

## **PUBLIC DISCLOSURE**

April 11, 2011

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Security Bank Minnesota  
437 Bridge Avenue  
P.O. Box 891  
Albert Lea, Minnesota 56007  
RSSD 295057

**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.

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*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 following factors support Security Bank Minnesota's satisfactory Community Reinvestment Act (CRA) rating.

- The bank's lending to borrowers of different income levels and to businesses of different sizes is very good.
- The bank originated the majority of its loans within its assessment area.
- The bank's net loan-to-deposit ratio is reasonable given the bank's asset size and the credit needs in the assessment area.
- The geographic distribution of the bank's loan originations is reasonable.

### SCOPE OF EVALUATION

The bank's CRA performance was evaluated using the Small Bank CRA Evaluation Procedures. This evaluation is based on the bank's consumer and small business loan activity. These loan products represent the major product lines by number of loans and dollar amount of loans originated by the bank. Table 1 shows the bank's recent lending activity.

<i>Loan Type</i>	<i>Total Number of Loans</i>	<i>%</i>	<i>Total Dollar Amount of Loans</i>	<i>%</i>
Consumer	528	79.6	5,343,049	28.2
Small Business	96	14.5	9,920,257	52.4
Small Farm	24	3.6	2,213,427	11.7
Residential Real Estate	15	2.3	1,453,050	7.7
<b>Total</b>	<b>663</b>	<b>100.0</b>	<b>18,929,783</b>	<b>100.0</b>

The analysis is based on a statistical sample of 113 consumer and 40 small business loans originated between July 1, 2010, and December 31, 2010.

### DESCRIPTION OF INSTITUTION

The bank is able to effectively meet the community credit needs in its assessment area given its office locations, size, and products. The bank received a satisfactory rating at the conclusion of its previous CRA performance evaluation conducted January 8, 2007.

*Office.* Security Bank Minnesota is a full-service bank with its main office located in Albert Lea, Minnesota, and a branch office located in Emmons, Minnesota. The main office lobby hours are 8:00 a.m. to 5:00 p.m. Monday through Friday. The separate drive-up/walk-up facilities hours at the main office are 7:30 a.m. to 5:00 p.m. Monday through Thursday, 7:30 a.m. to 6:00 p.m. Friday, and 8:00 a.m. to noon Saturday. The Emmons branch lobby hours are 8:30 a.m. to 4:00 p.m. Monday through Thursday and 8:30 a.m. to 6:00 p.m. Friday.

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

The bank operates four automated teller machines (ATM). Two deposit-taking ATMs are in Albert Lea; one is located within the main office and the other at the separate drive-up/walk-up facility. The bank operates two cash-dispensing ATMs: one at the Northbridge Mall in Albert Lea and the other at the branch office in Emmons.

*Loan portfolio.* The bank's size does not restrict its ability to fulfill the credit needs of small farms and consumers in the assessment area. According to the December 31, 2010, Report of Condition (ROC), the bank's assets totaled \$87.9 million, with a loan portfolio of \$58.5 million. The bank's asset size increased 26.1% since the previous evaluation. The ROC data shows the composition of the bank's loan portfolio is 67.5% commercial, 20.7% consumer, 8.5% residential real estate, and 3.3% agricultural loans. Since the previous evaluation, the overall loan portfolio increased by 12.8%. By loan type, the largest increase was in agricultural loans, which nearly doubled; however, this represents a relatively minimal dollar increase from \$985,000 to \$1,935,000. The residential real estate, consumer, and commercial portfolios increased by 23.2%, 15.9%, and 8.6%, respectively.

*Credit products.* The bank is primarily a commercial lender but continues to offer a variety of loan products to serve the needs of residents, small businesses, and small farms in its assessment area. These products include commercial, consumer, residential real estate, and agricultural loans. In addition to conventional loan products, the bank offers federally guaranteed loans through the U.S. Department of Agriculture Rural Development and Small Business Administration loan programs. The bank also offers residential real estate loans sold to secondary market investors. The evaluation did not identify any unmet credit needs in the assessment area.

