

# **PUBLIC DISCLOSURE**

September 27, 2021

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Farmers State Bank of Newcastle

RSSD# 702966

722 Broadway Avenue  
Newcastle, Texas 76372

Federal Reserve Bank of Dallas  
2200 N. Pearl Street  
Dallas, Texas 75201

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

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## INSTITUTION'S COMMUNITY REINVESTMENT ACT RATING

Farmers State Bank of Newcastle (FSB or bank) is rated **Satisfactory**. This rating is based on the following conclusions with respect to the performance criteria:

- The bank's 17-quarter average net loan-to-deposit ratio (NLTD) is reasonable given the bank's size, financial condition, and assessment area credit needs.
- A majority of the bank's small farm loans are originated inside the delineated assessment area.
- A reasonable dispersion of small farm loans occurs throughout the bank's assessment area.
- Lending reflects excellent penetration among farms of different sizes.
- Neither the bank nor this Reserve Bank received any CRA-related complaints since the previous evaluation.

## SCOPE OF EXAMINATION

Examiners utilized the Federal Financial Institutions Examination Council's (FFIEC's) *Interagency Examination Procedures for Small Institutions* to evaluate the bank's CRA performance. The evaluation considered CRA performance context, including the bank's asset size, financial condition, business strategy and market competition, as well as assessment area demographic and economic characteristics, and credit needs. Lending performance was assessed within the bank's single assessment area, consisting of Young and Throckmorton counties in the state of Texas. Examiners reviewed the following data:

- The bank's 17-quarter average NLTD ratio.
- A statistically derived sample of 47 small farm loans selected from a universe of 62 loans originated or renewed between January 1, 2020 and December 31, 2020. Note that small farm loans is considered the bank's primary loan product as it has the largest number of originations since the prior evaluation conducted on June 5, 2017.
- Information provided by one member who is familiar with the agricultural conditions of Young County to further augment understanding of the credit and community development needs and economic conditions of the delineated assessment area

The evaluation of the bank's record of lending includes the use of and comparison to demographic characteristics. The primary sources for the demographic information are the United States Census Bureau (U.S. Census) and Dun & Bradstreet (D&B) data. Demographic characteristics of a particular assessment area are useful in analyzing the bank's record of lending as they provide a means of estimating loan demand and identifying lending opportunities. To understand small farm loan demand, self-reported data of revenue size and geographical location from farm entities is collected and published by D&B. The demographic data should not be construed as defining an expected level of lending in a particular area or to a particular group of borrowers. The information is used to understand the bank's performance context in meeting the credit needs of the delineated assessment area.

**DESCRIPTION OF INSTITUTION**

FSB is an intrastate community bank headquartered in Newcastle, Texas. The bank’s characteristics include:

- The bank is a wholly owned subsidiary of Newcastle Bancshares, Inc.
- The bank has total assets of approximately \$62.2 million as of June 30, 2021
- FSB delineates a single assessment area consisting of Young and Throckmorton counties in north central Texas.
- The bank operates one full-service branch, including an on-site automatic teller machine, in Young County.
- No changes have been made to the bank’s assessment area or branching structure since its previous CRA evaluation.
- The bank offers traditional banking products and services to its customers.

The bank was rated Satisfactory at its most recent performance evaluation, dated June 5, 2017. As of June 30, 2021, the bank reported net loans of \$30.0 million, total deposits of \$56.0 million, and a NLTD of 53.6 percent. The following table reflects the bank’s loan portfolio mix as of June 30, 2021:

**Table 1**

<b>Composition of Loan Portfolio as of June 30, 2021</b>		
<b>Loan Type</b>	<b>\$(000)</b>	<b>%</b>
Construction and Land Development	370	1.2
Farmland	4,670	15.4
1-4 Family Residential Real Estate	3,905	12.8
Multifamily Residential Real Estate	129	0.4
Non-Farm Non-Residential Real Estate	4,448	14.6
Agricultural	5,559	18.3
Commercial and Industrial	9,822	32.3
Consumer	1,101	3.6
Other	401	1.3
Gross Loans	30,405	100.0
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>		

There are no known legal, financial, or other factors impeding the bank’s ability to help meet the credit needs the communities within the delineated assessment area.

**DESCRIPTION OF ASSESSMENT AREA**

FSB delineates a single assessment area located in north central Texas, comprised of two contiguous non-Metropolitan Statistical Area counties: Young and Throckmorton (see Appendix A for an assessment area map). The assessment area contains five census tracts, of which four are classified as middle-income and the remaining tract is classified as upper-income. All four of the assessment area’s middle-income census tracts are designated as underserved remote rural tracts and one is also designated as distressed due to population loss.

