

PUBLIC DISCLOSURE

October 21, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Heritage Bank

911825

150 Granby Street, Suite 150

Norfolk, Virginia 23510

**Federal Reserve Bank of Richmond
P. O. Box 27622
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.

TABLE OF CONTENTS

Institution’s CRA Rating 1

Scope of Examination 1

Description of Institution 1

Description of Virginia Beach-Norfolk-Newport News, VA-NC MSA Assessment Area..... 2

Conclusions with Respect to Performance Criteria 5

Glossary 9

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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

The major factors supporting this rating include:

- The bank's loan-to-deposit ratio is considered reasonable given the bank's size, financial condition and credit needs within the bank's assessment area.
- A substantial majority of the bank's small business loans were originated within the bank's assessment area.
- The bank's lending to businesses of different sizes is considered reasonable overall.
- While the bank's geographic distribution lending performance varies by year from reasonable to excellent, it is considered reasonable overall.
- The bank has not received any complaints regarding its CRA performance since the previous evaluation.

SCOPE OF EXAMINATION

Heritage Bank (HB) was evaluated using the interagency examination procedures developed by the Federal Financial Institutions Examination Council. Because of its branch locations and lending volume, HB is required to report certain information regarding its home mortgage lending in accordance with the Home Mortgage Disclosure Act (HMDA). During 2011 and 2012, the bank reported originating only 13 residential mortgage (HMDA) loans. Given the minimal volume of its residential mortgage lending and considering its business strategy of focusing on commercial lending, the bank's HMDA data was not considered in this evaluation. Consistent with its business strategy and based upon recent historical lending activity, small business lending was identified as the bank's primary lending product and is considered in this evaluation. All small business loans originated by the bank during 2011 and 2012 are included in the evaluation.

DESCRIPTION OF INSTITUTION

HB is headquartered in Norfolk, Virginia and operates five full-service branches in southeastern Virginia. The bank is a wholly-owned subsidiary of Heritage Bankshares Incorporated, a single bank holding company. The bank received a Satisfactory rating at its previous CRA evaluation dated October 19, 2009. No known legal impediments exist that would prevent the bank from meeting the credit needs of its assessment area.

As of June 30, 2013, HB had total assets of \$320.5 million, of which 68.4% were net loans and 5.9% were securities. As of the same date, deposits totaled \$281.9 million. Various deposit and loan products are available through the institution including loans for residential, mortgage, consumer, and business purposes; however, the bank focuses primarily on commercial and small business lending and offers consumer and residential mortgage loans on a limited basis. The composition of the loan portfolio (reflecting gross loans) as of June 30, 2013 is depicted in the following table:

Composition of Loan Portfolio

Loan Type	6/30/2013	
	\$(000s)	%
Secured by 1-4 Family dwellings	42,936	19.4
Multifamily	7,686	3.5
Construction and Development	6,587	3.0
Commercial & Industrial/ NonFarm NonResidential	144,662	65.3
Consumer Loans and Credit Cards	1,436	0.6
Agricultural Loans/ Farmland	0	0.0
All Other	18,059	8.2
Total	221,366	100.0

As indicated in the preceding table, the bank is an active commercial lender and most of its loans secured by one- to four-family dwellings are for commercial purpose rather than consumer purpose loans. As previously indicated, the bank offers consumer purpose loans on a limited basis.

The bank serves one assessment area located in the Hampton Roads region of southeastern Virginia. The bank’s assessment area includes a portion of the Virginia Beach-Norfolk-Newport News, VA-NC Metropolitan Statistical Area (MSA). While the MSA covers a multistate area (Virginia and North Carolina), the bank’s assessment area does not. The following table details the composition of the bank’s assessment area:

Assessment Area Name	City	State	Census Tracts Included
Virginia Beach-Norfolk-Newport News, VA-NC MSA	Chesapeake	VA	0200.01 – 0212.00, 0213.02, 0214.02 – 0214.03
	Norfolk	VA	All
	Virginia Beach	VA	All

Since its previous CRA evaluation in October 2009, HB has not opened any new branch offices. The bank did, however, close two offices located in the City of Norfolk during July 2013. Because the bank continues to operate other branches in the City of Norfolk, the branch closures did not necessitate changes to the bank’s assessment area.

