income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area		**100.0**	**553**	**100.0**	**7**	**100.0**	**0**	**0.0**
Percentage of Total Farms:				**98.8**		**1.3**		**0.0**

[2]The FFIEC adjusted census data is based on decennial U.S. Census data and American Community Survey five-year estimate data, and it reflects the Office of Management and Budget's metropolitan statistical area revisions.

Income. In order to classify borrowers by income level, this evaluation uses the FFIEC's estimated median family income. For borrowers in the nonmetropolitan areas of North Dakota, this figure is $78,800 for 2017 and $73,500 for 2016. For purposes of classifying census tracts by income level, this evaluation relies on the FFIEC adjusted census data median family income for nonmetropolitan North Dakota, which was $72,620 for 2017 and $58,592 for 2016.

Population. According to 2017 FFIEC adjusted census data, the population of the assessment area is 13,960, which is a 4.3% decrease from the population of 14,592 at the 2014 evaluation. The assessment area is rural, with a low population density. The primary population centers in the assessment area are the towns of Edgeley, Kulm, Ellendale, and Oakes. Of the 6,151 households in the assessment area, 28.9% are low income and 15.9% are moderate income. A community contact stated that individuals who do not farm for a living, and reside in the towns mentioned above, usually commute to either Jamestown, North Dakota, or Aberdeen, South Dakota for work, depending on where they live. People who live in Edgeley or Kulm can easily commute to Jamestown for work, health care, and shopping.

General Economic Conditions. The economy of the assessment area depends primarily on agriculture. Overall, agricultural conditions including commodity prices have been favorable during the past few years. According to management, corn and soybeans are the primary crops in the assessment area. In addition, farmers supplement their operations through cattle or hog farming. For the most part, management and the community contact indicated that although commodity prices for crops have declined since 2016, they are still higher than historical levels. Based on lower crop prices, farmers are relying on credit from financial institutions to fund their operations instead of financing their activities from their own funds.

According to bank management and a community contact, the average farm in the assessment area consists of approximately 2,500 to 3,000 acres. In addition, given the lower commodity prices, farmers have reduced their operating costs and pulled back on equipment purchases. The contact stated that farmers are purchasing equipment in the $50,000 range, whereas two or three years ago they purchased new equipment in the $200,000 to $300,000 range. In addition, farmers are leasing equipment instead of purchasing it. According to 2016 Dun & Bradstreet data, the assessment area contains 560 farms, of which only 7 have gross annual revenues above $1 million.

According to the Bureau of Labor Statistics, the February 2018 nonseasonally adjusted unemployment rate was 2.5 % for LaMoure, 2.0% for Dickey, 3.4% for Logan, 2.9% for McIntosh, and 3.2% for Stutsman County. These unemployment rates comparable favorably to the nonseasonally adjusted statewide rate of 3.4% for North Dakota. Generally, unemployment rates this low reflect full employment, and individuals looking for work can find open positions.

The community contact noted that individuals who do not farm and reside in the Edgeley area commute to Jamestown for work. Individuals who live in the southern part of Dickey County, including Ellendale, commute to Aberdeen for work. Generally, towns in the bank's assessment area serve as bedroom communities for cities outside the assessment area.

Finally, the community contact indicated that competition for financial services is high, specifically from banks, credit unions, and government-sponsored lenders such as the Farm Service Agency.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's lending performance in the assessment area is reasonable. Overall, the bank's lending to farms of different sizes and to borrowers of different income levels is reasonable. The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. The net loan-to-deposit ratio is reasonable given the bank's size and financial condition and the assessment area's credit needs. Finally, the bank originated a majority of its loans inside the assessment area.

LENDING TO FARMS OF DIFFERENT SIZES AND TO BORROWERS OF DIFFERENT INCOME LEVELS

Overall, the bank's lending to farms of different sizes and to borrowers of different income levels is reasonable. Based on the sample data, examiners aggregated the bank's 2016 and 2017 small farm and consumer lending data and evaluated the combined data relative to 2017 demographic information.[3]

Small Farm Lending. The bank's lending to farms of different sizes is reasonable. For CRA purposes, a small farm is an entity with gross annual revenues of $1 million or less. Table 3 shows the bank's small farm lending. The bank originated 97.4% of its agricultural loans to small farms. The bank's lending to small farms is comparable to the demographics of the assessment area. Dun & Bradstreet data for 2016 shows that 98.8% of farms in the assessment area are small farms.[4] Based on the average farm size in the assessment area, management thought the percentage of agricultural loans to small farm entities would be lower. However, management and the community contact stated that reduced commodity prices have lowered farm revenues. Finally, management stated there is strong competition in the assessment area for agricultural loans, especially from credit unions. The bank's lending to small farms is reasonable, given these factors.

