

PUBLIC DISCLOSURE

June 20, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The State Bank of Townsend
400 Broadway
Townsend, Montana 59644
RSSD 566953

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 “Outstanding.”

The CRA performance of The State Bank of Townsend is outstanding. Based on its size and financial condition, the bank effectively meets the credit needs of the residents and farms in the assessment area. The bank received an outstanding rating at its previous CRA performance evaluation, conducted April 3, 2006. This CRA rating is based on the following factors:

- The bank originated the majority of its residential real estate and consumer loans to low- and moderate-income borrowers and the majority of its small farm loans to entities with gross annual revenues of \$1 million or less.
- The geographic distribution of loans is satisfactory and reflects assessment area characteristics.
- The net loan-to-deposit ratio reflects a reasonable level of lending.
- The bank originated the majority of its loans within the assessment area.
- The bank’s high level of qualified community development loans, qualified investments, including donations, and community development services further demonstrate its lending commitment to the assessment area. The bank’s community development activities demonstrate its commitment to assisting low- and moderate-income residents and small farms in the assessment area.

SCOPE OF EVALUATION

This evaluation is based on the bank’s small farm, residential real estate, and consumer lending activity. These loan products represent the major product lines, either by number of loans or dollar amount of loans originated by the bank.

Table 1 illustrates the bank’s 2010 lending activity. Table 2 shows the bank’s loan origination activity from March 1, 2009, to December 31, 2009. We reviewed 2009 loan data in addition to 2010 loan data to identify the major loan categories in order to evaluate the bank’s performance.

<i>Loan Type</i>	<i>Number of Loans</i>	<i>Percentage of Total Number</i>	<i>Total Loan Dollars</i>	<i>Percentage of Total Dollars</i>
Raw land	1	0.4	\$ 29,600	0.2
Consumer	99	40.4	684,958	4.7
Home equity line of credit	4	1.6	188,000	1.3
Letters of credit	3	1.2	7,900	0.1
Residential real estate	58	23.7	8,149,869	56.1
Small business (≤ \$1 million)	36	14.7	822,217	5.7
Small farm (≤ \$500,000)	41	16.7	2,386,036	16.4
Agriculture (> \$500,000)	3	1.2	2,253,000	15.5
Total	245	100.0	\$14,521,580	100.0

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

<i>Loan Type</i>	<i>Number of Loans</i>	<i>Percentage of Total Number</i>	<i>Total Loan Dollars</i>	<i>Percentage of Total Dollars</i>
Consumer	101	38.4	\$ 875,119	4.3
Home equity line of credit	8	3.0	219,618	1.1
Residential real estate	63	24.0	8,681,999	42.2
Small business (≤ \$1 million)	37	14.1	1,526,266	7.4
Small farm (≤ \$500,000)	48	18.3	5,718,753	27.8
Agriculture (> \$500,000)	5	1.9	3,375,000	16.4
Tax Exempt	1	0.4	160,000	0.8
Total	263	100.0	\$20,556,755	100.0

The analysis that follows is based on a statistical sample of 45 residential real estate and 67 consumer loans originated in 2010 and on 48 small farm loans originated from July 1, 2009, to December 31, 2010. The bank is located in a nonmetropolitan area and does not report Home Mortgage Disclosure Act data. The bank's small farm, residential real estate, and consumer loan origination activity received the greatest weight because these categories represent the largest segments of loan activity by volume or total dollar amount.

To determine the bank's CRA rating, examiners analyzed the following criteria, in order of importance:

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

In assigning the rating, examiners placed the greatest weight on the bank's level of lending to borrowers of different income levels and to farms of different sizes.

In accordance with the Small Bank CRA Evaluation Procedures, examiners reviewed the bank's community development lending, investments, and services. The bank's outstanding level of community development activities enhances the overall CRA rating.

DESCRIPTION OF INSTITUTION

Offices. The State Bank of Townsend is a full-service bank with one office located in Townsend, Montana. Table 3 shows the bank's lobby and drive-up hours. The bank currently operates one cash-dispensing automated teller machine located in the vestibule of the bank. The bank has not opened or closed any offices since the previous evaluation.

<i>Bank Lobby Hours</i>	<i>Drive-Up Hours</i>
Monday-Thursday 9:00 a.m. to 4:00 p.m. Friday 9:00 a.m. to 4:30 p.m.	Monday-Thursday 8:30 a.m. to 5:00 p.m. Friday 8:30 a.m. to 5:30 p.m.