**Demographic Characteristics**

According to the U.S. Census, the total estimated population for the bank’s assessment area in 2020 was 19,391, representing a 4 percent decrease over the preceding decade. In particular, Throckmorton County experienced a population loss of more than 9 percent since 2010, in stark contrast to the population of the state of Texas, which increased by 16.8 percent during the same period.

**Table 2**

<b>Newcastle Nonmetropolitan Population Change</b>			
<b>Area</b>	<b>2010 Population</b>	<b>2015 Population</b>	<b>Percent Change</b>
Newcastle Nonmetropolitan	20,191	19,874	-1.6%
Throckmorton County, TX	1,641	1,545	-5.9%
Young County, TX	18,550	18,329	-1.2%
NonMSA Texas	3,035,664	3,060,473	0.8%
Texas	25,145,561	26,538,614	5.5%

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

The market is competitive considering the demographics of the area. Six banks are operating in the area, of which FSB ranks fifth, holding 6.7 percent of total deposits as of June 30, 2021. Of the six banks operating within the assessment area, FSB is the smallest, with less than half the total deposits of the next smallest institution. Further, of the six banks operating in this assessment area, FSB is the only Federal Deposit Insurance Corporation (FDIC)-insured institution operating a single location.

**Income Characteristics**

According to 2020 American Community Survey (ACS) data, approximately 10.5 percent of the families in the bank’s assessment area live below the poverty line. The following chart reflects the 2010 and 2015 median family income (MFI) for the assessment area. Since 2010, the MFI has increased for residents of the assessment area, while the MFI of residents of the state of Texas has decreased.

**Table 3**

<b>Newcastle Nonmetropolitan Median Family Income Change</b>			
<b>Area</b>	<b>2010 Median Family Income</b>	<b>2015 Median Family Income</b>	<b>Percent Change</b>
Newcastle Nonmetropolitan	\$53,658	\$56,800	5.9%
Throckmorton County, TX	\$47,345	\$53,438	12.9%
Young County, TX	\$55,069	\$56,582	2.7%
NonMSA Texas	\$52,524	\$52,198	-0.6%
Texas	\$63,314	\$62,717	-0.9%

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

### Employment and Economic Conditions

The table below shows unemployment rates since 2015. While the unemployment rates in the assessment area have increased, especially in 2020, the increase is not as drastic as the increase for the state of Texas, which almost doubled in the time period. The severe increases in unemployment rates since 2019 can be attributed to the COVID-19 pandemic.

**Table 4**

<b>Newcastle Nonmetropolitan Unemployment Rates</b>						
<b>Area</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Newcastle Nonmetropolitan	4.2%	4.3%	3.8%	3.2%	3.0%	5.2%
Throckmorton County, TX	3.2%	3.5%	4.3%	3.3%	3.7%	4.9%
Young County, TX	4.3%	4.4%	3.8%	3.2%	3.0%	5.3%
NonMSA Texas	5.2%	5.6%	4.8%	4.1%	3.7%	7.2%
Texas	4.5%	4.6%	4.3%	3.9%	3.5%	7.6%

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

### Community Contacts and Community Development Opportunities

Contact was made with an organization working in the agricultural sector that helps cost share with ranchers to pay for land improvements. The contact indicated that farmers and ranchers in the area were impacted by the COVID-19 pandemic, but that the most severe predictions of impending crisis were not realized. The contact indicated that credit needs in the area's agricultural sector consist primarily of general operating loans. Moreover, the contact stated that local financial institutions were generally meeting those needs effectively.

### CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

#### Net Loan-to-Deposit Ratio

This performance criterion evaluates the bank's average NLTD ratio to determine the reasonableness of lending in light of performance context, such as the bank's capacity to lend,

the availability of lending opportunities, the demographic and economic factors present in the assessment area, and in comparison to similarly situated FDIC-insured institutions. The similarly situated institutions were selected based on asset size, product offerings, area of operation, and market share.

The bank’s 17-quarter average NLTD ratio of 55.5 percent is reasonable, as it is comparable with the average NLTD ratios of similarly situated banks for the same time period. The 17-quarter average NLTD ratios of similarly situated banks ranged from 44.3 percent to 73.9 percent.

**Table 5  
Comparative NLTD Ratios (June 30, 2017 – June 30, 2021)**

Institution	Location	Asset Size \$(000)	NLTD Ratio (%)
			17-Quarter Average
Farmers State Bank of Newcastle	Newcastle, TX	\$62,239	55.5%
<b>Similarly Situated Institutions</b>			
Security State Bank	Winters, TX	\$71,240	44.3%
Santa Anna National Bank	Santa Anna, TX	\$56,204	62.9%
First Bank & Trust of Memphis	Memphis, TX	\$63,381	73.9%

**Assessment Area Concentration**

This performance criterion evaluates the percentage of lending extended inside and outside of the assessment area. A majority of the bank’s loans, by number, are originated inside the assessment area.

