

PUBLIC DISCLOSURE

September 19, 2022

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Huron State Bank
RSSD# 753641

200 East Erie Street
Rogers City, Michigan 49779

Federal Reserve Bank of Chicago

230 South LaSalle Street
Chicago, Illinois 60604-1413

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

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BANK'S CRA RATING

Huron State Bank is rated Satisfactory.

Huron State Bank (HSB) is meeting the needs of its community consistent with its size, location, and the economic conditions of the assessment area. The bank's average loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, performance context, and assessment area credit needs. A majority of loans were originated in the assessment area. The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. Loan distribution reflects reasonable penetration among individuals of different income levels. Neither the bank nor this Reserve Bank received any CRA-related complaints since the previous evaluation.

SCOPE OF EXAMINATION

Huron State Bank's Community Reinvestment Act (CRA) performance was evaluated using the Interagency Small Institution Examination Procedures issued by the Federal Financial Institutions Examinations Council (FFIEC). The evaluation was performed within the context of information about the institution and its assessment area including asset size, financial condition, competition, and economic and demographic characteristics.

The evaluation included a full-scope review of the bank's single assessment area located in Michigan Non-Metropolitan Statistical Area (MI Non-MSA). The assessment area consists of Presque Isle County, Michigan in its entirety. The loan product reviewed includes residential real estate loans originated from January 1, 2021, to December 31, 2021. This product is considered the bank's primary business line based on the volume of loan originations by number and dollar amount.

Performance in the assessment area was evaluated using streamlined assessment method for small banks based on the following performance criteria:

- ***Loan-to-Deposit Ratio*** – A 22-quarter average loan-to-deposit ratio was calculated for the bank and compared to a sample of local competitors.
- ***Lending in the Assessment Area*** – The bank's home mortgage loans originated from January 1, 2021, to December 31, 2021, were reviewed to determine the percentage of loans originated inside the bank's assessment area.
- ***Geographic Distribution of Lending in the Assessment Area*** – The bank's home mortgage loans originated in the assessment area, from January 1, 2021, to December 31, 2021, were analyzed to determine the extent to which the bank is making loans in geographies of different income levels, particularly those designated as moderate-income.

- ***Lending to Borrowers of Different Income Levels***– The bank’s loans originated in the assessment area, from January 1, 2021, to December 31, 2021, were reviewed to determine the distribution among borrowers of different income levels, particularly those considered low- or moderate-income.
- ***Response to Substantiated Complaints*** – Complaints were reviewed to determine if any were related to the bank’s record of helping to meet community credit needs and its responses to any received were evaluated for appropriateness.

In addition, two community representatives were contacted in connection with this examination to provide information regarding local economic and socio-economic conditions in the assessment area. The types of organizations that were contacted include those involved with affordable housing and community service.

DESCRIPTION OF INSTITUTION

Huron State Bank (HSB), with assets of \$76.8 million as of June 30, 2022, is a wholly owned subsidiary of Huron National Bancorp Inc., a one bank holding company located in Rogers City, Michigan. The bank maintains one branch, its main office, in Rogers City, Michigan with a full-service automated teller machine (ATM). HSB, formerly Huron National Bank, converted from a national bank charter with the Office of the Comptroller of the Currency to a State Member Bank Charter effective September 25, 2020.

HSB offers a variety of traditional lending products including residential real estate, commercial, consumer closed end, and agricultural loans. Huron State Bank is primarily a residential real estate lender, as these loans comprise 61.3 percent of the loan portfolio as of June 30, 2022. Furthermore, the bank offers standard, non-complex deposit and savings products including personal and business/commercial checking and savings accounts.

According to the Federal Deposit Insurance Corporation’s (FDIC) Deposit Market Share data report, as of June 30, 2021, Huron State Bank holds 45.5 percent of the deposits within Presque Isle County. The bank is ranked first out of three depository institutions in its market. The other two competitors in the bank’s assessment area include Citizens National Bank of Cheboygan which holds 33.2 percent and The Huntington National Bank which holds 21.3 percent of deposits in Presque Isle County. Details of the allocation of the bank’s loan portfolio are provided in the following table.