DESCRIPTION OF INSTITUTION’S OPERATIONS IN VIRGINIA BEACH-NORFOLK-NEWPORT NEWS, VA-NC MSA ASSESSMENT AREA

The bank operates five branch offices within the assessment area, which includes all of the cities of Norfolk and Virginia Beach and a portion of the City of Chesapeake, Virginia. As of June 30, 2013, the bank ranked 9th out of 18 institutions in local deposit market share with 2.1% of the assessment area’s FDIC insured deposits (credit union deposits are not included).

According to the 2000 census data, the assessment area had a population of 816,258 and a median housing value of \$113,512. The assessment area owner-occupancy rate (57.7%) was less than the rate for the Commonwealth of Virginia (63.3%) and approximated the rate for the entire MSA (58.8%). Within the assessment area, 8% of families were considered below the poverty level, which was higher than the rate for the commonwealth (7%) and less than the rate within the entire MSA (8.4%). The HUD estimated median family income for the Virginia Beach-Norfolk-Newport News, VA-NC MSA equaled \$69,900 during 2011. The following table includes pertinent demographic data for the assessment area based on census data from 2000 and D&B data from 2011.

Assessment Area Demographics

Virginia Beach-Norfolk-Newport News, VA-NC MSA (Based on 2000 Census Boundaries and 2011 D&B information)								
Income Categories*	Tract Distribution		Families by Tract		Families < Poverty as a % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	15	7.4	9,167	4.4	3,775	41.2	37,653	18.2
Moderate	57	28.2	45,408	22.0	6,608	14.6	38,641	18.7
Middle	68	33.7	76,692	37.1	4,413	5.8	47,639	23.1
Upper	61	30.2	75,330	36.5	1,642	2.2	82,664	40.0
NA	1	0.5	0	0.0	0	0.0		
Total	202	100.0	206,597	100.0	16,438	8.0	206,597	100.0
	Owner Occupied Units by Tract	Households						
		HHs by Tract		HHs < Poverty by Tract		HHs by HH Income		
		#	%	#	%	#	%	
Low	3,172	1.7	14,315	4.8	5,756	40.2	58,182	19.7
Moderate	28,439	15.7	73,189	24.7	11,616	15.9	51,404	17.4
Middle	70,398	38.8	107,001	36.2	7,792	7.3	63,340	21.4
Upper	79,370	43.8	101,454	34.3	4,275	4.2	123,033	41.5
NA	0	0.0	0	0.0	0	0.0		
Total	181,379	100.0	295,959	100.0	29,439	9.9	295,959	100.0
	Total Businesses by Tract	Businesses by Tract and Revenue Size						
		Less than or = \$1 Million		Over \$1 Million		Revenue not Reported		
		#	%	#	%	#	%	
Low	1,321	2.8	1,177	2.8	97	3.5	47	2.9
Moderate	9,189	19.6	8,069	19.0	771	27.7	349	21.8
Middle	16,460	35.1	14,933	35.1	958	34.4	569	35.6
Upper	19,756	42.1	18,226	42.9	902	32.4	628	39.3
NA	163	0.3	103	0.2	54	1.9	6	0.4
Total	46,889	100.0	42,508	100.0	2,782	100.0	1,599	100.0
Percentage of Total Businesses:				90.7		5.9		3.4

*NA-Tracts without household or family income as applicable

Based on data from the 2010 census, the assessment area population increased to 855,815. Similarly, the area median housing value also increased and equals \$262,087. The assessment area owner-occupancy rate (57.8%) is slightly less than the rate for the Commonwealth of Virginia (61.8%) and similar to the rate for the entire MSA (59%). Within the assessment area, 7% of families are considered below the poverty level, which approximates the rate for the state (7.2%) and the overall MSA (7.5%). The HUD estimated median family income for the Virginia Beach-Norfolk-Newport News, VA-NC MSA equaled \$70,900 during 2012. The following table includes pertinent demographic data for the assessment area based on census data from 2010 and D&B from 2012.