Loan portfolio. According to the March 31, 2011, Report of Condition, the bank's assets totaled \$46.8 million. The bank's portfolio consists of approximately 59.8% agricultural, 20.4% commercial, 14.5% residential real estate, 4.9% consumer, and 0.5% other loans. Agricultural loans continue to be the largest segment of the loan portfolio. Since the previous evaluation, the bank's loan portfolio increased by 29.8% and total assets by 25.1%. Increases in the bank's agricultural and residential real estate lending were the main sources of loan growth. This evaluation did not reveal any financial constraints on the bank's ability to lend within its assessment area.

Credit products. The bank offers a wide variety of loan products and programs designed to serve the credit needs of residents, businesses, and farms in the assessment area. Its products include closed-end consumer, open-end consumer, residential real estate, commercial, and agricultural loans. Since the previous evaluation, the bank expanded its suite of loan products and programs. It now originates loans to purchase or refinance homes as well as home equity lines of credit. The majority of home purchase and refinance loans are sold on the secondary market.

The bank actively participates in government-sponsored loan programs, including those offered by the Small Business Administration (SBA), Farm Service Agency (FSA), and Montana Board of Housing (MBOH). The bank also participates in federal residential real estate programs, including those offered through the Department of Veterans Affairs, Federal Housing Administration, and U.S. Department of Agriculture Rural Development. The MBOH program includes residential real estate loans for first-time homebuyers.

The bank has also made efforts to generate redevelopment in Townsend by offering reduced interest rate commercial loans. The redevelopment program was designed to improve the storefronts of local businesses, and the bank allocated substantial funds to originate loans for this project.

Deposit market share. According to the June 30, 2010, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, the bank ranks first among financial institutions reporting deposits in the assessment area. The bank's assessment area consists of Broadwater County, Montana. According to the FDIC data, two financial institutions serve the assessment area.

Community contacts. In addition to having discussions with bank management, examiners contacted members of the community familiar with economic issues and demographic characteristics of the assessment area. The bank's CRA performance was evaluated using information from these sources.

DESCRIPTION OF ASSESSMENT AREA

The bank has defined one assessment area, which consists of Broadwater County in central Montana. The assessment area is unchanged since the previous evaluation and consists of two census tracts. These census tracts are classified as middle income, and both have been designated as underserved since the previous evaluation.

The June 30, 2010, FDIC Deposit Market Share Report shows two financial institutions in the assessment area. With a 2010 population of 2,068, Townsend is the largest city in Broadwater County and serves as the county seat. Townsend also is a bedroom community for Helena, Montana, and to a lesser extent Bozeman, Montana. The community contacts indicated that the majority of residents conduct their banking with local banks, but because Townsend is close to larger cities, individuals commonly have relationships with several different banks.

Table 4 provides detailed data about the demographic characteristics of the bank's assessment area. Assessment area demographics are based on 2000 U.S. Census data and 2010 Dun & Bradstreet data.

<i>Income Categories</i>	<i>Tract Distribution</i>		<i>Families by Tract Income</i>		<i>Families < 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	202	15.8
Moderate Income	0	0.0	0	0.0	0	0.0	287	22.4
Middle Income	2	100.0	1,282	0.0	97	7.6	330	25.7
Upper Income	0	0.0	0	0.0	0	0.0	463	36.1
Total Assessment Area	2	100.0	1,282	100.0	97	7.6	1,282	100.0
<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	0	0	0.0	0.0	0	0.0	0	0.0
Middle Income	2,002	1,390	100.0	69.4	362	18.1	250	12.5
Upper Income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	2,002	1,390	100.0	69.4	362	18.1	250	12.5
<i>Income Categories</i>	<i>Total Businesses by Tract</i>	<i>Businesses by Tract and Revenue Size</i>						
		<i>≤ \$1 Million</i>		<i>> \$1 Million</i>		<i>Revenue Not Reported</i>		
		#	%	#	%	#	%	
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	0	0.0	0	0.0	0	0.0	0	0.0
Middle Income	315	100.0	293	100.0	11	100.0	11	100.0
Upper Income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	315	100.0	293	100.0	11	100.0	11	100.0
Percentage of Total Businesses:				93.0		3.5		3.5
<i>Income Categories</i>	<i>Total Farms by Tract</i>	<i>Farms by Tract and Revenue Size</i>						
		<i>≤ \$1 Million</i>		<i>> \$1 Million</i>		<i>Revenue Not Reported</i>		
		#	%	#	%	#	%	
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	0	0.0	0	0.0	0	0.0	0	0.0
Middle Income	82	100.0	80	100.0	1	100.0	1	100.0
Upper Income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	82	100.0	80	100.0	1	100.0	1	100.0
Percentage of Total Farms:				97.6		1.2		1.2

