

## **PUBLIC DISCLOSURE**

February 12, 2024

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

Exchange State Bank  
RSSD# 787141

322 Audubon Street  
Adair, Iowa 50002

Federal Reserve Bank of Chicago

230 South LaSalle Street  
Chicago, Illinois 60604-1413

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

**TABLE OF CONTENTS**

**SCOPE OF EXAMINATION ..... 3**

**DESCRIPTION OF INSTITUTION..... 4**

**DESCRIPTION OF ASSESSMENT AREA ..... 5**

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA ..... 11**

**LENDING TEST ..... 11**

**FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW ..... 23**

**APPENDIX A – MAP OF ASSESSMENT AREA..... 24**

**APPENDIX B – SCOPE OF EXAMINATION ..... 25**

**APPENDIX C – GLOSSARY ..... 26**

## BANK'S CRA RATING

Exchange State Bank is rated Satisfactory.

Exchange State Bank is meeting the credit needs of its assessment area. The bank's loan-to-deposit ratio is reasonable and a majority of the bank's lending occurred within its assessment area. The geographic distribution of loans reflects a reasonable dispersion of loans throughout the assessment area and an excellent penetration among individuals of different income levels and businesses and farms of different sizes. Neither the bank nor this Reserve Bank has received any Community Reinvestment Act (CRA) related complaints since the previous performance evaluation.

## SCOPE OF EXAMINATION

Exchange State Bank's performance was evaluated using the Federal Financial Institutions Examination Council (FFIEC) Small Institution Examination Procedures. The evaluation considered information about the institution such as asset size, financial condition and competition, and the economic and demographic characteristics of its assessment area.

The evaluation included a full-scope review of the bank's single assessment area. The assessment area contains five contiguous census tracts located in nonmetropolitan Adair, Audubon, Cass and Guthrie Counties. Although Guthrie County is located in the Des Moines-West Des Moines MSA #19780, these tracts are included in the nonmetropolitan assessment area, because only two contiguous tracts are taken in the MSA.

A sample of the bank's primary products, which include residential real estate, small business, and small farm loans were reviewed during this evaluation. The sample period included loans originated from January 1, 2020, through September 30, 2023.

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

- ***Loan-to-Deposit Ratio*** – A 16-quarter average loan-to-deposit ratio was calculated for the bank and compared to a sample of local competitors.
- ***Lending in the Assessment Area*** – A sample of the bank's residential real estate, small business, and small farm loans originated from December 3, 2019, through September 30, 2023, was reviewed to determine the percentage of loans originated in the assessment area.
- ***Geographic Distribution of Lending in the Assessment Area*** – A sample of the bank's residential real estate, small business, and small farm loans originated in the assessment area from December 3, 2019, through September 30, 2023, was analyzed to determine the

extent to which the bank is making loans in geographies of different income levels, particularly those designated as low- and moderate- income.

- ***Lending to Borrowers of Different Incomes and to Businesses and Farms of Different Sizes*** – A sample of the bank’s residential real estate, small business, and small farm loans originated in the assessment area from December 3, 2019, through September 30, 2023, was reviewed to determine the distribution among borrowers of different income levels, particularly those considered low- or moderate-income, and to businesses and farms of different revenue sizes.
- ***Response to Substantiated Complaints*** – Complaints were reviewed to determine if any were related to the bank’s record of helping to meet community credit needs and its responses to any received were evaluated for appropriateness.

In addition, two community representatives were contacted in connection with this evaluation to provide information regarding local economic and socio-economic conditions in the assessment area. The type of organizations contacted focused on economic development within the assessment area.

## DESCRIPTION OF INSTITUTION

Exchange State Bank is a subsidiary of Exchange Financial Inc., a one-bank holding company headquartered in Adair, Iowa. The bank operates one office located in Adair, Iowa with no automated teller machines (ATMs). As of September 30, 2023, Exchange State Bank reported total assets of \$37.9 million. No branches or ATMs have been opened or closed since the previous CRA evaluation.

According to the Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, as of June 30, 2023, Exchange State Bank had a market share of 1.2 percent and ranks fourteenth out of 18 FDIC-insured institutions in the four counties in which the bank operates. Wells Fargo Bank, NA is the market leader, with 31.9 percent of FDIC-insured deposits in the counties.

The bank is primarily an agricultural and commercial lender, as shown in the following table. In addition, residential real estate loans are a significant product offering, with loans originated for the bank’s own portfolio and for sale to the secondary market. Primary deposit products include personal and business checking, savings, and time deposit accounts. The bank also offers internet banking to its customers, and has a website located at [www.esbanks.com](http://www.esbanks.com).

Composition of Loan Portfolio as of September 30, 2023		
Loan Type	Dollar Volume (000s)	Percent of Portfolio
Agricultural	9,944	61.8%
Commercial	3,644	22.6%
Consumer	689	4.3%
Residential Real Estate	1,586	9.9%
Other	233	1.5%
<b>Total</b>	<b>16,096</b>	<b>100.0%</b>
<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 in its communities.

The bank was rated Satisfactory under the CRA at its previous evaluation conducted on December 2, 2019.

**DESCRIPTION OF ASSESSMENT AREA**

The assessment area contains five contiguous census tracts located in Adair, Audubon, Cass, and Guthrie Counties. The assessment area footprint has not changed since the previous exam. Of the five tracts, four are middle-income census tracts and one tract, located in Audubon County, is moderate-income. Two of the four middle-income census tracts were identified by the FFIEC as distressed or underserved during the evaluation period. The bank’s Adair County census tract was designated as an underserved, remote rural census tract throughout the sample from 2019 through 2023. The Audubon County census tract was designated as middle-income from 2019 through 2021 and was considered both distressed and underserved due to population loss and its remote rural location. This tract was designated as a moderate-income tract in 2022 as a result of updated census tract income data discussed below.

*Census Tract Designation Changes*

The median family income levels (MFI) for census tracts are calculated using the income data from the United States Census Bureau’s American Community Survey and geographic definitions from the Office of Management and Budget (OMB) and are updated approximately every five years (.12(m) Income Level). The income data used to calculate geographic income designations changed between 2021 and 2022. Accordingly, lending activity that took place in calendar years up to and including 2021 are evaluated based on ACS income level definitions from the five-year survey data set 2011-2015. Lending activity performed in 2022 and beyond are evaluated based on ACS income level definitions from the five-year survey data set 2016-2020.

