

## **PUBLIC DISCLOSURE**

June 3, 2013

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

First State Bank of Warner  
2 West Main Street  
Warner, South Dakota 57479  
RSSD 132152

**Federal Reserve Bank of Minneapolis**  
**90 Hennepin Avenue, P.O. Box 291**  
**Minneapolis, MN 55480-0291**

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

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*Definitions for many of the terms used in this performance evaluation can be found in section 228.12 of Regulation BB. For additional convenience, a Glossary of Common CRA Terms is attached as Appendix A at the end of this performance evaluation.*

**INSTITUTION’S CRA RATING:** This institution is rated “Satisfactory.”

Examiners evaluated the Community Reinvestment Act (CRA) performance of First State Bank of Warner, Warner, South Dakota, using the Small Bank CRA Examination Procedures. Based on the bank’s asset size and financial condition, the bank effectively meets the credit needs of the small farms, small businesses, and residents in its assessment area. Several factors support the bank’s satisfactory rating.

- The bank’s lending to borrowers of different income levels and to businesses and farms of different sizes is reasonable.
- The geographic distribution of the bank’s loans reflects reasonable dispersion throughout the assessment area.
- The bank’s net loan-to-deposit ratio indicates a reasonable level of lending, given the bank’s size, financial condition, and assessment area credit needs.
- The bank originated a majority of its loans in its assessment area.

The bank received a satisfactory rating at the conclusion of the previous CRA evaluation dated April 27, 2009.

**SCOPE OF EVALUATION**

This evaluation is based on a statistical sample of 93 small farm, 53 small business, and 65 consumer loans originated between January 1, 2012, and December 31, 2012. Agricultural, commercial, and consumer loans represent the bank’s major product lines by total number or total dollar amount, as illustrated in Table 1.

<i>Loan Type</i>	<i>Number of Loans</i>	<i>Percentage of Total Number</i>	<i>Total Loan Dollars</i>	<i>Percentage of Total Dollars</i>
Agricultural (≤ \$500,000)	170	45.3	\$20,378,222	33.6
Agricultural (> \$500,000)	29	7.7	30,352,551	50.0
Commercial (≤ \$1,000,000)	72	19.2	6,290,566	10.4
Consumer	95	25.3	1,033,958	1.7
Residential Real Estate	6	1.6	930,775	1.5
Bare Land	3	0.8	1,680,150	2.8
<b>Total</b>	<b>375</b>	<b>100.0</b>	<b>\$60,666,222</b>	<b>100.0</b>

Examiners analyzed the following criteria to determine the bank’s CRA rating:

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

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

For the evaluation criteria, examiners placed the greatest weight on the bank's lending to borrowers of different income levels and to businesses and farms of different sizes. The remaining criteria received equal weight. By product type, small farm lending received the greatest weight, followed by small business lending, then consumer lending. Agricultural lending represents the largest percentage of the bank's loans by dollar amount and number volume during the evaluation period. It also represents the largest percentage of the bank's loan portfolio by dollar amount.

*Community Contacts.* In addition to having discussions with bank management, examiners contacted community members familiar with the credit needs and economic and demographic characteristics of the assessment area. Examiners used information from these contacts and bank management in the evaluation of the bank's CRA performance.

## DESCRIPTION OF INSTITUTION

*Offices.* First State Bank of Warner, Warner, South Dakota, is a full-service bank with its main office in Warner, South Dakota. Warner is a small, rural town with a business sector that supports the agricultural industry. The bank has a full-service branch in Ken's SuperFair Foods, Aberdeen, South Dakota.

On September 16, 2010, the bank entered into a Written Agreement with the Federal Reserve Bank of Minneapolis that includes provisions requiring the bank to improve its capital, liquidity, classified loans, and allowance for loan and lease losses methodology.

Since the previous evaluation, the bank relocated a branch and consolidated a branch. In May 2010, the bank relocated its Lakewood Mall, Aberdeen, South Dakota, branch to the Lakewood Mall Drive-up Facility. In July 2012, the bank consolidated its Lakewood Mall Drive-up Facility with the branch in Ken's SuperFair Foods. Both branches were in a middle-income census tract. The relocation of the Lakewood Mall branch and subsequent consolidation of the two branches did not adversely affect the accessibility of the bank's delivery systems, since Ken's SuperFair Foods is less than a mile from the Lakewood Mall. Further, there are numerous financial institutions in the area to help serve the credit needs of the community.