Population. According to 2000 census data, the population of the bank's assessment area was 4,385. According to 2010 census data, the population of the assessment area is now 5,612, which is a 28.0% increase. Contacts indicated the population should continue to increase at a relatively modest pace over the next few years due to Townsend's geographic location between Helena and Bozeman. Gallatin County, where Bozeman is located, has been the fastest growing county in Montana for the past few years.

Income. For purposes of classifying borrowers by income levels, this evaluation uses the Department of Housing and Urban Development (HUD) estimated median family income values. For borrowers in the nonmetropolitan areas of Montana, this figure is \$54,200 for 2010. For purposes of classifying census tracts by income levels, the HUD median family income for 2000 is used. This figure is \$39,050 for the nonmetropolitan areas of Montana. Refer to the glossary in Appendix A for definitions of CRA terms.

Economy. According to bank management and community contacts, the economy is stable and starting to improve. The economy in Broadwater County focuses on three main industries: farming, lumber, and government. The primary farming activity is raising dairy and beef cattle, with a few farms growing crops. The largest private employers in the assessment area are Wheat Montana Farms and Bakery; RY Timber, Inc.; Graymont Western U.S., Inc.; Broadwater Health Center; and the local supermarket. The economy depends largely on agriculture and health care. Townsend is the regional center for medical care in Broadwater County.

According to information provided by the Montana Department of Labor and Industry, the average 2010 unemployment rate for Broadwater County was 7.5%. Townsend residents primarily commute to work in Helena (about 35 miles) or Bozeman (about 65 miles). Due to government budget cuts and the sluggish economy, the state government has reduced its work force and companies have laid off individuals and are slow to rehire. Broadwater County does not have a sizable manufacturing base, so economic conditions in surrounding counties affect the local area.

The State Bank of Townsend and American Federal Savings Bank, Helena, Montana, primarily serve Broadwater County. However, their small financial size means that their legal lending limit is lower, which inhibits their ability to originate larger loans. Accordingly, individuals or businesses that need larger commercial or agricultural loans turn to financial institutions in Helena for financing.

According to community contacts, the greatest credit need in the assessment area is increased underwriting flexibility for small business loans. Contacts indicated that SBA-guaranteed loans could provide banks with underwriting flexibility to originate commercial loans that do not meet their underwriting standards.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs of its assessment area is outstanding. The bank's lending to low- and moderate-income borrowers and small farms is very good. In addition, the bank's net loan-to-deposit ratio is reasonable. The evaluation found that the bank originated the majority of sampled loans within its assessment area. The geographic distribution of lending is reasonable and reflects assessment area characteristics. Finally, the bank's record of making qualified community development loans, investments, and donations and providing community development services enhances credit availability in the assessment area.

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

Overall, the bank's lending to borrowers of different income levels and to small farms is very good. Table 5 shows the bank's residential real estate and consumer lending during the sample period.

<i>Loan Type</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
	#	\$	#	\$	#	\$	#	\$	#	\$
Residential real estate	3.7%	3.8%	37.0%	27.4%	37.0%	39.5%	22.2%	29.2%	0.0%	0.0%
Consumer	26.4%	26.1%	18.9%	24.6%	34.0%	25.6%	13.2%	15.9%	7.5%	7.8%
Percentage of Families in Assessment Area**	15.8%		22.4%		25.7%		36.1%		NA	
Percentage of Households in Assessment Area**	18.8%		17.4%		24.0%		39.8%		NA	
*Income level is based on the 2010 nonmetropolitan median family income for Montana of \$54,200.										
**Based on 2000 U.S. Census data.										

Residential real estate. The bank's lending to low- and moderate-income borrowers is good. The percentage of residential real estate loans originated to low-income borrowers (3.7%) is lower than the percentage of low-income families in the assessment area. However, the percentage originated to moderate-income borrowers (37.0%) exceeds the percentage of moderate-income families in the assessment area. According to community contacts, there is little new housing development in Townsend and Broadwater County.