These changes had the following effect on tracts in the bank’s assessment area: Audubon County’s previously designated middle-income census tract became a moderate-income census tract in 2022, and one of two Guthrie County census tracts went from moderate-income to middle-income in 2022. The net result of these changes is the same number of total moderate-income census tracts at one, but the location of the moderate-income census tracts changed between 2021 and 2022.

<b>Census Tract Designation Changes American Community Survey Data (ACS)</b>			
<b>Tract Income Designation</b>	<b>2021 Designations (#)</b>	<b>2022 Designations (#)</b>	<b>Net Change (#)</b>
<b>Low</b>	0	0	0
<b>Moderate</b>	1	1	0
<b>Middle</b>	4	4	0
<b>Upper</b>	0	0	0
<b>Unknown</b>	0	0	0
<b>Total</b>	5	5	0

*Source: U. S. Census Bureau: Decennial Census: American Community Survey Data: 2011-2015  
U.S. Census Bureau: Decennial Census: America Community Survey Data: 2016-2020*

The table on the following page provides additional demographic information about the assessment area.

2022 and 2023 IA Non MSA 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	870	22.5
Moderate	1	20.0	474	12.3	42	8.9	753	19.5
Middle	4	80.0	3,386	87.7	205	6.1	972	25.2
Upper	0	0.0	0	0.0	0	0.0	1,265	32.8
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>3,860</b>	<b>100.0</b>	<b>247</b>	<b>6.4</b>	<b>3,860</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	831	646	14.2	77.7	129	15.5	56	6.7
Middle	5,784	3,894	85.8	67.3	998	17.3	892	15.4
Upper	0	0	0.0	0.0	0	0.0	0	0.0
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
<b>Total AA</b>	<b>6,615</b>	<b>4,540</b>	<b>100.0</b>	<b>68.6</b>	<b>1,127</b>	<b>17.0</b>	<b>948</b>	<b>14.3</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	79	11.0	75	11.7	2	3.7	2	9.5
Middle	636	89.0	565	88.3	52	96.3	19	90.5
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total AA</b>	<b>715</b>	<b>100.0</b>	<b>640</b>	<b>100.0</b>	<b>54</b>	<b>100.0</b>	<b>21</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>				<b>89.5</b>		<b>7.6</b>		<b>2.9</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	22	9.7	22	9.9	0	0.0	0	0.0
Middle	204	90.3	201	90.1	3	100.0	0	0.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total AA</b>	<b>226</b>	<b>100.0</b>	<b>223</b>	<b>100.0</b>	<b>3</b>	<b>100.0</b>	<b>0</b>	<b>0.0</b>
<b>Percentage of Total Farms:</b>				<b>98.7</b>		<b>1.3</b>		<b>0.0</b>
<i>Source: 2023 FFIEC Census Data 2023 Dun &amp; Bradstreet Data 2016-2020 U.S. Census Bureau: American Community Survey</i>								
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>								

### Population Characteristics

According to ACS data, the bank’s assessment area population declined 2.1 percent between 2015 and 2020. This population loss is slightly higher than the Non MSA Iowa population decline which equaled 1.4 percent during the same period. Adair County was the only county in the assessment area with an increase in population during this time (0.9 percent).

The population decline is similar to what is occurring in other rural, agriculturally based communities throughout the state of Iowa. Community representatives attribute the declining population to younger individuals migrating into more urban environments and the need for high-speed internet capability as well as infrastructure improvements to facilitate housing construction in the counties. One community representative indicated that despite population loss, the areas assessment area has seen an influx of immigrant populations due to success in establishing local businesses and factory related job opportunities.

Population Change			
Area	2015 Population	2020 Population	Percentage Change
Adair County, IA	7,426	7,496	0.9%
Audubon County, IA	5,869	5,674	-3.3%
Cass County, IA	13,590	13,127	-3.4%
Guthrie County, IA	10,740	10,623	-1.1%
Non MSA Iowa	1,250,756	1,232,642	-1.4%
Iowa	3,093,526	3,190,369	3.1%
<i>Source: 2011-2015 U.S. Census Bureau American Community Survey and 2020 U.S. Census Bureau Decennial Census</i>			

### Income Characteristics

During the period of 2015 to 2020, assessment area counties experienced substantial income growth with the exception of Audubon County, where median family income declined by 10.7 percent. A community representative indicated that Audubon County’s lack of adequate housing has negatively affected employment and the ability to attract and retain new and existing businesses as employees struggle to find housing. However, the community representative also noted that the assessment area has experienced income growth due to the need for employers to increase wages to attract and retain employees. This was also influenced by the need to attract more employees as older workers’ rate of retirement increased as a result of the pandemic.



Median Family Income Change			
Area	2015 Median Family Income	2020 Median Family Income	Percentage Change
Adair County, IA	\$64,176	\$77,548	20.8%
Audubon County, IA	\$66,892	\$59,702	-10.7%
Cass County, IA	\$56,994	\$72,868	27.9%
Guthrie County, IA	\$66,654	\$78,171	17.3%
Non MSA Iowa	\$67,391	\$71,763	6.5%
Iowa	\$73,712	\$79,186	7.4%

*Source: 2011 - 2015 U.S. Census Bureau American Community Survey  
2016 - 2020 U.S. Census Bureau American Community Survey  
Median Family Incomes have been inflation-adjusted and are expressed in 2020 dollars.*

## Housing Characteristics

Housing is a primary need in the assessment area, regardless of income level, based on discussions with community representatives. Housing affordability and proximity of assessment area communities to the Omaha, Nebraska and Des Moines, Iowa employment markets have increased the desirability of living in the assessment area. However, the lack of available and quality housing has negatively affected the local employment market as potential employers are unable to house staff in local communities.

