

PUBLIC DISCLOSURE

April 11, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Annapolis Banking and Trust Company

809324

P. O. Box 311

Annapolis, Maryland 21404

Federal Reserve Bank of Richmond

P. O. Box 85029

Richmond, Virginia 23261

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

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INSTITUTION RATING

INSTITUTION'S CRA RATING: The Annapolis Banking and Trust Company is rated "**Satisfactory**".

The following table indicates the performance level of The Annapolis Banking and Trust Company with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	<u>The Annapolis Banking and Trust Company</u>		
	PERFORMANCE TESTS		
	LENDING TEST *	INVESTMENT TEST	SERVICE TEST
Outstanding			
High Satisfactory	X	X	X
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			

* The lending test is weighted more heavily than the investment and service tests in determining the overall rating.

Major factors supporting the institution's rating include:

- Overall, lending activity is consistent with the bank's capacity and market presence.
- A majority of the institution's small business, Home Mortgage Disclosure Act (HMDA), and consumer loans were originated within the bank's assessment area.
- The geographic distribution of lending is considered poor, although opportunity to lend in moderate-income tracts is limited.
- Distribution by borrower income and business revenue is considered good.
- The level of qualified community development investments is considered good relative to available opportunities and bank capacity.
- Delivery systems and branch locations are readily accessible to all segments of the assessment area.
- An adequate level of community development services was identified.

DESCRIPTION OF INSTITUTION

The Annapolis Banking and Trust Company (AB&T) is headquartered in Annapolis, Maryland, and is a subsidiary of Mercantile Bankshares Corporation (MBC), a multi-bank holding company located in Baltimore, Maryland. The institution operates 11 full service branch offices within Anne Arundel County, Maryland. As of December 31, 2004, the bank had \$461.5 million in assets, of which 54.7% were loans and 41.2% were securities. Various credit products are available through the institution including business and consumer loans. Most requests for first mortgage loans are referred to an affiliate mortgage company.

The loan portfolio, as of December 31, 2004, was comprised of 26% one- to four-family residential real estate, 45.9% commercial real estate and farm secured, 15.1% commercial and agriculture, 8.1% consumer, and 4.9% other. Since March 31, 2003, assets, loans, and deposits have increased by 7.4%, 11.7%, and 7.7%, respectively. The bank's previous CRA rating was Satisfactory. AB&T has not opened or closed any branches since the previous CRA evaluation dated March 3, 2003.

DESCRIPTION OF ASSESSMENT AREA

The institution's assessment area encompasses a substantial portion of Anne Arundel County, Maryland, which is located within the Baltimore-Towson Metropolitan Statistical Area (MSA-12580). Of the 55 census tracts in the assessment area, two (3.6%) are moderate-income, 20 (36.4%) are middle-income, and 33 (60%) are upper-income.

According to the 2000 census data, the assessment area has a population of 311,088 and a median housing value of \$172,119. The owner-occupancy rate for the market is 74% and is higher than rates for the state (62.5%) and the MSA (62.1%). The assessment area's poverty rate is 3.2%, which is lower than both the state and MSA poverty rates of 6.1% and 7.2%. The 2004 median-family income for the Baltimore-Towson, Maryland MSA is \$68,600.

The following table provides demographic data for the assessment area by the income level of families, the type and distribution of housing units, and distribution of local businesses.

AB&T - Anne Arundel County (portion)								
ASSESSMENT AREA DEMOGRAPHICS								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty as a % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	9,133	10.9
Moderate	2	3.6	2,973	3.6	202	6.8	11,726	14.0
Middle	20	36.4	28,396	34.0	1,358	4.8	18,259	21.9
Upper	33	60.0	52,185	62.5	1,106	2.1	44,436	53.2
Total	55	100.0	83,554	100.0	2,666	3.2	83,554	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	6,400	1,449	1.6	22.6	4,599	71.9	352	5.5
Middle	42,673	29,726	33.2	69.7	10,842	25.4	2,105	4.9
Upper	72,022	58,472	65.2	81.2	10,564	14.7	2,986	4.1
Total	121,095	89,647	100.0	74.0	26,005	21.5	5,443	4.5
	Total Businesses by Tract		Businesses by Tract and Revenue Size					
			Less than or = \$1 Million		Over \$1 Million		Revenue not Reported	
			#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	241	1.8	210	1.8	19	1.7	12	2.2
Middle	4,184	31.6	3,672	31.6	346	31.7	166	30.1
Upper	8,826	66.6	7,724	66.6	728	66.6	374	67.8
NA	0	0.0	0	0.0	0	0.0	0	0.0
Total	13,251	100.0	11,606	100.0	1,093	100.0	552	100.0
Percentage of Total Businesses:			87.6		8.2		4.2	
	Total Farms by Tract		Farms by Tract and Revenue Size					
			Less than or = \$1 Million		Over \$1 Million		Revenue not Reported	
			#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	15	20.5	12	17.6	3	75.0	0	0.0
Upper	58	79.5	56	82.4	1	25.0	1	100.0
NA	0	0.0	0	0.0	0	0.0	0	0.0
Total	73	100.0	68	100.0	4	100.0	1	100.0
Percentage of Total Farms:			93.2		5.5		1.4	

Sources: 2000 Census Data, most recent Dun & Bradstreet business demographic data.