**Table 6  
Lending Inside and Outside the Assessment Area**

Loan Types	Inside				Outside			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Small Farm	32	68.1	\$1,084	43.9	15	31.9	\$1,385	56.1
<b>TOTAL LOANS</b>	<b>32</b>	<b>68.1</b>	<b>\$1,084</b>	<b>43.9</b>	<b>15</b>	<b>31.9</b>	<b>\$1,385</b>	<b>56.1</b>

The remaining analyses will be based on loans made inside the bank’s assessment area.

**Geographic Distribution of Loans**

This performance criterion evaluates the bank’s distribution of lending within its assessment area by income level of census tracts. As the bank’s assessment area contains only middle- and upper-income census tracts, the analysis of the geographic distribution of the bank’s lending received less weight than other performance criteria.

The bank’s geographic distribution of loans reflects reasonable dispersion among the different census tracts within its assessment area. The bank’s performance in middle-income census tracts was slightly higher than the percentage of total farms located in middle-income tracts. It is notable that all middle-income census tracts in the assessment area are classified by the FFIEC as underserved, which means that the areas’ population is sufficiently small, thin, and distant from a population center and that the census tracts is likely to have difficulty financing the fixed costs of meeting essential community needs. The bank’s lending performance in these underserved census tracts reflects responsiveness to the needs of the community.

**Table 7**

<b>Distribution of 2020 Small Farm Lending By Income Level of Geography</b>					
<b>Assessment Area: Newcastle Nonmetropolitan</b>					
<b>Geographic Income Level</b>	<b>Bank Loans</b>				<b>Total Farms %</b>
	<b>#</b>	<b>#%</b>	<b>\$(000)</b>	<b>\$%</b>	
<b>Low</b>	0	0.0	0	0.0	0.0
<b>Moderate</b>	0	0.0	0	0.0	0.0
<b>Middle</b>	21	65.6	825	76.1	63.6
<b>Upper</b>	11	34.4	259	23.9	36.4
<b>Unknown</b>	0	0.0	0	0.0	0.0
<b>Tract-Unk</b>	0	0.0	0	0.0	
<b>Total</b>	32	100.0	1,084	100.0	100.0

*Source: 2020 FFIEC Census Data  
2020 Dun & Bradstreet Data  
2011-2015 U.S. Census Bureau: American Community Survey*

*Note: Percentages may not total 100.0 percent due to rounding.*

**Lending to Farms of Different Revenue Sizes**

This performance criterion evaluates the bank’s lending to farms of different revenue sizes, with the bank’s lending reflecting an excellent penetration among farms of different sizes. During the review period, 100 percent of the bank’s small farm lending was to farms with annual revenues of \$1 million or less. Another way to gauge the bank’s small farm lending performance is to review the data by loan amount. Smaller farms typically require smaller dollar credits. As shown in the table below, the bank originated 93.8 percent of its small farm loans in amounts of \$100,000 or less, which indicates the bank is making small dollar loans to serve the credit needs of small farms in the assessment area.



**Table 8**

<b>Distribution of 2020 Small Farm Lending By Revenue Size of Farms</b>					
<b>Assessment Area: Newcastle Nonmetropolitan</b>					
	<b>Bank Loans</b>				<b>Total Farms %</b>
	<b>#</b>	<b>#%</b>	<b>\$(000)</b>	<b>\$%</b>	
<b>By Revenue</b>					
<b>\$1 Million or Less</b>	32	100.0	1,084	100.0	98.9
<b>Over \$1 Million</b>	0	0.0	0	0.0	1.1
<b>Revenue Unknown</b>	0	0.0	0	0.0	0.0
<b>Total</b>	32	100.0	1,084	100.0	100.0
<b>By Loan Size</b>					
<b>\$100,000 or Less</b>	30	93.8	738	68.1	
<b>\$100,001 - \$250,000</b>	2	6.3	346	31.9	
<b>\$250,001 - \$500,000</b>	0	0.0	0	0.0	
<b>Total</b>	32	100.0	1,084	100.0	
<b>By Loan Size and Revenues \$1 Million or Less</b>					
<b>\$100,000 or Less</b>	30	93.8	738	68.1	
<b>\$100,001 - \$250,000</b>	2	6.3	346	31.9	
<b>\$250,001 - \$500,000</b>	0	0.0	0	0.0	
<b>Total</b>	32	100.0	1,084	100.0	
<i>Source: 2020 FFIEC Census Data 2020 Dun &amp; Bradstreet Data 2011-2015 U.S. Census Bureau: American Community Survey</i>					
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>					