*Community contacts.* In addition to discussions with bank management, members of the community familiar with economic issues in the assessment area were contacted. Information from these contacts and bank management was used in the evaluation of the bank's CRA performance.

## **DESCRIPTION OF ASSESSMENT AREA**

*Assessment area.* Albert Lea is located approximately 15 miles north of the Minnesota/Iowa border in Freeborn County and approximately 65 miles southwest of Rochester, Minnesota. The bank has one assessment area consisting of census tracts in southern Minnesota and northern Iowa and has not made any changes to its assessment area since the previous evaluation. In Minnesota, the assessment area includes all of Freeborn and Mower counties and portions of Faribault, Dodge, Steele, and Waseca counties. Dodge County is part of the Rochester, Minnesota, metropolitan statistical area (MSA). In Iowa, the assessment area includes all of Winnebago and Worth counties. The assessment area consists of two moderate-, 28 middle-, and four upper-income census tracts. One of the moderate-income census tracts is located in Albert Lea, Minnesota, and the other in Austin, Minnesota. Since the previous evaluation, two census tracts were reclassified from middle income to upper income. None of the middle-income census tracts are classified as distressed or underserved.

According to the June 30, 2010, Federal Deposit Insurance Corporation (FDIC) Summary of Deposits, Security Bank Minnesota had total deposits of approximately \$67.6 million, which represents 12.6% of deposits in Freeborn County. The bank ranks third among the 11 FDIC-insured financial institutions with offices in Freeborn County.

Table 2 illustrates the demographic characteristics of the assessment area based on data from the 2000 U.S. Census and 2010 Dun & Bradstreet business and farm information.

**TABLE 2**  
**Assessment Area Demographics**

<i>Income Categories</i>	<i>Tract Distribution</i>		<i>Families by Tract Income</i>		<i>Families &lt; Poverty Level as % of Families by Tract</i>		<i>Families by Family Income</i>	
	#	%	#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	4,977	16.2
Moderate Income	2	5.9	1,734	5.7	209	12.1	6,018	19.6
Middle Income	28	82.4	25,207	82.2	1,343	5.3	8,210	26.8
Upper Income	4	11.8	3,742	12.2	191	5.1	11,478	37.4
<b>Total Assessment Area</b>	<b>34</b>	<b>100.0</b>	<b>30,683</b>	<b>100.0</b>	<b>1,743</b>	<b>5.7</b>	<b>30,683</b>	<b>100.0</b>
<i>Income Categories</i>	<i>Housing Units by Tract</i>	<i>Housing Types by Tract</i>						
		<i>Owner-Occupied</i>			<i>Rental</i>		<i>Vacant</i>	
		#	%	%	#	%	#	%
Low Income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate Income	3,537	1,815	5.1	51.3	1,573	44.5	149	4.2
Middle Income	38,542	29,616	82.9	76.8	6,949	18.0	1,977	5.1
Upper Income	5,297	4,291	12.0	81.0	719	13.6	287	5.4
<b>Total Assessment Area</b>	<b>47,376</b>	<b>35,722</b>	<b>100.0</b>	<b>75.4</b>	<b>9,241</b>	<b>19.5</b>	<b>2,413</b>	<b>5.1</b>
<i>Income Categories</i>	<i>Total Businesses by Tract</i>		<i>Businesses by Tract and Revenue Size</i>					
			<i>≤ \$1 Million</i>		<i>&gt; \$1 Million</i>		<i>Revenue Not Reported</i>	
	#	%	#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	434	7.4	385	7.3	28	9.2	21	8.4
Middle Income	4,892	84.0	4,417	83.8	257	84.0	218	87.2
Upper Income	500	8.6	468	8.9	21	6.9	11	4.4
<b>Total Assessment Area</b>	<b>5,826</b>	<b>100.0</b>	<b>5,270</b>	<b>100.0</b>	<b>306</b>	<b>100.0</b>	<b>250</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>				<b>90.5</b>		<b>5.3</b>		<b>4.3</b>
<i>Income Categories</i>	<i>Total Farms by Tract</i>		<i>Farms by Tract and Revenue Size</i>					
			<i>≤ \$1 Million</i>		<i>&gt; \$1 Million</i>		<i>Revenue Not Reported</i>	
	#	%	#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	4	0.2	3	0.2	1	12.5	0	0.0
Middle Income	1,673	92.0	1,667	92.1	6	75.0	0	0.0
Upper Income	141	7.8	140	7.7	1	12.5	0	0.0
<b>Total Assessment Area</b>	<b>1,818</b>	<b>100.0</b>	<b>1,810</b>	<b>100.0</b>	<b>8</b>	<b>100.0</b>	<b>0</b>	<b>0.0</b>
<b>Percentage of Total Farms:</b>				<b>99.6</b>		<b>0.4</b>		<b>0.0</b>