TABLE 3
Small Farm Loans in the Assessment Area

Small Farm Originations	***≤ $100,000***	***> $100,000 to ≤ $250,000***	***> $250,000 to ≤ $500,000***	***Total Originations***
Percentage of Small Farm Loans	63.6%	19.5%	16.9%	100.0%
Percentage of Loans to Farms with Revenues of $1 Million or Less	62.3%	20.0%	17.3%	97.4%

Consumer Lending. The bank's consumer lending to borrowers of different income levels is excellent. Table 4 shows the bank's consumer loans by borrower income levels, as well as 2017 demographic data[5] for the assessment area. The bank originated 53.2% of its consumer loans to low-income borrowers, which significantly exceeds the percentage of low-income households in the assessment area (28.9%). Bank lending to moderate-income borrowers was 17.0%, which slightly exceeds the percentage of moderate-income households in the assessment area (16.0%). Overall, the bank extended 70.2% of its loans to low- and moderate-income borrowers, which greatly exceeds the combined household demographics (44.9%).

[3]The 2017 small farm demographic data is based on the most recently available Dun & Bradstreet data, which is from 2016.
[4]The small farm loan sample includes only one loan originated in 2016. Dun & Bradstreet farm revenue demographic data is the same for both years of the sample period; therefore, a separate analysis for each year was not necessary.
[5]The consumer loan sample includes only two loans originated in 2016. Household income demographics changed very little from 2016 to 2017. Therefore, examiners included these two loans in the analysis of the 2017 loans, relative to 2017 demographics.

TABLE 4 Distribution of Consumer Loans in Assessment Area by Borrower Income Levels*								
Income Level of Borrower	***Low Income***		***Moderate income***		***Middle Income***		***Upper Income***	
Loan Type	***#***	***$***	***#***	***$***	***#***	***$***	***#***	***$***
Consumer	53.2%	35.3%	17.0%	14.1%	17.0%	16.3%	12.8%	34.3%
Percentage of Households by Income Levels**	28.9%		16.0%		19.0%		36.1%	
*Median family income for the nonmetropolitan areas of North Dakota is $78,800 for 2017 and $73,500 for 2016. **Based on 2017 adjusted FFIEC census data.								

The bank provides small-dollar consumer loans, which help serve the credit needs of low- and moderate-income borrowers. According to management, these loans are typically used for personal expenses. Of the loans in the sample, 19.1% were for amounts of $3,000 or less. Of these small-dollar consumer loans, 88.9% were to low- and moderate-income borrowers. The bank does not require a minimum loan amount. Management offers a wide variety of closed- and open-end consumer loan products designed to meet the credit needs of consumers in a market where there is strong competition.

Overall, the bank's lending to farms of different sizes and borrowers of different income levels is reasonable.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution and dispersion of the bank's small farm and consumer loans in the assessment area is reasonable and does not reveal any unexplained gaps in lending. According to 2017 FFIEC census data, the assessment area includes one moderate-income census tract and six middle-income tracts. According to 2016 FFIEC census data,[6] the assessment area included two moderate-income census tracts and five middle-income tracts.

The Edgeley main office and the Kulm branch are both located in middle-income census tract 9722.00 in LaMoure County.

Small Farm Lending. The geographic distribution and dispersion of small farm loans is reasonable. The bank did not originate any small farm loans in the moderate-income tract(s) in 2016 and 2017. The lack of any loans in the moderate-income census tract(s) is explainable.