The bank's hours of service are reasonable and have not changed significantly since the previous evaluation. Its offices are located in middle-income census tracts. Table 2 shows the bank's hours of operation.

<i>Office</i>	<i>Location</i>	<i>Hours of Operation</i>		
Main Office	One Main Street Warner, SD	Lobby	Monday – Friday	8:30 a.m. – 4:00 p.m.
Aberdeen Branch	Ken's SuperFair Foods 2201 Sixth Avenue S.E. Aberdeen, SD	Lobby	Monday – Friday	9:00 a.m. – 6:00 p.m.
			Saturday	9:30 a.m. – 2:00 p.m.
		Drive-Up ATM*	Monday – Friday	8:30 p.m. – 5:30 p.m. Cash-dispensing-only
*ATM: automated teller machine				

*Alternative Delivery Methods.* The bank operates three cash-dispensing-only ATMs in Aberdeen and Warner. The ATMs are located at the Ken's SuperFair Foods branch, the Lakewood Mall food court, and a local restaurant adjacent to the main office in Warner. The bank removed two ATMs since the previous

evaluation: one at the Lakewood Mall branch and one at the Brown County Courthouse. The bank also operated an ATM at the Brown County Courthouse for a period of time between the last evaluation and this evaluation. The bank also offers telephone and online banking. Online banking allows customers to review accounts, transfer funds, and make loan payments. Since the previous evaluation, the bank added online bill payment services. Overall, the bank's services are reasonably accessible throughout the assessment area.

*Loan Portfolio.* According to the March 31, 2013, Report of Condition (ROC), the bank has total assets of \$67.5 million and total loans of \$32.4 million. Overall, the loan portfolio decreased by 5.0% since the previous evaluation, and total assets increased by 55.5%. The substantial increase in assets is primarily attributable to a high volume of additional deposits, largely from agricultural customers. The loan portfolio consists of 61.5% agricultural, 31.6% commercial, 4.6% consumer, 1.3% residential real estate,<sup>2</sup> and 1.1% other loans. The overall composition of the loan portfolio has remained relatively stable since the previous evaluation.

*Credit Products.* The bank continues to offer traditional, relatively noncomplex credit products, including closed-end loans and lines of credit for consumers, businesses, and farms. The bank actively participates in loan programs offered by the Small Business Administration, Farm Service Agency, and Federal Agricultural Mortgage Corporation. The bank does not offer residential real estate loans; instead, the bank refers customers to other local financial institutions for these types of loans.

*Market Share.* According to the June 30, 2012, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, the bank ranks eighth out of 20 FDIC-insured financial institutions in deposit market share in Brown, Faulk, Edmunds, and Spink counties, with 2.96% of the deposits. The bank ranks seventh out of 12 FDIC-insured financial institutions in deposit market share in Brown County, where the bank is located, with 3.96% of the deposits.

## **DESCRIPTION OF ASSESSMENT AREA**

*Assessment Area.* The bank has one assessment area, defined as all of Brown and Faulk counties and portions of Edmunds and Spink counties. The assessment area is located in northeastern South Dakota. The number of census tracts in the bank's assessment area decreased from 13 to 12 since the previous evaluation because of changes in census tract boundaries based on 2010 U.S. Census data. The income classifications of the moderate- and upper-income census tracts changed to middle income; the assessment area now consists of 12 middle-income census tracts.

The total number of census tracts in Brown County decreased by one, from nine to eight; two census tracts, 9511.00 and 9512.00, in northern Brown County merged to create one new tract, 9520.00. The total number of moderate-income census tracts decreased from one to zero, middle-income census tracts increased from nine to 12, and upper-income census tracts decreased from three to zero. The bank's main office and branch are located in Brown County. Brown County does not have census tracts classified as distressed or underserved.