*Population.* According to the U.S. Census data, the population of the assessment area in 2000 was 111,672. The data also shows the population of Albert Lea was 18,356 and Emmons was 432. Additionally, the 2000 population of Freeborn County, where the bank's main office is located, was 32,584. The 2009 population estimates indicate a general decline in population in Albert Lea and Freeborn County. Specifically, the population of Albert Lea decreased by 5.2%, to 17,401. In Freeborn County, as a whole, the population decreased by 4.9%, to 31,002.

The most populous county in the bank's assessment area is Mower County, whose population was 38,603 in 2000. Austin, located in Mower County, is the most populous city in the bank's assessment area, with

a population of 23,314 in 2000. The 2009 estimates indicate Mower, Faribault, and Waseca counties in Minnesota and Winnebago and Worth counties in Iowa also experienced population declines. Conversely, the 2009 population estimates for Steele and Dodge counties in Minnesota show an increase of 9.2% and 11.5%, respectively.

*Income.* For purposes of classifying borrower income, this evaluation uses the Department of Housing and Urban Development's estimated 2010 median family income for the relevant area. For nonmetropolitan areas of Minnesota, the figure is \$58,700, and for nonmetropolitan areas of Iowa, the figure is \$57,000. For the Rochester MSA, the figure is \$77,600.

For purposes of classifying census tracts, this evaluation uses the median family income from the 2000 census for the relevant area. For nonmetropolitan areas of Minnesota and Iowa, the figures are \$45,608 and \$43,887, respectively. The figure for the Rochester MSA is \$59,198.

*General economic conditions.* According to bank management and community contacts, the local economy is generally stable. The primary industry in the surrounding area is agriculture and related industries. Bank management indicated the health of the agricultural industry has been fairly stable in recent years. The main crops are corn and soybeans. A community contact stated that corn yields for 2010 were above average and prices were the highest in the nation. Ethanol production in Freeborn County also contributes to strong crop prices. Despite strong prices for commodities, input and land costs continue to rise.

Local landowners are also benefiting from the construction and operation of the Bent Tree Wind Farm, near Albert Lea, Minnesota. Wisconsin Power and Light Company, Madison, Wisconsin, owns and operates the wind farm, which has 122 wind turbines spread out across approximately 32,500 acres. Turbine operations began in early 2011. Landowners are compensated through leases of land for each turbine. The wind farm will pay more than \$1 million annually in taxes to Freeborn County.

Nonagricultural employers are mainly located in the population centers throughout the assessment area, namely, Albert Lea and Austin. The main employers in Albert Lea include the school district, the medical center, a meat processing company, a salad manufacturer, and retail and small businesses. In Austin, the main employers include Hormel Foods Corporation (headquartered in Austin), the medical center, a meat processing company, local government, and the school district.