Composition of Loan Portfolio as of June 30, 2022		
Loan Type	Dollar Volume (\$ are in 000s)	% Of Portfolio
Residential Real Estate	25,649	61.3
Commercial	9,337	22.3
Consumer	5,757	13.8
Agricultural	1,134	2.7
Total Loans	41,877	100.0

Note: Percentages may not total 100.00 percent due to rounding.

There are no known legal, financial, or other factors impeding the bank’s ability to help meet the credit needs in its communities.

The bank was rated Outstanding under the CRA at its previous evaluation dated May 15, 2017, with the Office of the Comptroller of the Currency.

DESCRIPTION OF ASSESSMENT AREA¹

Huron State Bank operates in one assessment area within the Michigan Non-Metropolitan Statistical Area (MI Non-MSA) located in the northeastern shore of Michigan’s lower peninsula. The delineated assessment area has remained unchanged since the previous evaluation and is comprised of Presque Isle County in its entirety. The assessment area is comprised of seven census tracts of which one tract is designated as moderate-income, five tracts are designated as distressed middle-income (due to population loss), and one tract is designated as unknown (due to inland water, Lake Huron). Additional assessment area demographic information is provided in the following table.

¹ Census tract designations are based on American Community Survey income data. For years 2017 and after, the designations are based on 2011-2015 ACS data. For years 2016 and before, the designations are based on 2006-2010 ACS data. For examinations that include performance before and after 2017, both sets of data have been used to perform the analysis of bank activity in the respective timeframes.

Assessment Area: 2021 MI Non MSA								
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	731	18.7
Moderate-income	1	14.3	704	18.0	109	15.5	868	22.2
Middle-income	5	71.4	3,211	82.0	253	7.9	1,017	26.0
Upper-income	0	0.0	0	0.0	0	0.0	1,299	33.2
Unknown-income	1	14.3	0	0.0	0	0.0	0	0.0
Total Assessment Area	7	100.0	3,915	100.0	362	9.2	3,915	100.0
	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	1,439	892	17.0	62.0	142	9.9	405	28.1
Middle-income	8,975	4,345	83.0	48.4	620	6.9	4,010	44.7
Upper-income	0	0	0.0	0.0	0	0.0	0	0.0
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	10,414	5,237	100.0	50.3	762	7.3	4,415	42.4
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	115	20.3	101	19.6	10	31.3	4	20.0
Middle-income	451	79.7	413	80.4	22	68.8	16	80.0
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	566	100.0	514	100.0	32	100.0	20	100.0
	Percentage of Total Businesses:			90.8		5.7		3.5
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	6	13.0	5	11.6	1	33.3	0	0.0
Middle-income	40	87.0	38	88.4	2	66.7	0	0.0
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	46	100.0	43	100.0	3	100.0	0	0.0
	Percentage of Total Farms:			93.5		6.5		0.0
2021 FFIEC Census Data & 2021 Dun & Bradstreet information according to 2015 ACS								
Note: Percentages may not add to 100.0 percent due to rounding								

Population Characteristics

The population within the assessment area in 2015 was 13,037, representing a slight decline of 2.5 percent since 2010. During the same time, the Non-MSA Michigan experienced a slight decline of 0.6 percent. According to community representatives, the area is extremely rural. As such, individuals migrate out of the area after graduating high school in search of higher paying jobs given the limited employment opportunities within the area.

Population Change 2010 and 2015			
Area	2010 Population	2015 Population	Percentage Change (%)
Assessment Area	13,376	13,037	-2.5
Non-MSA Michigan	1,816,846	1,806,007	-0.6
Michigan	9,883,640	9,900,571	0.2

Source: 2010—U.S. Census Bureau: Decennial Census
2011-2015—U.S. Census Bureau American Community Survey

Income Characteristics

The assessment area is comprised of 3,915 families, with 18.0 percent being moderate-income, and 82.0 percent being middle-income. Approximately 9.2 percent of families residing within the assessment area live below the poverty line, which is lower than the state of Michigan figure 11.9 percent.