The assessment area’s median housing value in 2020 was \$111,874. Median housing values vary substantially in assessment area counties from a low of \$84,300 in Audubon County to a high of \$129,000 in Guthrie County. The median age of housing stock in the assessment area is 61 years. Audubon County has the highest median age of housing stock at 70 years, compared to Guthrie County’s much lower housing stock age of 52 years. Guthrie County’s age of housing stock is similar to the state of Iowa’s median housing stock age (50 years).

Despite the overall affordability of living in assessment area counties, low- and moderate-income renters and homeowners are challenged by housing costs. Based on the housing cost burden table on the following page, Audubon and Cass Counties’ low-income renters have the highest proportion of renters paying 30.0 percent or more of their household income for rent, at 70.5 percent and 62.9 percent, respectively. This is lower than the level of low-income rent burdened individuals in non-MSA Iowa (76.8 percent). Similarly, the level of rent-burdened moderate-income individuals in Adair, Audubon, Cass, and Guthrie Counties is significantly lower than non-MSA Iowa as a whole (23.8 percent).

Housing cost burdened low-income homeowners in assessment area counties range from a low of 33.0 percent in Audubon County to a high of 64.4 percent in Cass County, compared to the non-MSA Iowa level of 62.6 percent. The housing burden rate for moderate-income homeowners ranges from a low of 13.1 percent in Cass County to a high of 20.0 percent in Guthrie County. The housing burden rate for moderate-income homeowners throughout the assessment area is lower than the housing burden rate for moderate-income homeowners in non-MSA Iowa (29.1 percent). Community representatives indicated that aged and dilapidated housing is an issue in the

assessment area, and it is difficult to find developers who want to build in rural counties due to the lower housing values and lack of infrastructure. Assessment area housing needs include single-family homes, rental properties, and senior housing. One community representative noted that community investments in senior housing would free up existing housing occupied by seniors which could be renovated for others.

Housing Cost Burden						
Area	Cost Burden - Renters			Cost Burden - Owners		
	Low Income	Moderate Income	All Renters	Low Income	Moderate Income	All Owners
Adair County, IA	41.1%	11.3%	21.7%	59.4%	16.3%	12.6%
Audubon County, IA	70.5%	5.3%	33.1%	33.0%	13.9%	11.0%
Cass County, IA	62.9%	0.0%	33.5%	64.4%	13.1%	17.4%
Guthrie County, IA	48.4%	9.5%	29.2%	50.3%	20.0%	16.5%
Non MSA Iowa	76.8%	23.8%	38.3%	62.6%	29.1%	16.0%
Iowa	64.5%	13.8%	32.5%	53.4%	18.1%	14.1%

*Cost Burden is housing cost that equals 30 percent or more of household income.*  
*Source: U.S. Department of Housing and Urban Development (HUD), 2015-2019 Comprehensive Housing Affordability Strategy*

### Employment Characteristics

Based on data from the Bureau of Labor Statistics as of March 30, 2023, government sector employment accounts for 23.3 percent of all jobs in assessment area counties, with private sector employment led by retail trade and manufacturing employment which account for 12.9 percent and 10.2 percent of private sector employment, respectively. A community representative indicated that beginning farmers struggle to compete with corporations as they lack appropriate financial resources, while existing small farms are challenged by higher costs making it difficult to expand in the assessment area. Agricultural employment accounts for 3.9 percent of private sector jobs in the assessment area counties.

Overall, all counties in the assessment area experienced an increase in unemployment in 2020, due to the COVID-19 pandemic, which led to employers laying employees off. Prior to the pandemic, unemployment levels throughout the assessment area were low and stable. Since 2020, unemployment levels have decreased. However, one community representative indicated that employers continue to struggle to find employees throughout the assessment area due to population loss, salary competition, and individuals' desire to work from home when possible.

Unemployment Rates					
Area	2018	2019	2020	2021	2022
Adair County, IA	2.4%	2.3%	3.8%	2.8%	2.1%
Audubon County, IA	2.5%	2.4%	3.4%	2.9%	2.3%
Cass County, IA	2.7%	2.7%	3.8%	3.3%	2.5%
Guthrie County, IA	2.7%	2.9%	4.9%	3.8%	2.8%
Non MSA Iowa	2.7%	2.7%	4.8%	3.7%	2.8%
Iowa	2.6%	2.7%	5.2%	3.8%	2.7%
<i>Source: Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics</i>					

### Community Representatives

Two community representatives were contacted to provide information regarding local economic and demographic conditions. The representatives provided information on housing, employment, and economic development needs within the assessment area. Both representatives indicated that there is significant need for housing in the assessment area, including single family homes, rental properties, and senior housing across all income levels. Additional needs include affordable childcare, mental health services, and small business and small farm start-up and expansion funding. Overall, the community representatives believe that local banks are responsive to the needs of the communities.

### CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

*Performance standards for small banks consist of the following, as applicable: the bank's loan-to-deposit (LTD) ratio, the percentage of loans and other lending-related activities located in the bank's assessment area, the record of lending to borrowers of different income levels and businesses of different sizes, the geographic distribution of loans, and the record of taking action in response to written complaints. To determine CRA performance, the preceding standards are analyzed and evaluated within the assessment area context, which includes, but is not limited to, comparative analyses of the assessment area and the state and the non-metropolitan portions of the state demographic data on median income, nature of housing stock, housing costs, and other relevant data pertaining to the bank's assessment area.*

### LENDING TEST<sup>1</sup>

Exchange State Bank's performance relative to the lending test is rated Satisfactory based on the bank's reasonable loan-to-deposit ratio, and the origination of a majority of its loans and other lending-related activities in the assessment area. The bank's geographic lending reflects a reasonable dispersion of lending throughout the assessment area. While the sample revealed no

<sup>1</sup> Geographic Distribution and Lending to Borrowers of Different Income Levels and to Businesses and Farms of Different Sizes lending tables for 2022 and 2023 are in this section of the evaluation, while 2020 and 2021 lending tables are found in Appendix B. Together, the four years' lending data in these tables comprise the loan sample utilized in the evaluation.

loans originated in the Audubon County moderate-income tract in either 2022 or 2023, the bank did originate both residential real estate and small business loans in the Guthrie County moderate-income tract in 2020 and 2021. The bank had excellent penetration of lending among individuals of different income levels and to businesses and farms of different revenue sizes.