According to bank management and a community contact, average household incomes for the area range between \$40,000 and \$50,000. The 2009 average annual wage was \$31,706 in Freeborn County and \$35,805 in Mower County according to the Bureau of Labor Statistics (BLS) wage census data. BLS data also shows that throughout the counties in the bank's assessment area, Faribault County, Minnesota, had the highest annual average wage in 2009, at \$50,742, while Worth County, Iowa, had the lowest, at \$28,856. A community contact also indicated the unemployment rate in Freeborn County remains high. Another community contact indicated the unemployment rate in Mower County is below the rates in surrounding counties. A contact stated that Hormel Foods Corporation and the Hormel Foundation (also located in Austin) are economic drivers in the Austin area. BLS data shows the 2010 average unemployment rates, not seasonally adjusted, for Freeborn and Faribault counties were 7.8% and 7.9%, respectively. The 2010 average unemployment rate in Mower County was 5.9%. The average rates in the other counties in the bank's assessment area ranged from 6.9% to 7.7%.

According to bank management, the population in Freeborn County is aging, and younger people often leave the area for career opportunities in larger metropolitan areas in neighboring counties. A community contact stated the population is younger, schools are nearing capacity, and the birth rate is high in Mower

County. In addition, minority populations have increased significantly in Mower County. Also in Mower County, numerous employment opportunities in food production and related industries attract younger families who want to raise families in a stable and more affordable community, outside of larger metropolitan areas.

*Housing.* According to a community contact, the demand for affordable housing has increased in recent years in Freeborn County. The contact stated that the average home sales price is \$83,000 in Albert Lea, while average monthly rents for one- and three-bedroom apartments are \$461 and \$710, respectively. The contact also indicated that the demand for midrange housing priced between \$130,000 and \$170,000 is greater than supply. According to [www.city-data.com](http://www.city-data.com), the 2009 estimated median house value in Freeborn County was \$133,035 and the 2009 mean price for a detached house was \$164,102. Bank management indicated vacancy rates are high and rentals are not in the best condition. A community contact stated that affordable homes in Freeborn County are available, but the physical condition of some of the houses does not meet lending standards.

In the surrounding counties, housing values and sale prices vary. According to a recent county needs assessment, the median home value in Mower County is \$107,900, significantly lower than the statewide value of \$212,200. Additionally, the median rent in Mower County is lower than that of the state. A contact also stated that local housing market conditions in Mower County are not strong; however, the housing market did not experience the extreme swings seen in larger metropolitan areas. Mower County boasts a very active affordable housing agency. In Faribault County, the 2009 mean price for a detached home was \$126,857. Throughout the other counties in the assessment area, the mean detached home prices ranged from a low of \$111,634 to a high of \$216,694.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank's performance in meeting the credit needs of its assessment area is satisfactory. To determine the bank's CRA rating, examiners analyzed the following criteria:

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

In assigning the rating, examiners placed the greatest weight on the bank's lending to borrowers of different income levels and to businesses of different sizes. The remaining criteria were weighted equally. For the loan products, consumer and small business lending were weighted equally.

### **LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES**

The bank's lending to borrowers of different income levels and to businesses of different sizes is very good.

*Consumer lending.* The bank's lending to low- and moderate-income borrowers is excellent. Table 3 reflects the percentages of consumer loans made to borrowers of different income levels.

**TABLE 3**  
**Distribution of Consumer Loans in the Assessment Area by Borrower Income Levels\***

	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>		<i>Unknown Income</i>	
	#	\$	#	\$	#	\$	#	\$	#	\$
Consumer	38.5%	25.3%	25.3%	29.5%	17.6%	18.9%	13.2%	16.1%	5.5%	10.2%
Percentage of Households by Income Levels**	21.2%		17.8%		21.5%		39.6%		NA	
*The 2010 median family incomes for Minnesota and Iowa nonmetropolitan areas are \$58,700 and \$57,000, respectively. The 2010 median family income for the Rochester MSA is \$77,600.										
**Based on 2000 census data.										

The bank originated 63.7% of its consumer loans to low- and moderate-income borrowers, exceeding the percentage of low- and moderate-income households in the assessment area. As indicated, 38.5% of consumer loans were made to low-income borrowers, representing 25.3% of consumer loan dollars. Additionally, 25.3% of consumer loans were made to moderate-income borrowers, representing 29.5% of the consumer loan dollars. These percentages of lending compare favorably to demographics for low- and moderate-income households (21.2% and 17.8%, respectively) in the assessment area. Loan size can also be an indicator of a bank's willingness to meet assessment area credit needs. Small-dollar consumer loans are generally used to fund borrower living expenses. The bank originated 25.3% of the consumer loans within the assessment area for amounts of \$3,500 or less. Of these loans, 69.6% were made to low- and moderate-income borrowers. The bank's lending to low- and moderate-income borrowers is excellent and shows its willingness to serve its customer base.