According to demographic data, only 2.3% of the assessment area farms were in the moderate-income census tract in 2017. The tract mainly includes Ellendale and the area surrounding it. This area is located in the southern section of Dickey County, approximately 30 miles from the Edgeley and Kulm offices. The June 30, 2017, FDIC Deposit Market Share Report shows that three significantly larger financial institutions operate in Dickey County; each has a branch in Ellendale, as does a loan agency that specializes in agricultural loans. In addition, management and community contacts stated that credit unions are very active in the assessment area and originate agricultural loans for farmers. Management and a community contact described the competition for loans, especially agricultural loans, as intense. The bank's lack of small farm loans in this tract is reasonable, given these factors. Although the bank did not make any small farm loans in the moderate-income tract in 2017, it did originate loans near the tract and in the other Dickey County tract that is part of the assessment area.

[6] As previously mentioned, the small farm and consumer loan samples include loans from December 2016 (only one small farm loan and two consumer loans).

In 2016, the assessment area included two moderate-income census tracts: the same Dickey County tract discussed above and the census tract that is McIntosh County. According to demographic data, 17.3% of assessment area farms were in these two tracts. The sample period included only one month in 2016 (December), and the small farm loan sample included only one loan originated in that month (which was extended in a middle-income tract). Further analysis relative to 2016 demographics is not meaningful, given the small sample size.

Consumer Lending. The geographic distribution and dispersion of consumer loans throughout the assessment area is reasonable. The bank did not originate any consumer loans in the moderate-income census tract(s) in 2016 and 2017, which is similar to the previous evaluation.

Demographic data shows that only 9.8% of the households in the assessment area are located in the moderate-income tract in 2017. As mentioned, the Ellendale area is approximately 30 miles from the bank's offices, and larger financial institutions and a credit union operate offices there. Given the financial services available from other, larger banks with branches in Ellendale, it is likely more convenient for consumers to conduct business there, rather than travel to Edgeley or Kulm. The bank's lack of consumer loans in that tract is reasonable, given these factors. Further analysis of the consumer loan dispersion shows the bank originated consumer loans in the other Dickey County tract in the assessment area, including loans near the moderate-income census tract. Finally, the dispersion shows a higher level of consumer loans in middle-income tracts, closer to the bank's offices, which is expected (84.4% of the 2017 consumer loans are in LaMoure County).

As stated, in 2016 the assessment area included two moderate-income census tracts; one in Dickey County and one that is McIntosh County. The consumer loan sample included only two loans originated in December 2016 (both loans were extended in middle-income tracts). Further analysis relative to 2016 demographics is not meaningful, given the small sample size.

Overall, the distribution and dispersion of small farm and consumer loans in the assessment area is reasonable.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio is reasonable, given the bank's size, financial condition, and the assessment area's credit needs.

As of December 31, 2017, the bank's net loan-to-deposit ratio was 80.1%, which is above the peer group net loan-to-deposit ratio of 68.0%. The bank's peer group includes insured commercial banks with assets between $50 million and $100 million, with two or fewer full-service banking offices and not located in a metropolitan statistical area.

Table 5 shows the 16-quarter average net loan-to-deposit ratios for the bank and two other similarly sized institutions operating in the bank's assessment area.

TABLE 5 16-Quarter Average Net Loan-to-Deposit Ratios		
Bank Name and Location	***Assets as of December 31, 2017 (in thousands)***	***Average Net Loan-to-Deposit Ratio***
Heartland State Bank, Edgeley, North Dakota	$59,631	74.2%
Security State Bank, Wishek, North Dakota	$74,689	44.6%
Stock Growers Bank, Napoleon, North Dakota	$71,789	57.2%

The bank's average net loan-to-deposit ratio for the past 16 quarters is 74.2%. At the previous evaluation, the bank's 17-quarter average net loan-to-deposit ratio was 69.1%. Since then, the bank's quarterly net loan-to-deposit ratio has ranged from 57.0% to 84.9%. Bank management indicated that the quarterly fluctuation is due to the seasonality of the area's agricultural business. Management stated that the loan-to-deposit ratio is usually at its annual low at the end of the first quarter due to farmers paying off operating lines. Management attributes the gradual increase throughout the evaluation period to reduced farm revenues, resulting in farmers needing to draw on their operating lines of credit to finance their operations. As noted, management stated that the bank faces significant competition for loans from other banks and credit unions. In addition, a community contact did not know of any unmet credit needs in the assessment area.