### Loan-to-Deposit Ratio

Exchange State Bank’s loan-to-deposit ratio is reasonable given the bank’s asset size, financial condition, and assessment area credit needs. The bank’s 16-quarter average ratio from December 31, 2019, to September 30, 2023, equaled 52.7 percent. This is generally lower than the majority of the bank’s local competitors yet higher than First State Bank (44.7 percent) and comparable to Farmers State Bank (53.6 percent). Farmers State Bank is similar to Exchange State Bank in terms of asset size and deposit market share. Exchange State Bank’s lower loan-to-deposit ratio is attributed to competition as well as its limited market share.

Comparative Loan-to-Deposit Ratios	
Institution	Loan-to-Deposit Ratio (%)
	16 – Quarter Average
Exchange State Bank, Adair, Iowa	52.7%
<b>Competitors</b>	
First State Bank, Stuart, Iowa	44.7%
Farmers State Bank, Yale, Iowa	53.6%
Union State Bank, Greenfield, Iowa	81.7%
Audubon State Bank, Audubon, Iowa	81.2%
Exchange State Bank, Ames, Iowa	91.7%

### Assessment Area Concentration

A majority (66.4 percent) of Exchange State Bank’s loans and other lending-related activities are in the delineated assessment area. This indicates that the bank is meeting the lending needs of the community. Small business and small farm loan origination rates in the assessment area, at 88.0 and 73.7 percent, respectively, are higher than residential real estate loan originations inside of the assessment area (53.2 percent). The lower level of residential real estate lending in the assessment area is reflective of the bank’s secondary market originations which extend outside of the bank’s five assessment area census tracts. The level of small business and small farm lending throughout the assessment area is considered responsive to the credit needs identified during community representative interviews.

Lending Inside and Outside the Assessment Area								
Loan Type	Inside				Outside			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Residential Loans	33	53.2	\$3,997	42.7	29	46.8	\$5,373	57.3
Small Business	22	88.0	\$3,210	86.0	3	12.0	\$523	14.0
Small Farm	28	73.7	\$2,805	66.8	10	26.3	\$1,392	33.2
<b>Total Loans</b>	<b>83</b>	<b>66.4</b>	<b>\$10,011</b>	<b>57.9</b>	<b>42</b>	<b>33.6</b>	<b>\$7,287</b>	<b>42.1</b>

## Geographic Distribution of Loans

*For the purposes of this review, loans made in calendar years up to and including 2021 were analyzed based on income designations from the 2011-2015 American Community Survey data<sup>2</sup>. Loans made in calendar years 2022 and after were analyzed based on income designations from the 2016-2020 American Community Survey data.*

The geographic distribution of residential real estate, small business, and small farm loans reflects a reasonable dispersion of lending throughout the assessment area. During the evaluation period, Exchange State Bank originated 3.6 percent of loans in moderate-income census tracts, all of which were originated in Guthrie County. An analysis of lending gaps identified an absence of lending in moderate-income census tracts throughout the sample period including two of the four years for residential real estate lending, three of the four years for small business lending, and no small farm loans originations during the four-year sample period. The bank’s ability to lend in the Audubon County moderate-income tract is hampered by its small asset size, single location, the rural nature of the tract, and competition from other lenders.

For purposes of this analysis, in the 2022 and 2023 period, the moderate-income census tract was located in Audubon County, and for 2020 and 2021, it was located in Guthrie County. The differing location of the moderate-income census tract was a result of the change in the American Community Survey income periods between the years 2011 to 2015 and 2016 to 2020.

### *Residential Real Estate Lending*

Residential real estate lending reflects reasonable dispersion throughout the assessment area. Exchange State Bank did not originate any residential real estate loans in the assessment area’s lone moderate-income census tract in Audubon County in 2022 or 2023, compared to 14.2 percent of owner-occupied housing located in the moderate-income census tract. The bank originated 100.0 percent of its residential real estate loans in middle-income census tracts, compared to 85.8 percent of owner-occupied housing located in those tracts.

---

<sup>2</sup> The median family income levels (MFI) for census tracts are calculated using income data from the U.S. Census Bureau’s American Community Survey and geographic designations from the Office of Management and Budget and are updated approximately every five years. (.12(m) Income Levels)

Distribution of 2022 and 2023 Residential Lending By Income Level of Geography									
Assessment Area: IA Non MSA									
Geographic Income Level	Bank Loans By Year								Owner Occupied Units %
	2022				2023				
	#	#%	\$(000)	\$%	#	#%	\$(000)	\$%	
Low	0	0.0	0	0.0	0	0.0	0	0.0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0	14.2
Middle	14	100.0	1,335	100.0	4	100.0	325	100.0	85.8
Upper	0	0.0	0	0.0	0	0.0	0	0.0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0	0.0
Tract-Unk	0	0.0	0	0.0	0	0.0	0	0.0	
<b>Total</b>	<b>14</b>	<b>100.0</b>	<b>1,335</b>	<b>100.0</b>	<b>4</b>	<b>100.0</b>	<b>325</b>	<b>100.0</b>	<b>100.0</b>

Source: 2023 FFIEC Census Data  
2016-2020 U.S. Census Bureau: American Community Survey  
Note: Percentages may not total 100.0 percent due to rounding.

In 2020 and 2021, the bank originated two residential real estate loans in Guthrie County’s moderate-income tract. In 2020, lending in the moderate-income tract (25.0 percent) was below the demographic of owner-occupied homes in the tract (31.1 percent) and with 9.1 percent in 2021, was significantly below the demographic of owner-occupied homes. The bank originated 75.0 and 90.9 of its residential real estate loans, respectively, in middle-income census tracts compared to 68.9 percent of owner-occupied housing located in those tracts. Exchange State Bank’s single branch presence with limited market reach, combined with increased competition from local financial institutions, limits lending opportunities throughout the assessment area.