The table below presents the Median Family Income (MFI) for families within the bank's assessment area (Presque Isle County), the Non-MSA Michigan, and the state of Michigan. The MFI in the assessment area increased by 3.7 percent, while the MFI in the Non-MSA Michigan and the state of Michigan experienced decreases of 2.3 and 5.3 percent, respectively. According to community representatives, the increase in MFI within Presque Isle County is attributed to competitive wages offered by employers operating within the assessment area. Community representatives also indicated that retail wages are expected to increase within Presque Isle County and across the state of Michigan given improving conditions relative to the COVID-19 pandemic.

Median Family Income Change 2010 and 2015			
Area	2010 Median Family Income	2015 Median Family Income	Percentage Change
Assessment Area	47,693	49,453	3.7
Non-MSA Michigan	54,888	53,628	-2.3
Michigan	65,708	62,247	-5.3

Source: 2006—2010 U.S. Census Bureau American Community Survey
2011-2015—U.S. Census Bureau: American Community Survey Median Family incomes have been inflation-adjusted and are expressed in 2015 dollars.

Housing Characteristics

The bank's assessment area includes 10,414 housing units. The majority of housing units are owner-occupied at 50.3 percent, while rental units account for 7.3 percent, and the remaining 42.4 percent being vacant units. Of the 5,237 owner occupied housing units in the assessment area, 17.0 percent are found in moderate-income census tracts and 83.0 percent are located within moderate-income census tracts. The percentage of rental units in the assessment area at 7.3 percent is below the average for the state of Michigan at 24.5 percent. Conversely, the percentage of vacant housing units in the assessment area at 42.4 percent is significantly higher than the percentage of vacant units within the state of Michigan, at 15.4 percent.

A common method to compare relative affordability of housing across geographic areas is the affordability ratio, which is defined in Appendix C – Glossary. A higher ratio generally suggests more affordable housing opportunities. The affordability ratio for the assessment was 0.45, which is slightly above the state of Michigan at 0.41. As such, the affordability ratio suggests that housing within the assessment area is slightly more affordable when compared to the state of Michigan as a whole.

The following table represents recent housing cost burden for individuals within the assessment area and the state of Michigan. The cost burden is a measure of affordability via a comparative analysis of individuals of different income levels that spend 30.0 percent or more of their income on housing costs. As evidenced by the table below, low-income individuals are generally impacted at a higher rate than moderate-income individuals as both renters and owners. Also, low-income individuals are generally impacted at a higher rate than moderate-income individuals among both renters and owners.

Among the comparable geographies, for renters, the state of Michigan has the highest proportion of renters who meet the cost burden criteria at 43.9 percent, with the Non-MSA Michigan and the bank's assessment area at 40.6 and 34.4 percent, respectively. In terms of owner cost burden criteria, the Non-MSA Michigan had the highest proportion of owners who meet the cost burden criteria at 19.3 percent, followed closely by the state of Michigan and the bank's assessment area at 19.0 and 17.3 percent, respectively.

According to community representatives, the age of the housing stock is a large reason for the percentage of vacant units within the assessment area. Also, due to the rural nature of the assessment area, community representatives indicated that there is a lack of affordable housing as the area is struggling to provide affordable housing options for low- and moderate-income individuals.