Overall, the bank's net loan-to-deposit ratio is reasonable based on the bank's asset size, financial condition, and lending activity. The bank's net loan-to-deposit ratio demonstrated the bank's willingness to meet the credit needs of farmers and consumers in its assessment area.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank originated a majority of its loans to borrowers within the assessment area, specifically 87.3% by number and 91.4% by dollar amount. Table 6 shows the bank's lending inside and outside its assessment area by loan type.

TABLE 6 Distribution of Loans Inside and Outside the Assessment Area								
	Inside				***Outside***			
Loan Type	***#***	***%***	***$(000s)***	***%***	***#***	***%***	***$(000s)***	***%***
Small Farm	77	89.5	10,071	92.7	9	10.5	788	7.3
Consumer	47	83.9	631	73.8	9	16.1	224	26.2
Total	**124**	**87.3**	**10,702**	**91.4**	**18**	**12.7**	**1,012**	**8.6**

Bank management indicated that small farm and consumer loans originated outside the assessment area are typically to customers in the surrounding counties or to individuals who maintain banking relationships with the bank but have moved outside the assessment area. The higher percentage of consumer loan dollars extended outside the assessment area reflects the individuals who previously resided in the bank's assessment area but moved to nearby cities, such as Jamestown or Fargo, North Dakota. More specifically, the majority of the consumer loan dollars originated outside the assessment area were extended in neighboring counties. Finally, although the percentage of consumer loan dollars extended outside the assessment area appears high, several loans are for larger amounts (three loans make up almost 70% of these loan dollars).

Overall, the bank made a majority of its small farm and consumer loans, by number and dollar amount, inside the assessment area. The bank's lending shows its commitment to meeting credit needs within its assessment area.

RECORD OF RESPONSE TO CRA-RELATED COMPLAINTS

Neither the bank nor the Federal Reserve Bank of Minneapolis has received any CRA-related complaints concerning the bank since the previous evaluation.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The examination did not reveal any evidence of violations of antidiscrimination laws or regulations (including Regulation B – Equal Credit Opportunity Act, and the Fair Housing Act) or other illegal credit practices inconsistent with the bank helping to meet community credit needs.

Appendix A

Glossary of Common CRA Terms

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 statistical area/assessment area.

Census tract: A small subdivision of metropolitan and other densely populated counties. Boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending on population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: An activity associated with one of the following five descriptions: (1) affordable housing (including multifamily rental housing) for low- or moderate-income individuals; (2) community services targeted to low- or moderate-income individuals; (3) activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration’s Development Company or Small Business Investment Company programs (13 C.F.R. 121.301) or have gross annual revenues of $1 million or less; (4) activities that revitalize or stabilize low- or moderate-income census tracts, designated disaster areas, or distressed or underserved nonmetropolitan middle-income census tracts; or (5) Neighborhood Stabilization Program (NSP)-eligible activities in areas with HUD-approved NSP plans, which are conducted within two years after the date when NSP program funds are required to be spent and benefit low-, moderate-, and middle-income individuals and census tracts.

Consumer loan: A loan to one or more individuals for household, family, or other personal expenditures. It 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.

Distressed nonmetropolitan middle-income census tract: A middle-income, nonmetropolitan census tract 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 20.0% or more, or (3) a population loss of 10.0% or more between the previous and most recent decennial census or a net migration loss of 5.0% 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 nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which 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).

Full-scope review: Performance is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., 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 data such as the race, gender, and income of applicants; the amount of loan requested; and the disposition of the application (i.e., approved, denied, or withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments).

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 statistical area/assessment area.

Metropolitan statistical area (MSA): An area, defined by the Office of Management and Budget, based on the concept of a core area with at least one urbanized area that has a population of at least 50,000. The MSA comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county 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 percent 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 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

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 qualified investment is defined as any 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 MSA. 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 MSA, the institution will receive a rating for the multistate metropolitan area.

Small loan to business: A loan included in "loans to small businesses" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of $1 million or less and typically are either secured by nonfarm or nonresidential real estate or classified as commercial and industrial loans.

Small loan to farm: 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 or classified as loans to finance agricultural production and other loans to farmers.

Underserved middle-income census tract: A middle-income, nonmetropolitan census tract will be designated as underserved if it meets criteria for population size, density, and dispersion that indicate 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 more than 120 percent of the area median income or a median family income that is more than 120 percent, in the case of geography.

(For additional information, please see the Definitions sections of Regulation BB at 12 C.F.R. 228.12.)