The number of census tracts in Spink and Faulk counties did not change. Census tracts 0001.00 and 0002.00 in Spink County are classified as distressed for 2009, 2010, 2011, and 2012. Census tract 9611.00 in Faulk County is classified as distressed for 2009, 2010, 2011, and 2012 and is also classified as underserved for 2012.

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<sup>2</sup>The residential real estate portfolio consists of loans originated prior to the bank's discontinuation of residential real estate lending.

The total number of census tracts in Edmunds County did not change; however, the census tract was renumbered. Edmunds County does not have census tracts classified as distressed or underserved.

Table 3 illustrates the demographic characteristics of the bank's assessment area based on 2010 census data and 2012 Dun & Bradstreet data.

<b>TABLE 3</b>								
<b>Assessment Area Demographics</b>								
<i>Income Categories</i>	<i>Tract Distribution</i>		<i>Families by Tract Income</i>		<i>Families &lt; Poverty Level as % of Families by Tract</i>		<i>Families by Family Income</i>	
	#	%	#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	1,606	14.1
Moderate Income	0	0.0	0	0.0	0	0.0	1,863	16.4
Middle Income	12	100.0	11,378	100.0	708	6.2	3,055	26.9
Upper Income	0	0.0	0	0.0	0	0.0	4,854	42.7
<b>Total Assessment Area</b>	<b>12</b>	<b>100.0</b>	<b>11,378</b>	<b>100.0</b>	<b>708</b>	<b>6.2</b>	<b>11,378</b>	<b>100.0</b>
<i>Income Categories</i>	<i>Housing Units by Tract</i>	<i>Housing Types by Tract</i>						
		<i>Owner-Occupied</i>			<i>Rental</i>		<i>Vacant</i>	
		#	%	%	#	%	#	%
Low Income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate Income	0	0	0.0	0.0	0	0.0	0	0.0
Middle Income	20,941	13,184	100.0	63.0	5,418	25.9	2,339	11.2
Upper Income	0	0	0.0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>20,941</b>	<b>13,184</b>	<b>100.0</b>	<b>63.0</b>	<b>5,418</b>	<b>25.9</b>	<b>2,339</b>	<b>11.2</b>
<i>Income Categories</i>	<i>Total Businesses by Tract</i>	<i>Businesses by Tract and Revenue Size</i>						
		<i>≤ \$1 Million</i>		<i>&gt; \$1 Million</i>		<i>Revenue Not Reported</i>		
		#	%	#	%	#	%	
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	0	0.0	0	0.0	0	0.0	0	0.0
Middle Income	3,154	100.0	2,785	100.0	205	100.0	164	100.0
Upper Income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>3,154</b>	<b>100.0</b>	<b>2,785</b>	<b>100.0</b>	<b>205</b>	<b>100.0</b>	<b>164</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>				<b>88.3</b>		<b>6.5</b>		<b>5.2</b>
<i>Income Categories</i>	<i>Total Farms by Tract</i>	<i>Farms by Tract and Revenue Size</i>						
		<i>≤ \$1 Million</i>		<i>&gt; \$1 Million</i>		<i>Revenue Not Reported</i>		
		#	%	#	%	#	%	
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	0	100.0	0	100.0	0	0.0	0	0.0
Middle Income	874	0.0	860	0.0	14	100.0	0	0.0
Upper Income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>874</b>	<b>100.0</b>	<b>860</b>	<b>100.0</b>	<b>14</b>	<b>100.0</b>	<b>0</b>	<b>0.0</b>
<b>Percentage of Total Farms:</b>				<b>98.4</b>		<b>1.6</b>		<b>0.0</b>

*Income.* For purposes of classifying borrower income, this evaluation uses the Department of Housing and Urban Development's estimated median family income. For borrowers residing in nonmetropolitan areas of South Dakota, this figure is \$56,400 for 2012. For purposes of classifying census tracts by

income level, this evaluation uses the 2010 census median family income of \$55,116 for nonmetropolitan areas of South Dakota.