According to community contacts, the supply of residential housing for purchase or rent within the assessment area is limited. The median home value for Broadwater County is \$141,000. Based on the median home value, low-income families would not qualify for mortgage financing. As an example, the maximum income level for individuals meeting the low-income threshold is \$27,100. In order to purchase a \$141,000 home and assuming a 5% down payment, the qualifying income is \$32,440 based on a 5.0% interest rate and 28% housing debt-to-income ratio. Thus, low-income borrowers would find it difficult to qualify for mortgage financing.

In May 2007, the bank began offering residential real estate loans, which it sells to a secondary market investor. The bank services the sold loans and maintains its customer relationships. Prior to May 2007, the bank referred mortgage applicants to competitor financial institutions. By introducing this new loan product, the bank was able to provide financial services to new customers and originate residential home loans to low- and moderate-income borrowers. As part of the bank's residential real estate efforts, it participates in the MBOH first-time homebuyer program. In addition, the bank originates federal and state government-guaranteed mortgage loans. Generally, government-guaranteed loan programs allow greater underwriting flexibility than conventional mortgage loan products.

Consumer. Table 5 shows the percentage of consumer loans made to borrowers of different income levels within the assessment area. The bank's lending to borrowers of different income levels is excellent.

The percentage of consumer loans made to low-income borrowers exceeds the percentage of low-income households in the assessment area. The bank originated 26.4% of its consumer loans to low-income borrowers, which compares favorably to the level of low-income households in the assessment area, 18.8%. In addition, the bank originated 18.9% of its consumer loans to moderate-income borrowers in the assessment area. Again, this compares favorably to the level of moderate-income households in the assessment area, 17.4%.

The bank's consumer lending to low- and moderate-income borrowers meets or exceeds the demographic characteristics of the assessment area. The bank's consumer lending reflects the bank's commitment to meeting the credit needs of low- and moderate-income individuals.

Overall, the bank's level of residential real estate and consumer lending to borrowers of different income is very good and demonstrates the bank's commitment to meeting the credit needs of residents in its assessment area.

TABLE 6				
Small Farm Loans				
<i>Small Farm Loans</i>	$\leq \$100,000$	$> \$100,000$ to $\leq \$250,000$	$> \$250,000$ to $\leq \$500,000$	<i>Total Originations</i>
2010 Percentage of Small Farm Loans	94.1%	5.9%	0.0%	100.0%
2009 Percentage of Small Farm Loans	50.0%	37.5%	12.5%	100.0%

Small farm. Table 6 shows the percentage of agricultural loans made to farms of different sizes. The bank's lending to small farms, as defined by CRA, in the assessment area is very good.

The bank originated 100.0% of its small farm loans to farms with revenues of \$1 million or less. This level exceeds the percentage of small farms in the assessment area. Dun & Bradstreet data indicates that 97.6% of the farms in the assessment area have gross annual revenues of \$1 million or less. In addition, the bank originated 94.1% of its small farm loans in amounts of \$100,000 or less in 2010 and 50.0% in 2009. The bank enhances its small farm lending by using FSA guarantees to originate loans for small farms that do not meet its underwriting criteria. Since the previous evaluation, the bank has originated 46 small farm loans with FSA guarantees.

The bank's lending to small farms is consistent with the demographic characteristics of the assessment area. The bank's lending to small farms is very good.

Overall, the bank's lending to individuals of different income levels and to farms of different sizes is very good. The bank's residential real estate lending to low- and moderate-income borrowers is good compared to the assessment area demographics. Its consumer lending to low- and moderate-income borrowers is excellent. The bank enhanced its lending activity by introducing residential real estate loan products in May 2007. In addition, the bank originated all of its small farm loans to farms with gross annual revenues of \$1 million or less. The bank demonstrates very good responsiveness in meeting the credit needs of individuals and small farms in the assessment area.

LOAN-TO-DEPOSIT RATIO ANALYSIS

Table 7 shows the 21-quarter net average loan-to-deposit ratios for the bank and local competitors in the assessment area.