*Small business lending.* The bank's lending to small businesses in its assessment area is reasonable. Table 4 shows the percentage of loans made to businesses of different sizes.

**TABLE 4**  
**Small Business Lending in the Assessment Area**

<i>Small Business Originations</i>	$\leq \$100,000$	$> \$100,000$ to $\leq \$250,000$	$> \$250,000$ to $< \$500,000$	<i>Total Originations</i>
Percentage of Small Business Loans	71.4%	10.7%	17.9%	100.0%
Percentage of Loans to Businesses with Revenues Less Than or Equal to \$1 Million	94.4%	5.6%	0.0%	64.3%

The bank extended a majority, 64.3%, of the small business loans in the sample to businesses with gross annual revenues of less than or equal to \$1 million. Additionally, the bank extended a high majority (94.4%) of its small business loans in amounts less than or equal to \$100,000. According to 2010 Dun & Bradstreet data, 90.5% of businesses in the assessment area reported revenues of \$1 million or less. Although the bank's level of lending is below demographics, it is reasonable given the following factors. Bank management estimated that its existing commercial customer base is likely composed of approximately 50% with revenues less than or equal to \$1 million and 50.0% with revenues above \$1 million. Bank management stated that most of the bank's business customers with gross annual revenues above \$1 million are actually only slightly above that threshold. In addition, the bank operates in a competitive environment, which includes large national financial institutions offering small business loans.

Overall, the bank's lending to individuals of different income levels and to businesses of different sizes is satisfactory. A majority of consumer loans were originated to low- and moderate-income borrowers, and a majority of the small business loans were to businesses with revenues of \$1 million or less.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank extended the majority of its loans within the assessment area. Table 5 shows the percentages of loans the bank extended inside and outside the assessment area for each category by total number and dollar amount.

<i>Loan Category</i>	<i>Inside</i>				<i>Outside</i>			
	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>
Consumer	91	80.5	919	75.5	22	19.5	299	24.5
Small Business	28	70.0	3,545	75.2	12	30.0	1,172	24.8
Total	119	77.8	4,465	75.2	34	22.2	1,471	24.8

Overall, the bank originated a majority of loans by volume and dollars within its assessment area. By product, the level of consumer loans made in the assessment area is slightly lower than the previous evaluation but good. At the previous evaluation, 88.8% of the consumer loans by volume and 84.8% by dollar were extended to borrowers inside the assessment area. The bank builds relationships with consumers inside and outside its assessment area. For consumer loans, these relationships are often directly related to automobile lending to borrowers who reside outside of the assessment area but must travel to local cities within the assessment area to purchase vehicles. For small business loans, the loans made outside the assessment area were mainly originated to business customers who have long-standing relationships with the bank.

The bank is actively lending inside its assessment area.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio is reasonable given the bank's asset size and financial condition and the credit needs of the assessment area. Table 6 shows the 17-quarter average net loan-to-deposit ratios for the bank and one other commercial bank with three offices located in the assessment area which was identified as a competitor. The bank differs in lending product focus from Security Bank Minnesota.

<i>Bank Name and Location</i>	<i>Assets as of December 31, 2010 (in millions)</i>	<i>Average Net Loan- to-Deposit Ratio</i>
Security Bank Minnesota, Albert Lea, Minnesota	\$87,957	92.3%
Farmers State Bank of Hartland, Hartland, Minnesota	\$90,555	97.7%

Since the previous evaluation, the bank's quarterly net loan-to-deposit ratio has ranged from 80.4% to 101.7%. According to the December 31, 2010, Uniform Bank Performance Report, the bank's net loan-to-deposit ratio of 80.4% exceeds that of its national peer group (70.4%). The national peer group consists of all insured commercial banks having assets between \$50 million and \$100 million with two or fewer full-service banking offices and not located in an MSA.