Housing Cost Burden (%)						
Area	Cost Burden - Renters			Cost Burden - Owners		
	Low Income	Moderate Income	All Renters	Low Income	Moderate Income	All Owners
Assessment Area	46.1	35.7	34.4	56.8	23.2	17.3
Non-MSA Michigan	69.8	35.6	40.6	62.6	30.6	19.3
Michigan	75.7	42.6	43.9	66.0	32.5	19.0

Cost Burden is housing cost that equals 30 percent or more of household income

Source: U.S. Department of Housing and Urban Development (HUD), 2014-2018 Comprehensive Housing Affordability Strategy

Employment Conditions

The following table presents the unemployment trends for the assessment area, Non-MSA Michigan, and the state of Michigan from 2017 to 2021. From 2017 through 2019 all comparable geographies experienced year-over-year declines in unemployment figures. Beginning in 2020, all geographies experienced notable increases in unemployment figures. The upward shift was primarily due to the COVID-19 pandemic. Starting in 2021, unemployment figures were again aligned with pre-pandemic figures. Of the geographies noted, the bank's assessment area maintained the highest 2021 unemployment rates at 7.9 percent. Community representatives indicated that although the COVID-19 pandemic had an adverse effect on unemployment figures, historically, the assessment area (Presque Isle County) has experienced higher rates of unemployment.

Unemployment Rates (%)					
Area	2017	2018	2019	2020	2021
Assessment Area	9.1	8.0	7.7	11.6	7.9
Non-MSA Michigan	5.5	4.9	4.8	9.4	5.9
Michigan	4.6	4.2	4.1	10.0	5.9

Source: Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics

Industry Characteristics

According to location quotients developed by the U.S Bureau of Labor Statistics, the assessment area contains a diverse employment base and is most heavily impacted by the industries of government, retail, and the private sector. Community representatives indicated that the COVID-19 pandemic had a large impact on retail. Representatives noted that employment opportunities are limited and there are not many available jobs due to the lack of industries within the assessment area. Community representatives indicated that while leading industries within the area (retail) were impacted by the COVID-19 pandemic in 2020, local businesses have since recovered.

Community Representatives

Two community representatives were contacted during the evaluation to provide information regarding local economic and demographic conditions. The representatives provided information on housing, employment, and economic development needs within the assessment area, as well as information about how the COVID-19 pandemic affected the local economy. The representatives stated that there are opportunities within their respective areas for local financial institutions to participate. Community representatives indicated the need for affordable housing options in the assessment area to accommodate residents. In addition, community representatives highlighted the assessment area's struggle to retain population as many individuals leave the area to attend school or search for employment in surrounding metropolitan areas.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

Huron State Bank performance relative to the lending test is rated Satisfactory. Overall, the bank is meeting the credit needs of its assessment area based on an analysis of the bank's lending activities. The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The majority of residential loans were originated in the assessment area. Geographic distribution of loans reflects reasonable dispersion throughout the assessment area. Lastly, loan distribution is considered to have reasonable penetration among individuals of different income levels. No CRA-related complaints were received by the institution or the Reserve Bank since the previous examination.

Loan-to-Deposit Ratio

Huron State Bank maintains a reasonable loan-to-deposit (LTD) ratio given the bank's size, financial condition, and the credit needs of its assessment areas. As of June 30, 2022, the bank's 22-quarter average LTD was 66.6 percent which was comparable to local competitors, based on similar asset size and geographical location. The following table compares the bank's LTD ratio to its local competitors.

Comparative Loan-to-Deposit Ratios	
Institution	Loan-to-Deposit Ratio (%)
	22 – Quarter Average
Huron State Bank	66.6
Competitors	
Homestead SVG	72.6
First NB of Wakefield	42.5
First State Bank Decatur	64.9
Freeland State Bank	14.9
Port Austin State Bank	83.0

Assessment Area Concentration

Huron State Bank originated a majority of its residential real estate loans within the bank’s assessment area. The bank originated 86.0 percent of total loans by number and 86.7 percent by dollar inside the assessment area during the evaluation period. Overall, lending inside the assessment area indicates appropriate responsiveness to assessment area credit needs. The following table summarizes the bank’s lending inside and outside its assessment area for residential real estate loans from January 1, 2021, through December 31, 2021.

Lending Inside and Outside the Assessment Area								
Loan Type	Inside				Outside			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Total Residential Loans	49	86.0	5,182	86.7	8	14.0	796	13.3
Total Non-HMDA	49	86.0	5,182	86.7	8	14.0	796	13.3
Total Loans	49	86.0	5,182	86.7	8	14.0	796	13.3

Note: Percentages may not add to 100.0 percent due to rounding.