Distribution of 2020 and 2021 Residential Lending By Income Level of Geography									
Assessment Area: IA Non MSA									
Geographic Income Level	Bank Loans By Year								Owner Occupied Units %
	2020				2021				
	#	#%	\$(000)	\$%	#	#%	\$(000)	\$%	
Low	0	0.0	0	0.0	0	0.0	0	0.0	0.0
Moderate	1	25.0	140	23.6	1	9.1	410	23.5	31.1
Middle	3	75.0	453	76.4	10	90.9	1,334	76.5	68.9
Upper	0	0.0	0	0.0	0	0.0	0	0.0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0	0.0
Tract-Unk	0	0.0	0	0.0	0	0.0	0	0.0	
<b>Total</b>	<b>4</b>	<b>100.0</b>	<b>593</b>	<b>100.0</b>	<b>11</b>	<b>100.0</b>	<b>1,744</b>	<b>100.0</b>	<b>100.0</b>

Source: 2021 FFIEC Census Data  
2011-2015 U.S. Census Bureau: American Community Survey  
Note: Percentages may not total 100.0 percent due to rounding.

*Small Business Lending*

Small business lending reflects reasonable dispersion throughout the assessment area. In 2022 and 2023, no small business loans were originated in Exchange State Bank’s moderate-income census tract in Audubon County while 11.0 percent of total businesses are located in the moderate-income tract. The bank originated 100.0 percent of its small business loans in middle-income census tracts compared to 89.0 percent of total businesses located in those tracts.

Distribution of 2022 and 2023 Small Business Lending By Income Level of Geography									
Assessment Area: IA Non MSA									
Geographic Income Level	Bank Loans By Year								Total Businesses %
	2022				2023				
	#	%	\$(000)	%	#	%	\$(000)	%	
Low	0	0.0	0	0.0	0	0.0	0	0.0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0	11.0
Middle	7	100.0	449	100.0	8	100.0	1,354	100.0	89.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0	0.0
Tract-Unk	0	0.0	0	0.0	0	0.0	0	0.0	
<b>Total</b>	7	100.0	449	100.0	8	100.0	1,354	100.0	100.0

Source: 2023 FFIEC Census Data  
2023 Dun & Bradstreet Data  
2016-2020 U.S. Census Bureau: American Community Survey  
Note: Percentages may not total 100.0 percent due to rounding.

In 2020, no small business loans were originated in the moderate-income census tract as 100.0 percent of small business loans were originated in middle-income census tracts compared to 63.9 percent of total businesses located in middle-income census tracts. However, in 2021, one loan (33.3 percent) was originated in the moderate-income tract which is comparable to the demographic (36.1 percent) of businesses located in the moderate-income tract. The bank originated 66.7 percent of small business loans in middle-income census tracts which is comparable to the total businesses located in those tracts (63.9 percent). The overall rural landscape, in conjunction with local competition, continue to limit Exchange State Bank’s lending opportunities within the assessment area.

Distribution of 2020 and 2021 Small Business Lending By Income Level of Geography									
Assessment Area: IA Non MSA									
Geographic Income Level	Bank Loans By Year								Total Businesses %
	2020				2021				
	#	#%	\$(000)	%	#	#%	\$(000)	%	
Low	0	0.0	0	0.0	0	0.0	0	0.0	0.0
Moderate	0	0.0	0	0.0	1	33.3	275	62.6	36.1
Middle	4	100.0	968	100.0	2	66.7	164	37.4	63.9
Upper	0	0.0	0	0.0	0	0.0	0	0.0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0	0.0
Tract-Unk	0	0.0	0	0.0	0	0.0	0	0.0	
<b>Total</b>	<b>4</b>	<b>100.0</b>	<b>968</b>	<b>100.0</b>	<b>3</b>	<b>100.0</b>	<b>439</b>	<b>100.0</b>	<b>100.0</b>

Source: 2021 FFIEC Census Data  
2021 Dun & Bradstreet Data  
2011-2015 U.S. Census Bureau: American Community Survey

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

### Small Farm Lending

Small farm lending reflects poor dispersion throughout the assessment area. During 2022 and 2023, no small farm loans were originated in the assessment area’s moderate-income census tract compared to 9.7 percent of assessment area farms located in the moderate-income census tract in Audubon County. Exchange State Bank originated 100.0 percent of its small farm loans in middle-income census tracts compared to 90.3 percent of total farms located in middle-income tracts in 2022 and 2023.

Distribution of 2022 and 2023 Small Farm Lending By Income Level of Geography									
Assessment Area: IA Non MSA									
Geographic Income Level	Bank Loans By Year								Total Farms %
	2022				2023				
	#	#%	\$(000)	%	#	#%	\$(000)	%	
Low	0	0.0	0	0.0	0	0.0	0	0.0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0	9.7
Middle	5	100.0	363	100.0	19	100.0	2,299	100.0	90.3
Upper	0	0.0	0	0.0	0	0.0	0	0.0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0	0.0
Tract-Unk	0	0.0	0	0.0	0	0.0	0	0.0	
<b>Total</b>	<b>5</b>	<b>100.0</b>	<b>363</b>	<b>100.0</b>	<b>19</b>	<b>100.0</b>	<b>2,299</b>	<b>100.0</b>	<b>100.0</b>

Source: 2023 FFIEC Census Data  
2023 Dun & Bradstreet Data  
2016-2020 U.S. Census Bureau: American Community Survey

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

In 2020 and 2021, no small farm loans were originated in either of the assessment area’s moderate-income census tract compared to 16.7 percent of assessment area farms located in Guthrie County’s



moderate-income census tract. The bank originated 100.0 percent of its small farm loans in middle-income census tracts in 2021, compared to 83.3 percent of total farms located in middle-income tracts. The bank did not originate any small farm loans in 2020. The low percentage of farms located in moderate-income census tracts combined with local competition, has limited Exchange State Bank’s opportunities to originate small farm loans in moderate-income census tracts.