<i>Bank</i>	<i>Total Assets as of March 31, 2011 (in thousands)</i>	<i>Average Net Loan-to-Deposit Ratio</i>
The State Bank of Townsend Townsend, Montana	\$ 46,787	73.2%
Manhattan Bank Manhattan, Montana	\$111,056	75.8%
First Security Bank of Helena Helena, Montana	\$ 42,797	91.4%

The bank is an active lender. The bank's net loan-to-deposit ratio is reasonable given its asset size, financial condition, and the credit needs of the assessment area. According to the March 31, 2011, Uniform Bank Performance Report (UBPR), the bank's net loan-to-deposit ratio is 70.0%. Since the previous evaluation, the bank's quarterly net loan-to-deposit ratio has ranged from 61.9% to 83.1%. Banks that have significant agricultural loan portfolios may experience fluctuations in the net loan-to-deposit ratio that reflect the seasonal nature of agricultural lending activity. The ratio increases at the beginning of the season and then decreases as farmers pay down loans after they sell crops or cattle during the season.

At the previous evaluation, the bank's quarterly net loan-to-deposit ratio was 69%. According to the March 31, 2011, UBPR, the net loan-to-deposit ratio for the bank's peer group is 58.4%. The bank's national peer group includes all insured commercial banks having assets of less than \$50 million with one full-service office located outside a metropolitan statistical area.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

Table 8 shows that the bank originated the majority of its loans within the assessment area.

<i>Loan Type</i>	<i>Inside</i>				<i>Outside</i>			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Small farm	25	52.1	1,540	35.3	23	47.9	2,820	64.7
Residential real estate	27	60.0	3,879	60.3	18	40.0	2,554	39.7
Consumer	53	79.1	370	70.6	14	20.9	154	29.4
Total	105	65.6	5,789	51.2	55	34.4	5,528	48.8

The bank originated the majority of its loans by volume within the assessment area. By loan amount, the bank originated the majority of its residential real estate and consumer loans within the assessment area. The bank's CRA officer stated that a number of nonlocal farm operations obtain their financing from the bank because of its agricultural lending reputation and its participation in the FSA-guaranteed loan programs. Overall, the bank originated the majority of small farm, residential real estate, and consumer loans within the assessment area. The percentage of loans originated within the assessment area is reasonable.

GEOGRAPHIC DISTRIBUTION OF LOANS

The bank's assessment area consists of middle-income geographies. The distribution of the bank's loans in the assessment area is reasonable and does not reveal any unexplained gaps in lending patterns. The bank actively lends in each census tract. As mentioned, both of the census tracts are classified as underserved. Several of the loans, investments, and services generated by the bank were designed to enhance the economic conditions in the assessment area. The community development section of this evaluation identifies those activities.

Bank management and the community contacts did not identify any significant concentrations of low- and/or moderate-income families in the assessment area, and thus, further analysis is not meaningful. The geographic distribution of the bank's loans is reasonable.

COMMUNITY DEVELOPMENT LOANS, INVESTMENTS, AND SERVICES

The bank's responsiveness to community development needs in the assessment area through community development activities is excellent. The bank originated several community development loans, continues to hold qualified investments, made donations, and provided community development services to various organizations in the assessment area. Overall, the bank's community development activities enhance its record of serving the credit needs of the community.

Loans. The bank's community development lending activity enhanced credit availability in the assessment area. The bank originated two community development loans totaling \$300,000 since the previous CRA evaluation. By comparison, the bank did not originate any community development loans at the previous evaluation. As mentioned, the assessment area consists of two underserved middle-income census tracts. The community development loans provide financing to entities that provide essential services to the assessment area. According to community contacts, opportunities to originate qualified community development loans in the assessment area are limited.

Investments. The bank's qualified investment activity in the assessment area is good. The bank continues to hold \$595,000 in bonds purchased during the previous evaluation period. These bonds funded street improvements in Townsend. According to information obtained from community contacts, Broadwater County and the city of Townsend have not issued any bonds since the previous evaluation. The level of qualified community development investments is similar to the level at the previous evaluation.

In addition, the bank made \$21,758 in qualified investments in the form of donations. The majority of donations were to nonprofit entities that provide community services to low- and moderate-income individuals or promote economic development activities in the assessment area.

Services. The bank continues to provide a high level of community development services. Eleven individuals, including bank directors, senior management, and staff, serve as board members or provide financial expertise to nine qualified community development organizations. The organizations primarily serve or assist low- and moderate-income individuals, provide economic development to small businesses and small farms, or promote affordable housing for low- and moderate-income individuals.

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 evaluation 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: 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.)