*Population.* According to 2010 census data, the population of the bank's assessment area was 45,935. Approximately 79.5% of the assessment area's population resides in Brown County, which includes Aberdeen and Warner. There has been a slight increase, 2.2%, in the population of Brown County since 2010, based on 2010 census data and 2012 census population estimates. Aberdeen is the regional trade center of northwestern South Dakota. Aberdeen has a population of 26,791 based on 2012 census population estimates, which represents an increase of 2.7% since 2010. Warner's population of 457 based on 2012 census estimates represents a very small portion of the assessment area. According to community contacts, Brown County experienced a recent influx of minorities due to new employers in the area. Despite this influx, Brown County's minority population is relatively low at 6.4%, based on 2011 census estimates. The community contacts indicated that the Brown County population is aging, with young people leaving the area for education and career opportunities.

The assessment area includes 18,602 households, of which 21.1% are low income and 17.0% are moderate income. These percentages are slightly lower than the percentages for the state of South Dakota, which are 22.5% and 17.3%, respectively. The assessment area includes 13.0% of households and 6.2% of families below the poverty level and is comparable to percentages for the state of South Dakota, 12.9% of households and 8.7% of families below the poverty level.

*General Economic Characteristics.* According to bank management and community contacts, economic conditions in the assessment area are strong. Both stated that the area did not experience the economic instability associated with the recent national recession. Overall, the economy has been stable, with some growth in certain sectors, such as health care services and food processing. The primary industry in the area is agriculture, but health care, financial services, manufacturing companies, and retail services diversify the economic base.

The contacts stated that local businesses are doing well. Two businesses, a medical center and a beef processing plant, came to the area, creating approximately 750 new jobs. The contacts stated that the Aberdeen area experienced some layoffs, but overall, the layoffs have been relatively minor. The largest employers in the area include health care providers, manufacturing companies, and the local school district and colleges.

The agricultural sector continues to prosper and expand, mainly as a result of high commodity prices and good yields. The primary crops in the area are corn and soybeans, which are at historically high prices of \$6.60 and \$15.40 per bushel, respectively. Agricultural real estate values are extremely high and have increased over the past several years. Despite the high land prices, agricultural operators carry relatively low debt because they are able to pay cash for land transactions and equipment purchases.

According to bank management and community contacts, the housing market is strong and stable. Housing units in the area are readily available and affordable for families. The area has little dilapidated housing, and there are no identifiable areas in need of improvements. The community contacts stated there are no unmet housing needs in the area. Further, real estate values have not deteriorated as in other parts of the nation.

Bank management and community contacts stated that unemployment in the area is relatively low. According to the Bureau of Labor Statistics, the 2012 nonseasonally adjusted annual unemployment rates were 3.6% for Brown County, 3.6% for Edmunds County, 4.1% for Faulk County, and 4.2% for Spink County. All are lower than the 2012 statewide annual rate of 4.4%. The preliminary nonseasonally

adjusted unemployment rate for Brown County for April 2013 is 3.4%, which is significantly lower than the national rate of 7.1% for the same period.

Community contacts and bank management indicated that the financial services market in the assessment area is competitive for all product types. Numerous financial institutions operate in the assessment area, including branches of significantly larger banks. The community contacts did not identify any unmet credit needs in the bank's assessment area.

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

The bank's performance in meeting the credit needs of its assessment area is satisfactory. The bank's lending to businesses and farms of different sizes and borrowers of different income levels is reasonable. The geographic distribution of loans reflects reasonable dispersion and distribution throughout the assessment area. The net loan-to-deposit ratio is reasonable given the bank's size and financial condition and the assessment area's credit needs. The bank originated a majority of its loans within the assessment area.

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

Overall, the bank's lending to borrowers of different income levels and to farms and businesses of different sizes is reasonable. The bank originated a reasonable percentage of small business and small farms loans to businesses and farms with gross annual revenues of \$1 million or less and an excellent percentage of consumer loans to low- and moderate-income borrowers.

*Small Farm Lending.* The bank's lending to small farms is reasonable. According to 2012 Dun & Bradstreet data, 98.4% of the farms in the assessment area have gross annual revenues of \$1 million or less. As shown in Table 4, the bank made 79.5% of its small farm loans to small farms. Although lower than demographic data, the bank's small farm lending is reasonable given local economic conditions. Bank management stated that increased profits and the overall health of the agricultural sector resulted in decreased lending because farmers generally can pay cash instead. According to bank management, the prosperity of the agricultural sector also caused some farm operations to exceed the revenue limitations in the definition of a small farm. Despite the growth and prosperity of the agricultural sector, the bank originated the majority, 65.5%, of small farm loans to small farms in amounts of \$100,000 or less.