NA Tracts are tracts without household or family income.

The economy of the assessment area provides diverse employment opportunities in the Federal and State Governments, local tourism industry, light manufacturing, seafood processing, and various retail businesses. Additionally, many residents commute to the cities of Baltimore and Washington, D. C. for employment opportunities. The 3.8% unemployment rate for Anne Arundel County as of March 2005 is slightly lower than the State of Maryland's rate of 4.5%

A community contact was made with two local economic development officials to further assist in evaluating the bank's CRA performance. The contacts indicated that Anne Arundel County is thriving and the economic condition of the area is strong. Both contacts further stated that area financial institutions appear to be meeting the credit needs of the community.

SCOPE OF EXAMINATION

The institution was evaluated using the interagency examination procedures developed by the Federal Financial Institution's Examination Council. The review of the bank's lending activity includes residential real estate loans reported in accordance with HMDA for 2003 and 2004, as well as small business loans reported as required under CRA and information collected about consumer loans for this same period. Services were considered for activities since the previous examination. All qualified investments outstanding as of the current evaluation date were also considered regardless of when made. A range of economic, demographic, and institutional and community specific information are contextual factors that are also considered when evaluating bank performance.

When considering lending performance for specific loan types, primary consideration is given to the number (and corresponding percentage) of transactions. The institution's overall rating is based on the performance of each loan category, and primary consideration is given to the dollar volume that each category contributes to the overall activity considered in the evaluation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LENDING TEST

The lending test is rated high satisfactory based on lending activity and distribution of loans. Area demographic data, Dun & Bradstreet (D&B) business data, and market aggregate information are used as proxies for demand when evaluating the bank's performance. Aggregate data includes AB&T and all other reporting institutions that originated and/or purchased loans of the type considered within the bank's assessment area. Demographic data is from the 2000 census, and the HMDA and small business aggregate statistics is from calendar year 2003 (2004 data is not yet available). Only lending data for 2003 is presented in the sections discussing geographic and borrower distribution. Although not presented, lending for 2004 is considered in reaching overall conclusions about the bank's lending performance.

Lending Activity

A bank's loan-to-deposit ratio is one measure of its lending relative to its capacity. During the eight-quarter period ending December 31, 2004, the average quarterly loan-to-deposit ratios of all banks headquartered in metropolitan areas of Maryland and of similar asset size to AB&T ranged from 78.3% to 84.8%. The

bank's average quarterly loan-to-deposit ratio for the eight-quarter period ending December 31, 2004, equaled 63% and ranged from 60.6% to 66.4%. No barriers to the bank's ability to lend were noted. Considering the loan-to-deposit ratio of similar-sized banks in the region, AB&T's lending activity is considered adequate.

Various loan products are available through the institution including consumer, home equity loans and lines of credit, and commercial loans. Consumer loans offered by the bank include boat, motor vehicle, secured, and unsecured loans.

Assessment Area Concentration

The following table depicts the institution's reported and collected loan data, including originations and purchases, regardless of location from January 1, 2003, through December 31, 2004.

Lending Inside and Outside the Assessment Area								
	Inside				Outside			
	#	%	\$('000s)	%	#	%	\$('000s)	%
HMDA Home purchase	23	74.2	10,653	85.8	8	25.8	1,762	14.2
HMDA Home improvement	81	93.1	10,066	92.4	6	6.9	829	7.6
HMDA Refinancing	64	85.3	8,440	65.9	11	14.7	4,377	34.1
HMDA Multi-family	0	0	0	0	1	100	120	100
Total HMDA related	168	86.6	29,159	80.4	26	13.4	7,088	19.6
Home equity	124	94.7	12,046	97.7	7	5.3	288	2.3
Motor vehicle	127	81.9	1,741	80.5	28	18.1	421	19.5
Other secured	61	37.4	3,801	36.3	102	62.6	6,674	63.7
Other unsecured	140	92.7	8,394	91.6	11	7.3	769	8.4
Total Consumer Related	452	75.3	25,982	76.1	148	24.7	8,152	23.9
Total Small Business	400	83.2	137,490	73	81	16.8	50,885	27
TOTAL LOANS	1,020	80	192,631	74.4	255	20	66,125	25.6

Note: Affiliate loans not included.