Distribution of 2021 Small Farm Lending By Income Level of Geography					
Assessment Area: IA Non MSA					
Geographic Income Level	Bank Loans				Total Farms %
	#	#%	\$(000)	%	
Low	0	0.0	0	0.0	0.0
Moderate	0	0.0	0	0.0	16.7
Middle	4	100.0	143	100.0	83.3
Upper	0	0.0	0	0.0	0.0
Unknown	0	0.0	0	0.0	0.0
Tract-Unk	0	0.0	0	0.0	
<b>Total</b>	<b>4</b>	<b>100.0</b>	<b>143</b>	<b>100.0</b>	<b>100.0</b>

Source: 2021 FFIEC Census Data  
2021 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 Borrowers of Different Income Levels and to Businesses and Farms of Different Sizes

For the purposes of this review, loans made in calendar year 2021 or before were analyzed based on 2011-2015 American Community Survey income designations for individuals<sup>3</sup>. Loans made in calendar year 2022 or after were analyzed based on 2016-2020 American Community Survey income designations for individuals.

Exchange State Bank’s distribution of lending reflects excellent penetration among individuals of different income levels, including to low- and moderate-income individuals, and businesses and farms of different sizes. In addition, the bank extended a total of 124 Small Business Administration Paycheck Protection Program loans to 101 unique borrowers in 2020 and 2021. Ninety-nine percent of these loans were in amounts of \$100,000 or less, which provided substantial benefit to small businesses and small farms.

<sup>3</sup> Income levels for individuals are calculated annually by the FFIEC using geographic definitions from the OMB, income data from the ACS and the Consumer Price Index from the Congressional Budget Office (.12(m) Income Levels).

*Residential Real Estate Lending*

The distribution of residential real estate loans reflects a reasonable penetration among borrowers of different income levels. In 2022, Exchange State Bank originated 21.4 percent of its residential real estate loans to low-income borrowers, which is comparable to the percentage of low-income assessment area families (22.5 percent). There were no loans originated to low-income borrowers in 2023. Residential real estate lending to moderate-income borrowers represented 28.6 percent and 50.0 percent of residential real estate loan originations in 2022 and 2023, respectively, which exceeded the percentage of moderate-income families in the assessment area (19.5 percent). The bank also originated 35.7 percent and 50.0 percent of residential real estate loans, respectively, to middle-income borrowers which exceeds the demographic (25.2 percent).

<b>Distribution of 2022 and 2023 Residential Lending By Borrower Income Level</b>									
<b>Assessment Area: IA Non MSA</b>									
<b>Borrower Income Level</b>	<b>Bank Loans By Year</b>								<b>Families by Family Income %</b>
	<b>2022</b>				<b>2023</b>				
	<b>#</b>	<b>#%</b>	<b>\$(000)</b>	<b>%</b>	<b>#</b>	<b>#%</b>	<b>\$(000)</b>	<b>%</b>	
<b>Low</b>	3	21.4	169	12.7	0	0.0	0	0.0	22.5
<b>Moderate</b>	4	28.6	320	24.0	2	50.0	125	38.5	19.5
<b>Middle</b>	5	35.7	611	45.8	2	50.0	200	61.5	25.2
<b>Upper</b>	2	14.3	235	17.6	0	0.0	0	0.0	32.8
<b>Unknown</b>	0	0.0	0	0.0	0	0.0	0	0.0	0.0
<b>Total</b>	14	100.0	1,335	100.0	4	100.0	325	100.0	100.0

Source: 2023 FFIEC Census Data  
2016-2020 U.S. Census Bureau: American Community Survey  
Note: Percentages may not total 100.0 percent due to rounding.

There were no residential real estate loans originated to low-income borrowers in 2020 or 2021. However, residential real estate lending to moderate-income borrowers in 2020 (50.0 percent) and 2021 (27.3 percent) exceeded the demographic (23.9 percent). Lending to middle-income borrowers in 2021 (18.2) was below the demographic (25.6 percent). The bank did not originate any residential real estate loans to middle-income borrowers in 2020.

Distribution of 2020 and 2021 Residential Lending By Borrower Income Level									
Assessment Area: IA Non MSA									
Borrower Income Level	Bank Loans By Year								Families by Family Income %
	2020				2021				
	#	#%	\$(000)	%	#	#%	\$(000)	%	
<b>Low</b>	0	0.0	0	0.0	0	0.0	0	0.0	22.0
<b>Moderate</b>	2	50.0	308	51.9	3	27.3	188	10.8	23.9
<b>Middle</b>	0	0.0	0	0.0	2	18.2	174	10.0	25.6
<b>Upper</b>	2	50.0	285	48.1	6	54.5	1,382	79.2	28.5
<b>Unknown</b>	0	0.0	0	0.0	0	0.0	0	0.0	0.0
<b>Total</b>	4	100.0	593	100.0	11	100.0	1,744	100.0	100.0

Source: 2021 FFIEC Census Data  
2011-2015 U.S. Census Bureau: American Community Survey  
Note: Percentages may not total 100.0 percent due to rounding.

### Small Business Lending

The distribution of small business loans reflects excellent penetration among businesses of different revenue sizes. In 2022 and 2023, Exchange State Bank originated 100.0 percent and 62.5 percent, respectively, of its business loans to small businesses with revenues of \$1 million or less. Small business lending exceeded the percentage of assessment area businesses with revenues of \$1 million or less (89.5 percent) in 2022 and was below the demographic in 2023. Of the 12 small business loans originated in 2022 and 2023, a total of eight were made in amounts of \$100,000 or less, which is considered most beneficial to small business borrowers.

Distribution of 2022 and 2023 Small Business Lending By Revenue Size of Businesses									
Assessment Area: IA Non MSA									
	Bank Loans By Year								Total Businesses %
	2022				2023				
	#	%	\$(000)	\$%	#	%	\$(000)	\$%	
<b>By Revenue</b>									
<b>\$1 Million or Less</b>	7	100.0	449	100.0	5	62.5	740	54.7	89.5
<b>Over \$1 Million</b>	0	0.0	0	0.0	3	37.5	614	45.3	7.6
<b>Revenue Unknown</b>	0	0.0	0	0.0	0	0.0	0	0.0	2.9
<b>Total</b>	7	100.0	449	100.0	8	100.0	1,354	100.0	100.0
<b>By Loan Size</b>									
<b>\$100,000 or Less</b>	6	85.7	334	74.4	3	37.5	104	7.7	
<b>\$100,001 - \$250,000</b>	1	14.3	115	25.6	3	37.5	550	40.6	
<b>\$250,001 - \$1 Million</b>	0	0.0	0	0.0	2	25.0	700	51.7	
<b>Total</b>	7	100.0	449	100.0	8	100.0	1,354	100.0	
<b>By Loan Size and Revenue \$1 Million or Less</b>									
<b>\$100,000 or Less</b>	6	85.7	334	74.4	2	40.0	40	5.4	
<b>\$100,001 - \$250,000</b>	1	14.3	115	25.6	2	40.0	300	40.5	
<b>\$250,001 - \$1 Million</b>	0	0.0	0	0.0	1	20.0	400	54.1	
<b>Total</b>	7	100.0	449	100.0	5	100.0	740	100.0	
<i>Source: 2023 FFIEC Census Data 2023 Dun &amp; Bradstreet Data 2016-2020 U.S. Census Bureau: American Community Survey</i>									
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>									