*Small Business Lending.* The bank's lending to small businesses is reasonable. According to 2012 Dun & Bradstreet data, the majority, 88.3%, of the businesses in the assessment area have gross annual revenues of \$1 million or less. As shown in Table 4, the bank made the majority, 83.0%, of its small business loans to small businesses. The bank originated the majority, 82.1%, of small business loans to small businesses in amounts of \$100,000 or less. The bank's lending is generally consistent with demographic data and is reasonable, especially considering the competition from numerous financial institutions in the assessment area.

<i>Small Farm Originations</i>	$\leq \$100,000$	$> \$100,000$ to $\leq \$250,000$	$> \$250,000$ to $\leq \$500,000$ (Farm)	<i>Total Originations</i>
Percentage of Small Farm Loans	57.5%	23.3%	19.2%	100.0%
Percentage of Loans to Farms with Revenues of \$1 million or Less	65.5%	24.1%	10.3%	79.5%
<i>Small Business Originations</i>	$\leq \$100,000$	$> \$100,000$ to $\leq \$250,000$	$> \$250,000$ to $\$1$ Million (Business)	<i>Total Originations</i>
Percentage of Small Business Loans	72.3%	14.9%	12.8%	100.0%
Percentage of Loans to Businesses with Revenues of \$1 million or Less	82.1%	7.7%	10.3%	83.0%

*Consumer Lending.* The bank's lending to low- and moderate-income borrowers is excellent. As shown in Table 5, 21.1% of the households in the assessment area are low income and 17.0% are moderate income. The bank's lending to low- and moderate-income individuals exceeds the demographic data; the bank originated 37.3% of the consumer loans in the sample to low-income borrowers and 32.2% to moderate-income borrowers. The bank's lending compares favorably to demographic data. The bank originated 30.5% of the consumer loans in the sample in amounts of \$3,000 or less. Of the loans in this category, the bank extended 83.3% to low- and moderate-income borrowers. The bank is able to serve borrowers of different income levels in the assessment area through its strategic commitment to relationship lending and its willingness to make small-dollar loans.

	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>		<i>Unknown Income</i>	
	#	\$	#	\$	#	\$	#	\$	#	\$
Consumer Loans	37.3%	17.1%	32.2%	30.2%	15.3%	14.0%	13.6%	38.3%	1.7%	0.5%
Percentage of Households by Income Levels	21.1%		17.0%		18.0%		44.0%		13.0%	

\*Median household income for nonmetropolitan areas of South Dakota is \$45,286 for 2010.  
\*\*Based on 2010 census data.

### GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution and dispersion of the bank's loans in the assessment area are reasonable and do not reveal any unexplained gaps in lending patterns. The assessment area consists of 12 census tracts, all of which are middle income; thus, an analysis of the distribution of loans among census tracts of different income levels is not possible. Bank management and community contacts did not identify any concentrations of low- or moderate-income families or households in the assessment area. The bank actively lends in all census tracts in the assessment area.

### LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio is reasonable given the bank's asset size, the bank's financial condition, and the assessment area's credit needs. Since the previous evaluation, the bank's quarterly net loan-to-deposit ratio ranged from 94.1% to 50.5%. The bank's average net loan-to-deposit ratio for the past 16 quarters is 72.2%, which is lower than the 17-quarter average of 86.0% at the previous

evaluation. The bank's 16-quarter average net loan-to-deposit ratio is lower than the ratios for three other financial institutions operating in the area, as shown in Table 6.