As indicated in the previous table, a substantial majority of the number and dollar amounts of loans have been provided to assessment area residents. Overall, lending levels reflect excellent responsiveness to assessment area credit needs.

Geographic Distribution:

The following tables present data about the geographic distribution of the bank's lending. There are no low-income census tracts in the assessment area. The tables include all HMDA, small business, and consumer loans for 2003. As evidenced by the demographic information presented previously, a very small percentage of businesses, housing units, and families are located in moderate-income tracts. The bank reported no small business or HMDA loans in such tracts and a modest number of consumer loans for 2003. This low level of lending persisted during 2004, though one small business loan was extended in a moderate-income tract. While this distribution is overall considered poor, given that the lending opportunities in these tracts is very limited, significantly greater weight will be placed on borrower distribution.

Distribution of Small Business Loans by Income Level of Geography

2003 Activity

	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	0	98	110	208
Percentage of Total Loans	0%	47.1%	52.9%	100%
Total Amount of Loans (000's)	\$0	\$27,068	\$38,737	\$65,805
Percentage of Total Amount	0%	41.1%	58.9%	100%

As a basis for comparison, 2003 small business aggregate data indicates that 1.5% of reported loans were in moderate-income tracts.

Distribution of HMDA Loans by Income Level of Geography

2003 Activity

	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	0	28	72	100
Percentage of Total Loans	0%	28%	72%	100%
Total Amount of Loans (000's)	\$0	\$4,519	\$12,889	\$17,408
Percentage of Total Amount	0%	26%	74%	100%

According to 2003 aggregate HMDA data, 1.3% of all reported loans were to residents of moderate-income geographies.

Distribution of Consumer Loans by Income Level of Geography

2003 Activity

	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	3	78	150	231
Percentage of Total Loans	1.3%	33.8%	64.9%	100%
Total Amount of Loans (000's)	\$13	\$3,714	\$7,109	\$10,836
Percentage of Total Amount	0.1%	34.3%	65.6%	100%

The bank's consumer lending in moderate-income areas (1.3%) is less than the percentage of area families residing in such areas (3.6%).

Distribution by Borrower Income and Revenue Size of the Business

The tables that follow present data about the bank's lending to borrowers of different income levels and businesses of different revenue sizes. The following charts detail performance in 2003 for the loans reviewed during the evaluation. Discussion of the bank's performance follows each table.

Distribution of Lending by Loan Amount and Size of Business

The bank reported 208 small business loans within the assessment area in 2003. Of these transactions, nine did not contain revenue data and are not included in the analysis.

2003 Activity

	\$0 - \$100,000		>\$100,000 to \$250,000		>\$250,000		Total	
Revenues ≤ \$1 Million	61	30.6%	26	13.1%	27	13.6%	114	57.3%
Revenues > \$1 Million	38	19.1%	15	7.5%	32	16.1%	85	42.7%
Total	99	49.7%	41	20.6%	59	29.7%	199	100%

Of the 199 small business loans extended within the assessment area during 2003, 57.3% were made to businesses with revenues of \$1 million or less. Additionally, 30.6% of these loans were for amounts less than \$100,000. D&B data shows that 87.6% of businesses in the assessment area have revenues of \$1 million or less; however, aggregate small business data indicate that 36.9% of reported small business loans in 2003 were to businesses having revenues of \$1 million or less. The remaining portion of businesses had revenues exceeding \$1 million or revenue was not reported. For loans extended during 2004, 48% were to businesses with revenues of \$1 million or less. The bank's level of lending is considered good.

Distribution of HMDA Loans by Income Level of Borrower

The bank reported a combined total of 100 HMDA loans within the assessment area in 2003. Of these transactions, two did not contain income data and are not included in the analysis.

2003 Activity

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	7	9	20	62	98
Percentage of Total Loans	7.1%	9.2%	20.4%	63.3%	100%
Total Amount of Loans (000's)	\$303	\$504	\$1,475	\$14,781	\$17,063
Percentage of Total Amount	1.8%	3%	8.6%	86.6%	100%

The bank's level of lending to low-income borrowers exceeds that of the 2003 aggregate (3.8%), though bank lending slightly lags the proportion of area low-income families (10.9%). The bank's HMDA lending to moderate-income borrowers is less than that of the 2003 aggregate (15.7%) and also lags the proportion of area moderate-income families (14%). Performance in 2004 was significantly better with 14.7% of the 68 reported loans to low-income borrowers and 17.6% to moderate-income borrowers. The overall distribution of HMDA lending is considered good.

Distribution of Consumer Loans by Income Level of Borrower

2003 Activity

The bank reported a combined total of 231 consumer loans within the assessment area in 2003. Of these transactions, nine did not contain income data and are not included in the analysis.