Small business lending patterns in 2020 and 2021 were similar to 2022 and 2023, as all seven loans were originated to businesses with revenues of \$1 million or less, compared to 90.3 percent of total businesses with revenues of \$1 million or less, and three of the seven loans were originated in amounts of \$100,000 or less.

Distribution of 2020 and 2021 Small Business Lending By Revenue Size of Businesses									
Assessment Area: IA Non MSA									
	Bank Loans By Year								Total Businesses %
	2020				2021				
	#	%	\$(000)	%	#	%	\$(000)	%	
<b>By Revenue</b>									
<b>\$1 Million or Less</b>	4	100.0	969	100.1	3	100.0	439	100.0	90.3
<b>Over \$1 Million</b>	0	0.0	0	0.0	0	0.0	0	0.0	7.0
<b>Revenue Unknown</b>	0	0.0	0	0.0	0	0.0	0	0.0	2.7
<b>Total</b>	4	100.0	968	100.0	3	100.0	439	100.0	100.0
<b>By Loan Size</b>									
<b>\$100,000 or Less</b>	2	50.0	75	7.7	1	33.3	52	11.8	
<b>\$100,001 - \$250,000</b>	1	25.0	228	23.6	1	33.3	112	25.5	
<b>\$250,001 - \$1 Million</b>	1	25.0	666	68.8	1	33.3	275	62.6	
<b>Total</b>	4	100.0	968	100.0	3	100.0	439	100.0	
<b>By Loan Size and Revenue \$1 Million or Less</b>									
<b>\$100,000 or Less</b>	2	50.0	75	7.7	1	33.3	52	11.8	
<b>\$100,001 - \$250,000</b>	1	25.0	228	23.5	1	33.3	112	25.5	
<b>\$250,001 - \$1 Million</b>	1	25.0	666	68.7	1	33.3	275	62.6	
<b>Total</b>	4	100.0	969	100.0	3	100.0	439	100.0	
<i>Source: 2021 FFIEC Census Data 2021 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>									

### Small Farm Lending

The distribution of small farm loans reflects an excellent penetration among farms of different sizes. In 2022 and 2023, 100.0 percent of Exchange State Bank’s small farm loans were originated to borrowers with gross revenues of \$1 million or less, which was slightly above the demographic (98.7 percent). Additionally, 16 of the 24 loans originated in those two years were originated in dollar amounts of \$100,000 or less which is considered to be most beneficial to small farm borrowers.

<b>Distribution of 2022 and 2023 Small Farm Lending By Revenue Size of Farms</b>									
<b>Assessment Area: IA Non MSA</b>									
	<b>Bank Loans By Year</b>								<b>Total Farms %</b>
	<b>2022</b>				<b>2023</b>				
	<b>#</b>	<b>#%</b>	<b>\$(000)</b>	<b>\$%</b>	<b>#</b>	<b>#%</b>	<b>\$(000)</b>	<b>\$%</b>	
<b>By Revenue</b>									
<b>\$1 Million or Less</b>	5	100.0	363	100.0	19	100.0	2,299	100.0	98.7
<b>Over \$1 Million</b>	0	0.0	0	0.0	0	0.0	0	0.0	1.3
<b>Revenue Unknown</b>	0	0.0	0	0.0	0	0.0	0	0.0	0.0
<b>Total</b>	5	100.0	363	100.0	19	100.0	2,299	100.0	100.0
<b>By Loan Size</b>									
<b>\$100,000 or Less</b>	4	80.0	63	17.4	12	63.2	394	17.1	
<b>\$100,001 - \$250,000</b>	0	0.0	0	0.0	4	21.1	830	36.1	
<b>\$250,001 - \$500,000</b>	1	20.0	300	82.6	3	15.8	1,075	46.8	
<b>Total</b>	5	100.0	363	100.0	19	100.0	2,299	100.0	
<b>By Loan Size and Revenue \$1 Million or Less</b>									
<b>\$100,000 or Less</b>	4	80.0	63	17.4	12	63.2	394	17.1	
<b>\$100,001 - \$250,000</b>	0	0.0	0	0.0	4	21.1	830	36.1	
<b>\$250,001 - \$500,000</b>	1	20.0	300	82.6	3	15.8	1,075	46.8	
<b>Total</b>	5	100.0	363	100.0	19	100.0	2,299	100.0	
<i>Source: 2023 FFIEC Census Data 2023 Dun &amp; Bradstreet Data 2016-2020 U.S. Census Bureau: American Community Survey</i>									
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>									

In 2021, all four of the small farm loan originations were originated to borrowers with revenues of \$1 million or less and in amounts of \$100,000 or less. No small farm loans were originated in 2020.

Distribution of 2021 Small Farm Lending By Revenue Size of Farms					
Assessment Area: IA Non MSA					
	Bank Loans				Total Farms
	#	#%	\$(000)	\$%	%
<b>By Revenue</b>					
<b>\$1 Million or Less</b>	4	100.0	143	100.0	98.7
<b>Over \$1 Million</b>	0	0.0	0	0.0	1.3
<b>Revenue Unknown</b>	0	0.0	0	0.0	0.0
<b>Total</b>	4	100.0	143	100.0	100.0
<b>By Loan Size</b>					
<b>\$100,000 or Less</b>	4	100.0	143	100.0	
<b>\$100,001 - \$250,000</b>	0	0.0	0	0.0	
<b>\$250,001 - \$500,000</b>	0	0.0	0	0.0	
<b>Total</b>	4	100.0	143	100.0	
<b>By Loan Size and Revenues \$1 Million or Less</b>					
<b>\$100,000 or Less</b>	4	100.0	143	100.0	
<b>\$100,001 - \$250,000</b>	0	0.0	0	0.0	
<b>\$250,001 - \$500,000</b>	0	0.0	0	0.0	
<b>Total</b>	4	100.0	143	100.0	
Source: 2021 FFIEC Census Data					
2021 Dun & Bradstreet Data					
2011-2015 U.S. Census Bureau: American Community Survey					
Note: Percentages may not total 100.0 percent due to rounding.					