Geographic Distribution of Loans

The geographic distribution of residential loans reflects a reasonable dispersion throughout the assessment area. An analysis of the dispersion of loans was conducted to identify any conspicuous gaps in lending. The bank’s assessment area consists of seven census tracts including one moderate-income, five middle-income, and one unknown tract. Based upon this analysis, it appears there are no conspicuous or unexplained geographic lending gaps in the contiguous census tracts. In addition, there are no low-income census tracts in the assessment area.

Residential Loans

Huron State Bank’s distribution of residential real estate loans reflects reasonable dispersion of lending throughout the bank’s assessment area. In 2021, HSB originated 10.2 percent (by number) of its residential loans within moderate-income geographies. The bank’s performance was below

the percentage of owner-occupied units within the assessment area at 17.0 percent. Among middle-income census tracts, HSB originated 89.8 percent by number, exceeding the percentage of owner-occupied units within middle-income census tracts at 83.0 percent. The following table presents the geographic distribution of residential real estate loans for 2021 within the bank’s assessment area.

Geographic Distribution of Home Mortgage Loans						
Assessment Area: 2021 MI Non MSA						
	Tract Income Levels	Bank & Demographic Comparison				Owner Occupied % of Units
		2021				
		Count Bank		Dollar Bank		
		#	%	\$ (000s)	\$ %	
Totals	Low	0	0.0	0	0.0	0.0
	Moderate	5	10.2	534	10.3	17.0
	Middle	44	89.8	4,648	89.7	83.0
	Upper	0	0.0	0	0.0	0.0
	Unknown	0	0.0	0	0.0	0.0
	Total	49	100.0	5,182	100.0	100.0
2021 FFIEC Census Data						
<i>Note: Percentages may not add to 100.0 percent due to rounding</i>						

Lending to Borrowers of Different Income Levels

The distribution of residential loans reflects reasonable penetration among individuals of different income levels.

Residential Loans

In 2021, Huron State Bank originated 8.2 percent by number of its residential loans to low-income borrowers. The bank’s performance was below the percentage of families-by-family income at 18.7 percent. The bank originated 24.5 percent by number of its residential real estate loans to moderate-income borrowers. The bank’s performance was above the percentage of families-by-family income at 22.2 percent. Additionally, the bank originated 24.5 percent of residential real estate loans by number to middle-income borrowers, which is slightly below the percentage of families-by-family income at 26.0 percent. Lastly, the bank originated 42.9 percent of residential real estate loans by number, which exceeds the percentage of families-by-family income at 33.2 percent. The following table presents the bank’s borrower distribution of residential real estate loans in 2021.

Borrower Distribution of Home Mortgage Loans						
Assessment Area: 2021 MI Non MSA						
	Borrower Income Levels	Bank & Demographic Comparison				Families by Family Income
		2021		Dollar		
		Count		\$ (000s)	\$ %	
		#	%			%
Totals	Low	4	8.2	306	5.9	18.7
	Moderate	12	24.5	891	17.2	22.2
	Middle	12	24.5	1,251	24.1	26.0
	Upper	21	42.9	2,734	52.8	33.2
	Unknown	0	0.0	0	0.0	0.0
	Total	49	100.0	5,182	100.0	100.0
2021 FFIEC Census Data						
<i>Note: Percentages may not add to 100.0 percent due to rounding</i>						

Response to Complaints

Neither the bank nor this Reserve Bank have received any CRA-related complaints since the previous examination.