<i>Name and Location</i>	<i>Assets as of March 31, 2013 (in thousands)</i>	<i>Average Net Loan-to-Deposit Ratio</i>
First State Bank of Warner Warner, South Dakota	\$ 67,480	72.2%
Dacotah Bank Aberdeen, South Dakota	\$2,028,514	85.9%
First State Bank Groton, South Dakota	\$ 64,531	80.6%
Ipswich State Bank Ipswich, South Dakota	\$ 57,927	63.8%
Plains Commerce Bank Hoven, South Dakota	\$ 462,585	92.4%

The bank's average net loan-to-deposit ratio is slightly higher than the national peer group's average net loan-to-deposit ratio, which is 67.9%. The March 31, 2013, ROC indicates the bank's net loan-to-deposit ratio is 50.5%, which is significantly lower than the national peer group net loan-to-deposit ratio of 64.0%. The bank's national peer group, as of March 31, 2013, includes all insured commercial banks having assets between \$50 million and \$100 million, with three or more offices and not located in a metropolitan statistical area.

Although the bank generally compares less favorably to peer and competitor data, the bank's net loan-to-deposit ratio is reasonable because of area competition, decreased loan demand, and increased deposits. The financial services market in the area is competitive because numerous financial institutions operate in the assessment area, including branches of larger national banks. A general decline in demand for credit also increased competition for loans during the evaluation period. Bank management indicated that loan demand from agricultural borrowers has been decreasing because operations have generally been more profitable in the last several years; a large majority of the bank's lending is agricultural. In contrast, the bank's deposits have shown a substantial increase in the past several years. Bank management attributed the increase in deposits to agricultural operators. Finally, community contacts did not identify any unmet credit needs in the area.

Overall, the bank's net loan-to-deposit ratio is reasonable given the bank's size, its financial condition, and the credit needs of the assessment area.

#### COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank originated a majority of its loans within the assessment area. Table 7 details the lending activity in the assessment area by loan type.

<i>Loan Type</i>	<i>Inside</i>				<i>Outside</i>			
	<i>#</i>	<i>%</i>	<i>\$(000)s</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>\$(000)s</i>	<i>%</i>
Consumer	59	90.8	616	88.3	6	9.2	82	11.7
Small Business	47	88.7	4,638	92.9	6	11.3	356	7.1
Small Farm	73	78.5	9,440	80.2	20	21.5	2,336	19.8
<b>Total</b>	<b>179</b>	<b>84.8</b>	<b>14,695</b>	<b>84.1</b>	<b>32</b>	<b>15.2</b>	<b>2,774</b>	<b>15.9</b>

As Table 7 shows, the bank originated a majority, 84.8%, of its consumer, small business, and small farm loans inside its assessment area. The bank's relationships outside the assessment area are mostly with agricultural borrowers who have family ties to the assessment area. Many of the loans the bank originated outside the assessment area were in census tracts adjacent to or in relatively close proximity to the assessment area. The bank makes loans to existing customers who are not located in the assessment area.

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

Neither the bank nor the Federal Reserve Bank of Minneapolis has received any CRA-related complaints since the previous evaluation.

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

No evidence of violations of applicable antidiscrimination laws or regulations (including Regulation B-- Equal Credit Opportunity Act and the Fair Housing Act) or other illegal credit practices inconsistent with the bank helping to meet community credit needs was revealed.

## Appendix A

### Glossary of Common CRA Terms

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

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

**Community development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 C.F.R. 121.301) or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies.

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

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

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

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

**Full-scope review:** Performance is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include data such as the race, gender, and income of applicants; the amount of loan requested; and the disposition of the application (e.g., approved, denied, and withdrawn).

**Home mortgage loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancings of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited-scope review:** Performance is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments).

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

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

**Metropolitan statistical area (MSA):** An area, defined by the Office of Management and Budget, based on the concept of a core area with at least one urbanized area that has a population of at least 50,000. The MSA comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

**Middle-income:** Individual income that is at least 80 percent and less than 120 percent of the area median income or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

**Moderate-income:** Individual income that is at least 50 percent and less than 80 percent of the area median income or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

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

**Other products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated area:** A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

**Small loan to business:** A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or classified as commercial and industrial loans.

**Small loan to farm:** A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland or classified as loans to finance agricultural production and other loans to farmers.

**Upper-income:** Individual income that is more than 120 percent of the area median income or a median family income that is more than 120 percent, in the case of geography.

(For additional information, please see the Definitions sections of Regulation BB at 12 C.F.R. 228.12.)