Assessment Area Demographics

Virginia Beach-Norfolk-Newport News, VA-NC MSA (Based on 2010 ACS Boundaries and 2012 D&B information)								
Income Categories*	Tract Distribution		Families by Tract		Families < Poverty as a % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	16	7.5	10,880	5.2	3,873	35.6	39,069	18.7
Moderate	51	23.8	43,375	20.7	5,099	11.8	38,453	18.4
Middle	74	34.6	73,599	35.2	3,919	5.3	46,404	22.2
Upper	69	32.2	81,523	38.9	1,843	2.3	85,451	40.8
NA	4	1.9	0	0.0	0	0.0		
Total	214	100.0	209,377	100.0	14,734	7.0	209,377	100.0
	Owner Occupied Units by Tract		Households					
			HHs by Tract		HHs < Poverty by Tract		HHs by HH Income	
	#	%	#	%	#	%	#	%
Low	4,330	2.2	16,587	5.3	5,750	34.7	64,398	20.7
Moderate	32,411	16.7	72,076	23.2	9,635	13.4	54,689	17.6
Middle	70,218	36.1	112,623	36.2	8,804	7.8	61,991	19.9
Upper	87,422	45.0	109,988	35.3	4,249	3.9	130,196	41.8
NA	0	0.0	0	0.0	0	0.0		
Total	194,381	100.0	311,274	100.0	28,438	9.1	311,274	100.0
	Total Businesses by Tract		Businesses by Tract and Revenue Size					
			Less than or = \$1 Million		Over \$1 Million		Revenue not Reported	
	#	%	#	%	#	%	#	%
Low	1,383	3.1	1,227	3.0	92	3.4	64	4.1
Moderate	8,274	18.3	7,376	18.0	615	22.6	283	17.9
Middle	16,849	37.2	15,001	36.6	1,232	45.2	616	39.0
Upper	18,587	41.0	17,260	42.1	717	26.3	610	38.7
NA	199	0.4	127	0.3	67	2.5	5	0.3
Total	45,292	100.0	40,991	100.0	2,723	100.0	1,578	100.0
	Percentage of Total Businesses:			90.5		6.0		3.5

*NA-Tracts without household or family income as applicable

Employment opportunities are available within a variety of industries including the military, healthcare, shipbuilding and repair, retail services, and municipal governments. Major area employers include U.S. Department of Defense, area healthcare institutions (Sentara, Chesapeake General, and King's Daughters), Stihl (power tool manufacturing), Wal-Mart stores, Norshipco (ship building and repair), Cox Communications, area governments and local school boards. Recent periodic unemployment rates are included in the following table:

Geographic Area	Dec 2009	Jun 2010	Dec 2010	Jun 2011	Dec 2011	Jun 2012	Dec 2012	Jun 2013
City of Chesapeake	6.9%	7.2%	6.7%	6.9%	6.3%	6.5%	5.6%	6.1%
City of Norfolk	9.4%	9.6%	8.5%	9%	8.4%	8.5%	7.3%	7.6%
City of Virginia Beach	6.6%	6.5%	6.2%	6.2%	6%	5.8%	5.5%	5.6%
Virginia Beach-Norfolk-Newport News, VA-NC MSA	7.5%	7.6%	7.2%	7.3%	7%	6.9%	6.1%	6.3%
Commonwealth of Virginia	7.2%	7.2%	6.6%	6.7%	6.1%	6.2%	5.5%	5.9%

As indicated by the data in the table, unemployment rates within the assessment area and the commonwealth have declined since December 2009. With the exception of the City of Norfolk, which has an unemployment rate that is much higher than the commonwealth, the level of unemployment within the entire assessment area remains similar to the Commonwealth of Virginia.