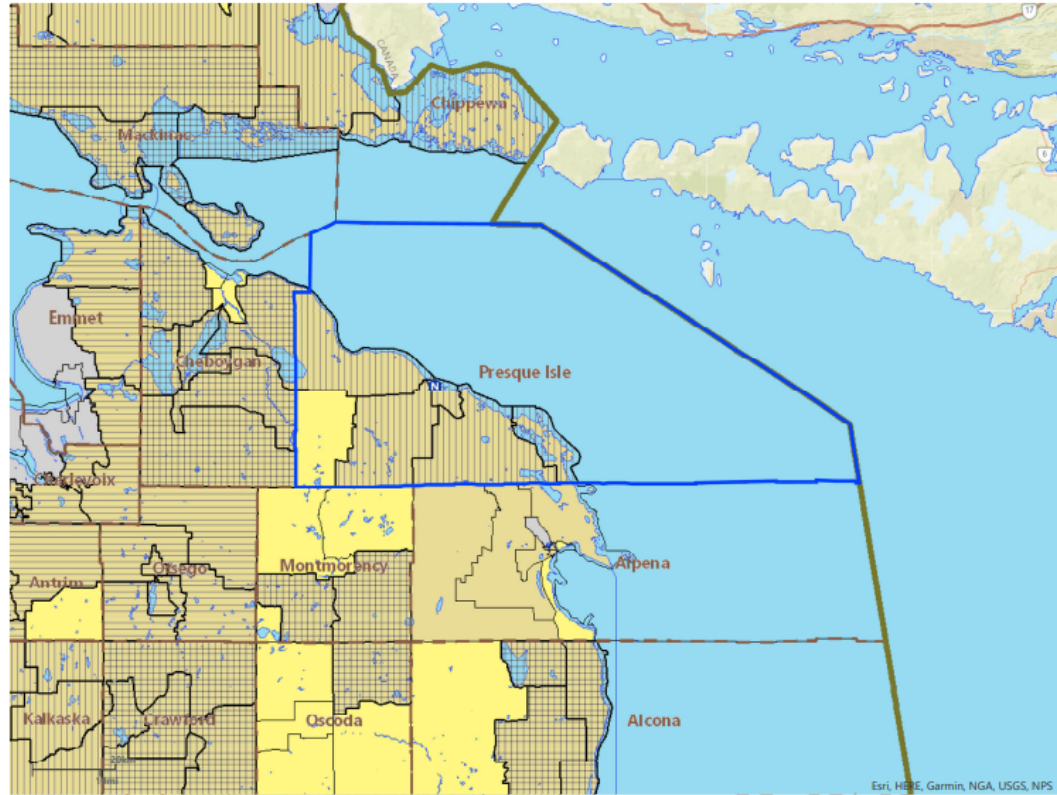
FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

APPENDIX A – Map of Assessment Area

Huron State Bank 753641
MI Non MSA

Restricted FR



APPENDIX B – Scope of Examination

SCOPE OF EXAMINATION			
TIME PERIOD REVIEWED	January 1, 2021 - December 31, 2021		
FINANCIAL INSTITUTION			PRODUCTS REVIEWED
Huron State Bank			Residential Loans
AFFILIATE(S)	AFFILIATE RELATIONSHIP		PRODUCTS REVIEWED
None	Not Applicable		Not Applicable
LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
NON MSA MICHIGAN – PRESQUE ISLE COUNTY	Full review	None	N/A

APPENDIX C – Glossary

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Affordability ratio: To determine housing affordability, the affordability ratio is calculated by dividing median household income by median housing value. This ratio allows the comparison of housing affordability across assessment areas and/or communities. An area with a high ratio generally has more affordable housing than an area with a low ratio.

Aggregate lending: The number of loans originated and purchased by all lenders subject to reporting requirements as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

American Community Survey Data (ACS): The American Community Survey (ACS) data is based on a nationwide survey designed to provide local communities with reliable and timely demographic, social, economic, and housing data each year. The Census Bureau first released data for geographies of all sizes in 2010. This data is known as the “five-year estimate data.” The five-year estimate data is used by the FFIEC as the base file for data used in conjunction with consumer compliance and CRA examinations.²

Area Median Income (AMI): AMI means –

1. The median family income for the MSA, if a person or geography is located in an MSA, or for the metropolitan division, if a person or geography is located in an MSA that has been subdivided into metropolitan divisions; or
2. The statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment area: Assessment area means a geographic area delineated in accordance with section 228.41

Automated teller machine (ATM): An automated teller machine means an automated, unstaffed banking facility owned or operated by, or operated exclusively for, the bank at which deposits are received, cash dispersed or money lent.