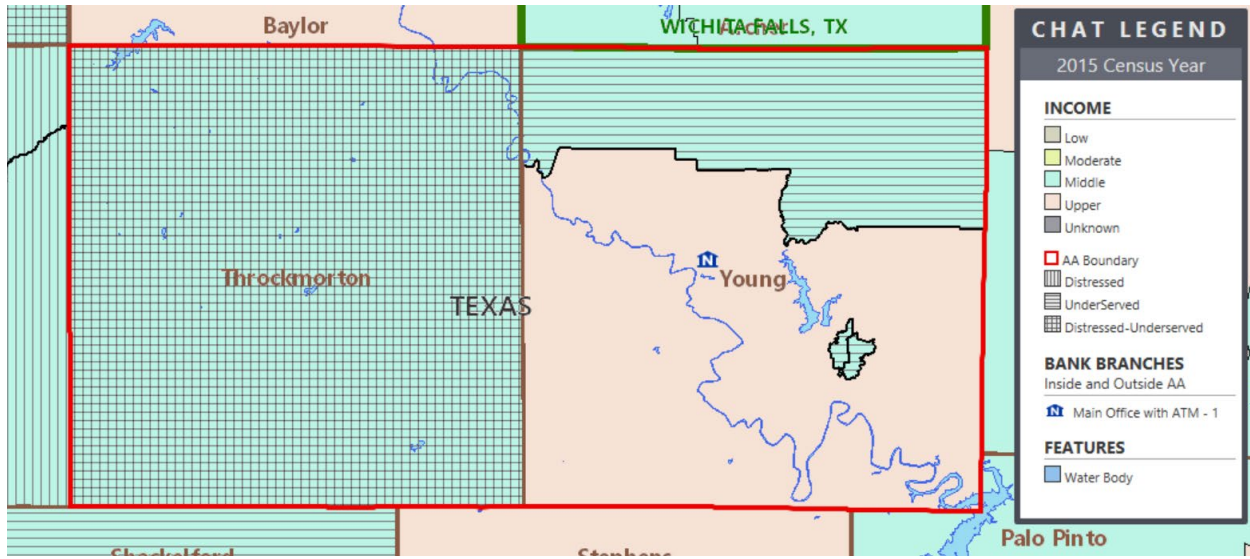
**Response to Complaints**

There were no complaints related to the CRA during the review period. Consequently, the bank’s performance in responding to complaints was not considered in evaluating its overall CRA performance.

**Fair Lending or Other Illegal Credit Practices Review**

An evaluation of the bank’s fair lending activities was conducted during the examination to determine compliance with the substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

APPENDIX A – MAP OF THE ASSESSMENT AREA



**APPENDIX B – DEMOGRAPHIC INFORMATION**

2020 Newcastle Nonmetropolitan AA Demographics								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	1,021	17.8
Moderate	0	0.0	0	0.0	0	0.0	1,168	20.4
Middle	4	80.0	3,822	66.7	445	11.6	883	15.4
Upper	1	20.0	1,906	33.3	155	8.1	2,656	46.4
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total AA</b>	<b>5</b>	<b>100.0</b>	<b>5,728</b>	<b>100.0</b>	<b>600</b>	<b>10.5</b>	<b>5,728</b>	<b>100.0</b>
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
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	6,853	3,897	64.8	56.9	1,559	22.7	1,397	20.4
Upper	2,829	2,120	35.2	74.9	240	8.5	469	16.6
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
<b>Total AA</b>	<b>9,682</b>	<b>6,017</b>	<b>100.0</b>	<b>62.1</b>	<b>1,799</b>	<b>18.6</b>	<b>1,866</b>	<b>19.3</b>
	Total Businesses by Tract		Businesses by Tract & 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	830	74.0	746	73.9	68	74.7	16	76.2
Upper	291	26.0	263	26.1	23	25.3	5	23.8
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total AA</b>	<b>1,121</b>	<b>100.0</b>	<b>1,009</b>	<b>100.0</b>	<b>91</b>	<b>100.0</b>	<b>21</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>				<b>90.0</b>		<b>8.1</b>		<b>1.9</b>
	Total Farms by Tract		Farms by Tract & 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	56	63.6	55	63.2	1	100.0	0	0.0
Upper	32	36.4	32	36.8	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total AA</b>	<b>88</b>	<b>100.0</b>	<b>87</b>	<b>100.0</b>	<b>1</b>	<b>100.0</b>	<b>0</b>	<b>0.0</b>
<b>Percentage of Total Farms:</b>				<b>98.9</b>		<b>1.1</b>		<b>0.0</b>
<p>Source: 2020 FFIEC Census Data 2020 Dun &amp; Bradstreet Data 2011-2015 U.S. Census Bureau: American Community Survey</p> <p>Note: Percentages may not total 100.0 percent due to rounding.</p>								

## APPENDIX C – 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:** 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, designated disaster areas; or designated distressed or underserved nonmetropolitan middle-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 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 (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 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) 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 Reports 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.