An individual familiar with the local market area was contacted to discuss local economic conditions and community credit needs. The contact stated that the City of Norfolk's credit rating was recently upgraded and suggested that the upgrade would help the city in attracting new businesses. The contact observed that area businesses would benefit from additional access to sources of venture capital and, in particular, funding for business start-ups. The individual stated that local financial institutions are reasonably serving the needs of their communities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

An analysis of lending during the review period is discussed in greater detail in subsequent sections of this evaluation. When evaluating the bank's performance, relevant area demographic data from the 2000 and 2010 census are used as proxies for demand. Demographic data from the 2000 census is considered when evaluating the bank's lending performance during 2011, while demographic data from the 2010 census is utilized when evaluating the bank's performance during 2012. Dun & Bradstreet (D&B) business demographic data from 2011 and 2012 are also considered when evaluating the bank's performance. Aggregate small business loan data from these same years is used to gauge the effective demand for credit when evaluating the bank's performance. Because the bank does not report small business lending data under the CRA, HB's small business lending activity is not included in the aggregate data.

While HB's small business loan data from calendar years 2011 and 2012 were fully analyzed and considered in the evaluation, bank and aggregate data from only 2012 are reflected in the assessment area analysis tables. In instances when the bank's 2011 small business performance varies significantly from its performance during 2012, such variance and the corresponding impact on the overall performance are discussed.

When evaluating the borrower and the geographic distribution of lending, the number (and corresponding percentage) of loans originated or purchased is given primary emphasis. To arrive at an overall assessment area level conclusion regarding the distribution of lending, performance for each year is then generally weighted by the dollar volume of such loans in the assessment area. Because the bank originated a larger dollar volume of small business loans during 2011 than during 2012, the bank's small business lending performance during 2011 is given greater weight when determining the bank's overall lending performance.

Within the bank's market areas, a high level of small business lending activity has been reported by specialized lenders, who often originate or purchase small business loans in the form of credit cards. These loans, however, tend to be much smaller in size than traditional small business bank loans, and a significant majority of such loans do not have revenue data reported. The presence of these lenders is

reflected in a smaller market share for traditional lenders and tends to understate lending to businesses with annual revenues of \$1 million or less. These factors were considered as an aspect of performance context when evaluating the level and distribution of small business lending.

Loan-To-Deposit Ratio

As of June 30, 2013, the bank's loan to deposit ratio equals 77.8% and averaged 83.4% for the 15-quarter period ending June 30, 2013. In comparison, the quarterly average loan-to-deposit ratios for all banks headquartered in metropolitan areas of Virginia and of similar asset size to HB ranged from 76.4% to 87% during the same 15-quarter period. Since June 30, 2009, assets, net loans, and deposits have increased by 20%, 23.6%, and 22.2%, respectively. The bank's loan-to-deposit ratio is considered reasonable given the institution's size, financial condition, market conditions, and local credit needs.

Lending In Assessment Area

To determine the institution's volume of lending within its assessment area, the geographic location of the bank's small business loans originated during 2011 and 2012 were considered. The lending distribution inside and outside of the bank's assessment area is reflected in the following table:

Comparison of Credit Extended Inside and Outside of Assessment Area(s)

Loan Type	Inside				Outside			
	#	%	\$(000)	%	#	%	\$(000)	%
Small Business	135	93.8	39,715	97.4	9	6.2	1,076	2.6
TOTAL LOANS	135	93.8	39,715	97.4	9	6.2	1,076	2.6

As indicated in the table, a substantial majority of the number (93.8%) and dollar amounts (97.4%) of loans have been provided to businesses in the bank's assessment area. The institution's level of lending within its assessment area is considered highly responsive to community credit needs.

Lending to Businesses of Different Sizes

Distribution of Lending by Loan Amount and Size of Business

Virginia Beach-Norfolk-Newport News, VA-NC MSA (2012)								
by Revenue	Bank				Aggregate*			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
\$1 Million or Less	26	51.0	6,916	48.5	5,073	37.1	200,595	39.5
Over \$1 Million	22	43.1	6,591	46.2	NA	NA	NA	NA
Unknown	3	5.9	750	5.3	NA	NA	NA	NA
by Loan Size								
\$100,000 or less	15	29.4	772	5.4	12,712	93.1	143,253	28.2
\$100,001-\$250,000	17	33.3	2,927	20.5	412	3.0	74,451	14.7
\$250,001-\$1 Million	19	37.3	10,558	74.1	532	3.9	289,512	57.1
Total	51	100.0	14,257	100.0	13,656	100.0	507,216	100.0