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	20	39	45	118	222
Percentage of Total Loans	9%	17.6%	20.3%	53.1%	100%
Total Amount of Loans (000's)	\$121	\$925	\$851	\$7,975	\$9,872
Percentage of Total Amount	1.2%	9.4%	8.6%	80.8%	100%

Of the consumer loans reported, 9% were to low-income borrowers. This percentage is slightly less than the percentage of area families that are low-income 10.9%. The level of lending to moderate-income borrowers for 2003 is 17.6%, and this level exceeds the percentage of area families that are moderate-income (14%). Lending to both low and moderate-income borrowers in 2004 was somewhat lower with 5.4% of loans to low-income and 13.1% to moderate-income borrowers. Consumer lending to borrowers of different income levels is considered good.

Community Development Lending:

To the extent the bank originated any community development loans; such financing has been reported as small business loans.

Despite the absence of lending in the two moderate-income tracts, overall lending performance is considered good. This conclusion is based on an analysis of lending activity, borrower and geographic distribution, and community development lending while taking into account the bank's market strategy, area demographic data, and aggregate CRA and HMDA data. Because of the very limited lending opportunities in moderate-income tracts relative to the opportunity to lend to low- and moderate-income borrowers regardless of their location, greatest weight was placed on distribution by income or revenue. As the bank's primary product by dollar volume, small business lending performance was given more weight than HMDA and consumer lending.

INVESTMENT TEST

The institution's level of responding to community development needs through its investment activities is rated high satisfactory. As of December 31, 2004, the institution reported \$461.5 million in total assets and held \$190.1 in securities. Qualified community development investments include eight Maryland Community Development Administration Bonds totaling \$1,940,000. The bonds provide funds to

finance or refinance affordable multi-family properties and mortgage loans for single family residences by persons or families of limited incomes within Maryland. Since the previous examination, the bank has also made \$2,145 in qualified grants and donations to local charitable organizations whose operations primarily serve low- and moderate-income individuals or areas.

SERVICE TEST

Overall, the bank's performance under the service test is rated high satisfactory. Systems for delivering retail-banking services appear effective and are accessible to all portions of the assessment area, including low- and moderate-income areas.

Retail Services:

Delivery systems are accessible to all portions of the assessment area. Bank-by-phone, bank-by-mail, and bank-by-computer services are offered by the institution. Branch locations and business hours are considered convenient and meet the needs of assessment area residents and businesses. Since the previous examination, no branches have been closed. Branch locations and business hours are considered convenient and meet the needs of the assessment area.

Community Development Services:

The bank provides an adequate level of support to various local organizations whose operations directly benefit low- and moderate-income residents or encourage micro-enterprise development. Bank personnel contribute their financial expertise to the following organizations:

YWCA - a bank officer serves on the finance committee which allocates funds for low- and moderate-income assistance programs for women.

Chrysalis House - an organization who's efforts include employment training for low-income persons and provides educational services to complete the General Education Diploma.

Salvation Army - an organization with an emphasis to provide job skills training to persons entering the workforce.

Light House Shelter - an organization for individuals and families providing temporary shelter and transitional residences, while also providing professional counseling. The facility is open 24 hours a day, seven days a week.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS

No credit practices inconsistent with the substantive provisions of the fair housing and fair lending laws and regulations were identified. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.

CRA APPENDIX A

SCOPE OF EXAMINATION

A full discussion of the scope of the examination is contained in the narrative section of this public evaluation. The following offices were visited during the evaluation.

Main Office, Main Street, and Church Circle, Annapolis, Maryland

Processing Center, George Street, Annapolis, Maryland

CRA APPENDIX B

GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Block numbering area ("BNA"): A statistical subdivision of a county for grouping and numbering blocks in nonmetropolitan counties where local census statistical area committees have not established census tracts. A BNA does not cross county lines.

Census tract: A small subdivision 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. Census tracts 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.

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 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

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

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).

Full review: Performance under the lending, investment and service tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity and responsiveness).

Geography: A census tract or a block numbering area delineated by the U. S. 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 race, gender and income of applications, amount of loan requested, and disposition of the application (for example, 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 review: Performance under the lending, investment and service tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-income: Individual income that is less than 50 percent of the area median income, or a median-family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan area ("MA"): Any primary metropolitan statistical area ("PMSA"), metropolitan statistical area ("MSA") or consolidated metropolitan statistical area ("CMSA") as defined by the Office of Management and Budget, with a population of 250 thousand or more, and any other area designated as such by the appropriate federal financial supervisory agency.

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(s) to business(es): A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income ("Call Report") and the Thrift Financial Reporting ("TFR") instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): A loan included in "loans to small farms" as defined in the instructions for preparation of the Call Report. These loans have original amounts of \$500 thousand or less and are either secured by farmland, or are 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 a geography.