The bank's average net loan-to-deposit ratio is slightly higher than at the previous evaluation. Bank management stated commercial loan demand is often cyclical based on five-year maturity loans that make up a majority of the commercial portfolio. Loan demand dropped in 2009, not unlike national trends, but in 2010, loan demand increased and was more stable. Bank management stated that consumer loan demand did not grow significantly during the evaluation period. Given the overall national economic trends, consumers were more focused on saving rather than obtaining loans.

The bank is an active lender in a competitive market. In addition to the banks listed in Table 6, several credit unions, community banks, and branches of larger national banks operate in the assessment area. Given the bank's lending, asset size, and financial condition and assessment area needs, the bank's loan-to-deposit ratio is reasonable. In addition, community contacts did not identify any unmet credit needs in the assessment area. The factors discussed reflect an overall satisfactory responsiveness to the credit needs in the assessment area.

### GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of the bank's loans in the assessment area is reasonable and does not reveal any unexplained gaps in lending patterns. For this criterion, emphasis is placed on the bank's lending in low- and moderate-income census tracts. The bank's assessment area does not include any low-income tracts but does include two moderate-income tracts, one each in Albert Lea and Austin, Minnesota.

<i>Loan Type Sample</i>	<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>	
	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>
Consumer	9.9%	12.1%	86.8%	84.8%	3.3%	3.1%
Small Business	14.3%	19.5%	78.6%	79.1%	7.1%	1.4%
<b><i>Demographic Data</i></b>						
Number of Census Tracts	2		28		4	
Percentage of Census Tracts	5.9%		82.4%		11.8%	
Percentage of Households	7.6%		81.3%		11.2%	
Percentage of Small Businesses	7.4%		84.0%		8.6%	
*Income classification of census tracts based on 2000 median family income.						

*Consumer lending.* The bank's lending to consumers in moderate-income tracts is good and exceeds demographics. Specifically, the bank extended 9.9% of consumer loans in moderate-income tracts, which is higher than the percentage of households (7.6%) located in moderate-income census tracts. Analysis of the loan dispersion shows the bank did not extend any consumer loans in the moderate-income census tract located in Austin, Minnesota. This is reasonable given residents in Austin are more conveniently served by numerous financial institutions with offices located in Austin. The bank's consumer lending in middle- and upper-income census tracts is also reasonable.

*Small business lending.* The bank's lending to businesses in moderate-income tracts is good and exceeds demographics. The bank made 14.3% of its small business loans to businesses located in moderate-income tracts, which contain 7.4% of businesses. Similar to consumer loans, the bank did not extend any small business loans in the moderate-income census tract in Austin. As discussed, this is reasonable

given the numerous financial institutions located in Austin whose physical locations enable them to serve commercial borrowers more conveniently.

In addition to the lack of lending in the moderate-income census tract in Austin, the bank did not originate loans in certain other census tracts in the assessment area. Additionally, in some of the census tracts where the bank originated loans, the bank did not originate both consumer and small business loans in those tracts. The bank's distribution and dispersion of loans are reasonable given the competitive banking environment and size of the assessment area.

Overall, the bank's geographic distribution of loans throughout the assessment area is satisfactory and does not reflect any unexplained gaps.

#### RECORD OF RESPONSE TO CRA-RELATED COMPLAINTS

The bank has not received any CRA-related complaints since the previous evaluation.

#### **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

No 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 was revealed.

## 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:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; 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; or activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation (the Agencies) have adopted the following additional language as part of the revitalize or stabilize definition of community development.

Activities that revitalize or stabilize:

- (i) Low- or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Agencies based on:
  - a. Rates of poverty, unemployment, and population loss or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help meet essential community needs, including the needs of low- and moderate-income individuals.

**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.

**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 (e.g., approved, denied, and 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 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 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.

**Small loan to business:** 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 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.

**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.)