### Response to Complaints

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

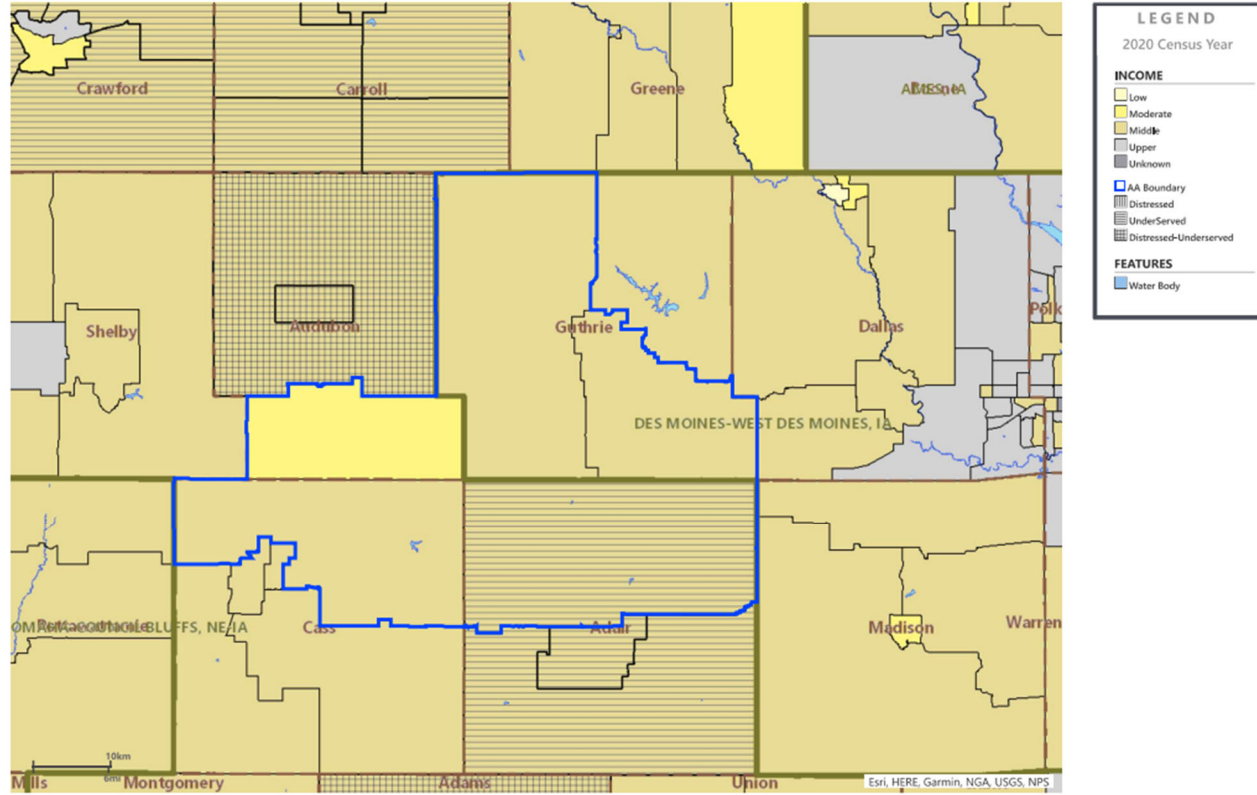
### FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

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

### APPENDIX A – Map of Assessment Area

**Exchange State Bank 787141**  
IA Non MSA

Restricted FR





**APPENDIX B – Scope of Examination**

SCOPE OF EXAMINATION			
<b>TIME PERIOD REVIEWED</b>		A sample of loans originated from December 3, 2019 through September 30, 2023.	
<b>FINANCIAL INSTITUTION</b> Exchange State Bank		<b>PRODUCTS REVIEWED</b> Residential real estate loans Small business loans Small farm loans	
<b>AFFILIATE(S)</b>	<b>AFFILIATE RELATIONSHIP</b>	<b>PRODUCTS REVIEWED</b>	
None	NA	NA	
LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
Partial Adair, Audubon, Cass and Guthrie Counties	Full scope	NA	NA

## APPENDIX C – Glossary

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

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

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

**American Community Survey Data (ACS):** The American Community Survey (ACS) data is based on a nationwide survey designed to provide local communities with reliable and timely demographic, social, economic, and housing data each year. The Census Bureau first released data for geographies of all sizes in 2010. This data is known as the “five-year estimate data.” The five-year estimate data is used by the FFIEC as the base file for data used in conjunction with consumer compliance and CRA examinations.<sup>4</sup>

**Area Median Income (AMI):** AMI means –

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

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

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

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

---

<sup>4</sup> Source: FFIEC press release dated October 19, 2011.

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

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

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

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

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

1. Affordable housing, including for multi-family housing, for low- and moderate-income households;
2. Community services tailored to meet the needs of low- and moderate-income individuals;
3. Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or
4. Activities that revitalize or stabilize low- or moderate-income geographies.

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

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

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

- a. Rates of poverty, unemployment or population loss; or
- b. Population size, density and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density and dispersion if they help to meet essential community services including the needs of low- and moderate-income individuals.

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

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

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

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

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

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

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

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

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

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

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

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

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

**Income Level:** Income level means:

- 1) Low-income – an individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a census tract;
- 2) Moderate-income – an individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent in the case of a census tract;

- 3) Middle-income – an individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent in the case of a census tract; and
- 4) Upper-income – an individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent in the case of a census tract.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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