Bank: Bank means a state member as that term is defined in section 3(d)(2) of the Federal Deposit Insurance Act (12 USC 1813(d)(2)), except as provided in section 228.11(c)(3), and includes an

² Source: FFIEC press release dated October 19, 2011.

uninsured state branch (other than a limited branch) of a foreign bank described in section 228.11(c)(2).

Branch: Branch refers to a staffed banking facility approved as a branch, whether shared or unshared, including, for example, a mini-branch in a grocery store or a branch operated in conjunction with any other local business or nonprofit organization.

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

Combined Statistical Area (CSAs): Adjacent metropolitan statistical areas/metropolitan divisions (MSA/MDs) and micropolitan statistical areas may be combined into larger Combined Statistical Areas based on social and economic ties as well as commuting patterns. The ties used as the basis for CSAs are not as strong as the ties used to support MSA/MD and micropolitan statistical area designations; however, they do bind the larger area together and may be particularly useful for regional planning authorities and the private sector. Under Regulation BB, assessment areas may be presented under a Combined Statistical Area heading; however, all analysis is conducted on the basis of median income figures for MSA/MDs and the applicable state-wide non metropolitan median income figure.

Community Development: The financial supervisory agencies have adopted the following definition for community development:

1. Affordable housing, including for multi-family housing, for low- and moderate-income households;
2. Community services tailored to meet the needs of low- and 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 CFR 121.301) or have gross annual revenues of \$1 million or less; or
4. 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 the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definitions of community development. Activities that revitalize or stabilize:

- 1) Low- or moderate-income geographies;
- 2) Designated disaster areas; or
- 3) Distressed or underserved nonmetropolitan middle-income geographies

designated by the Board, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency based on:

- a. Rates of poverty, unemployment or 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 to meet essential community services including the needs of low- and moderate-income individuals.

Community Development Loan: A community development loan means a loan that:

- 1) Has as its primary purpose community development; and
- 2) Except in the case of a wholesale or limited purpose bank –
 - a. Has not been reported or collected by the bank or an affiliate for consideration in the bank’s assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multi-family housing loan (as described in the regulation implementing the Home Mortgage Disclosure Act); and
 - b. Benefits the bank’s assessment area(s) or a broader statewide or regional area that includes the bank’s assessment area(s).

Community Development Service: A community development service means a service that:

- 1) Has as its primary purpose community development; and
- 2) Is related to the provision of financial services.

Consumer loan: A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories of loans: motor vehicle, credit card, other consumer secured loan, including a home improvement loan not secured by a dwelling, and other consumer unsecured loan, including a loan for home improvement not secured.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married couple family or other family, 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).

Fair market rent: Fair market rents (FMRs) are gross rent estimates. They include the shelter rent plus the cost of all tenant-paid utilities, except telephones, cable or satellite television service, and internet service. HUD sets FMRs to assure that a sufficient supply of rental housing is available to their program participants. To accomplish this objective, FMRs must be both high enough to

permit a selection of units and neighborhoods and low enough to serve as many low-income families as possible. The level at which FMRs are set is expressed as a percentile point within the rent distribution of standard-quality rental housing units. The current definition used is the 40th percentile rent, the dollar amount below which 40 percent of the standard-quality rental housing units are rented. The 40th percentile rent is drawn from the distribution of rents of all units occupied by recent movers (renter households who moved to their present residence within the past 15 months). HUD is required to ensure that FMRs exclude non-market rental housing in their computation. Therefore, HUD excludes all units falling below a specified rent level determined from public housing rents in HUD's program databases as likely to be either assisted housing or otherwise at a below-market rent, and units less than two years old.

Full review: Performance under the Lending, Investment and Service Tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and amount of qualified investments) and qualitative factors (for example, innovativeness, complexity and responsiveness).