* No data is available for Aggregate loans with Revenues over \$1 million and those with Unknown revenues

D&B data indicates that 90.5% of all local businesses have revenues that do not exceed \$1 million per year. According to 2012 aggregate small business data, 37.1% of reported loans were extended to businesses with annual revenues of \$1 million or less. The remaining loans were to businesses with revenues in excess of \$1 million per year or revenues were not known. As part of the performance context, the aggregate data was also considered after excluding certain high-volume specialty credit card

lenders. Of the remaining small business loans originated by traditional bank lenders, 50.2% were made to businesses with annual revenues of \$1 million or less. During 2012, 51% of the bank's small business loans were to businesses with annual revenues of \$1 million or less. The bank's performance during 2012 is reasonable and its performance during 2011 is similar.

Geographic Distribution of Loans

According to census data from 2000, the assessment area included 15 low-income, 57 moderate-income, 68 middle-income, and 61 upper-income census tracts. In addition, one census tract did not have an income designation because no families resided within its boundaries. As previously noted, the demographic data based on the census data from 2000 is used as a proxy for demand when evaluating the bank's lending performance during 2011. As a result of the 2010 census, the number and income level designations of census tracts within the assessment area changed. Based on the 2010 census data, the assessment area includes 16 low-income, 51 moderate-income, 74 middle-income, and 69 upper-income census tracts. Four tracts have unknown income designations according to the 2010 census. Demographic data based on the 2010 census is used as a proxy for demand when evaluating the bank's lending performance during 2012.

Distribution of Small Business Loans by Income Level of Census Tract

Virginia Beach-Norfolk-Newport News, VA-NC MSA (2012)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
Low	3	5.9	622	4.4	265	2.0	15,598	3.1
Moderate	6	11.8	913	6.4	2,456	18.5	114,836	22.8
Middle	19	37.3	4,527	31.8	5,167	38.9	205,146	40.7
Upper	23	45.0	8,194	57.4	5,234	39.4	155,984	31.0
NA*	0	0.0	0	0.0	156	1.2	12,387	2.4
Total	51	100.0	14,256	100.0	13,278	100.0	503,951	100.0

*NA-Tracts without household or family income as applicable
Loans where the geographic location is unknown are excluded from this table.

The bank's level of small business lending in low-income tracts (5.9%) significantly exceeded both the proportion of area businesses located in low-income areas (3.1 %) and the aggregate lending level in such census tracts (2%) and is considered excellent. The bank's level of small business lending in moderate-income census tracts lagged the proportion of area businesses located in moderate-income areas (18.3 %) and the aggregate lending level in such census tracts (18.5%) and is considered marginally reasonable. The bank's overall performance during 2012 is considered reasonable.

During 2011, the bank's performance was stronger. Specifically, the bank originated 84 loans totaling \$25.5 million in the assessment area during 2011. Of these loans, eight (9.5%) totaling \$2.5 million (9.8%) were extended to businesses located in low-income census tracts, and 17 loans (20.2%) totaling \$4.7 million (18.6%) were extended to businesses located in moderate-income census tracts. The bank's lending in low-income census tracts significantly exceeded both the percentage of businesses located low-income census tracts (2.8%) and the aggregate level of lending (2.5%) and is considered excellent. The bank's lending in moderate-income census tracts approximated the percentage of businesses located in moderate-income census tracts (19.6%) and the aggregate lending level (19.4%). Given the strength of the bank's low-income census tract lending performance, the bank's overall performance during 2011 is considered excellent.

When considering both the relative size and strength of the bank's small business lending performance during 2011 and 2012, its overall performance is considered reasonable.

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. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.

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.

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: All Agencies have adopted the following language. 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.

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 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 Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, 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 to meet essential community needs, including needs of low- and moderate-income individuals.

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-scope review: Performance under the Lending Test (and if applicable, consideration of investments and services) 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 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 such data as the race, gender, and the income of applications, the amount of loan requested, and the 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-scope review: Performance under the Lending Test (and if applicable, consideration of investments and services) 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): 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 population of at least 2.5 million may be divided into MDs.

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 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 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.