Geography: A census tract delineated by the U.S. Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act: The statute that requires certain mortgage lenders that do business or have banking offices in metropolitan statistical areas to file annual summary reports of their mortgage lending activity. The reports include data such as the race, gender and income of the applicant(s) and the disposition of the application(s) (for example, approved, denied, and withdrawn).

Home mortgage loans: Are defined in conformance with the definitions of home mortgage activity under the Home Mortgage Disclosure Act and include closed end mortgage loans secured by a dwelling and open-end lines of credit secured by a dwelling. This includes loans for home purchase, refinancing and loans for multi-family housing. It does not include loans for home improvement purposes that are not secured by a dwelling.

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.

Income Level: Income level means:

- 1) Low-income – an 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 census tract;
- 2) Moderate-income – an 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 census tract;

- 3) Middle-income – an 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 census tract; and
- 4) Upper-income – an individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent in the case of a census tract.

Additional Guidance: .12(m) Income Level: The median family income levels (MFI) for census tracts are calculated using the income data from the United States Census Bureau's American Community Survey and geographic definitions from the Office of Management and Budget (OMB) and are updated approximately every five years (.12(m) Income Level).

Limited-purpose bank: This term refers to a bank that offers only a narrow product line such as credit card or motor vehicle loans to a regional or broader market and for which a designation as a limited-purpose bank is in effect, in accordance with section 228.25(b).

Limited review: Performance under the Lending, Investment and Services test is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, amount of investments and branch office distribution).

Loan location: Under this definition, a loan is located as follows:

- 1) Consumer loan is located in the census tract where the borrower resides;
- 2) Home mortgage loan is located in the census tract where the property to which the loan relates is located;
- 3) Small business and small farm loan is located in the census tract where the main business facility or farm is located or where the loan proceeds have been applied as indicated by the borrower.

Loan production office: This term refers to a staffed facility, other than a branch, that is open to the public and that provides lending-related services, such as loan information and applications.

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 MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development (HUD) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area: A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a single core population of at least 2.5 million may be divided into MDs. A metropolitan statistical area that crosses into two or more bordering states is called a multistate metropolitan statistical area.

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

Nonmetropolitan area: This term refers to any area that is not located in a metropolitan statistical area or metropolitan division. Micropolitan statistical areas are included in the definition of a nonmetropolitan area; a micropolitan statistical area has an urban core population of at least 10,000 but less than 50,000.

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: This term refers to any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: This term refers to a state or multistate metropolitan area. For institutions with domestic branch offices in one state only, the institution's CRA rating is the state's rating. If the institution maintains domestic branch offices in more than one state, the institution will receive a rating for each state in which those branch offices are located. If the institution maintains domestic branch offices in at least two states in a multistate metropolitan statistical area, the institution will receive a rating for the multistate metropolitan area.

Small Bank: This term refers to a bank that as of December 31 of either of the prior two calendar years, had assets of less than \$1.252 billion. Intermediate small bank means a small bank with assets of at least \$313 million as of December 31 of both of the prior two calendar years and less than \$1.252 billion as of December 31 of either of the prior two calendar years.

Annual Adjustment: The dollar figures in paragraph (u)(1) of this section shall be adjusted annually and published by the Board, based on the year-to-year change in the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers, not seasonally adjusted, for each 12-month period ending in November, with rounding to the nearest million.

Small Business Loan: This term refers to a loan that is included in "loans to small businesses" as defined in the instructions for preparation of the Consolidated Report of Condition and Income. The loans have original amounts of \$1 million or less and are either secured nonfarm, nonresidential properties or are classified as commercial and industrial loans.

Small Farm: This term refers to a loan that is included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income. These loans have original amounts of \$500 thousand or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Wholesale Bank: This term refers to a bank that is not in the business of extending home mortgage, small business, small farm or consumer loans to retail customers, and for which a designation as a wholesale bank is in effect, in accordance with section 228.25(b).