

PUBLIC DISCLOSURE

September 3, 2024

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Highland Bank
Certificate Number: 16111

113 Central Ave East
Saint Michael, Minnesota 55376

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Kansas City Regional Office

1100 Walnut St, Suite 2100
Kansas City, Missouri 64106

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

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INSTITUTION RATING

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

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment areas, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Highland Bank's satisfactory Community Reinvestment Act (CRA) performance under the Lending Test and Community Development Test supports the overall rating. The following points summarize the bank's Lending Test and Community Development Test performance.

The Lending Test is rated Satisfactory.

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the credit needs in the assessment areas.
- The bank originated a substantial majority of its small business and home mortgage loans in its assessment areas.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- The distribution by borrowers reflects reasonable penetration of loans among individuals of different income levels and businesses of different revenue sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the Lending Test rating.

The Community Development Test is rated Satisfactory.

- Highland Bank demonstrated adequate responsiveness to the community development needs of its assessment areas through community development loans, qualified investments, and community development services. Examiners considered the bank's capacity and the need and availability of such opportunities for community development in the assessment areas.

DESCRIPTION OF INSTITUTION

Highland Bank, headquartered in Saint Michael, Minnesota, is wholly owned by Highland Bancshares, Inc., a one-bank holding company also located in Saint Michael, Minnesota. In addition to its main office, Highland Bank operates seven full-service offices located in Blaine, Bloomington, Ely, Maple Grove, Minnetonka, Saint Paul, and Woodbury, Minnesota. In December 2022, Highland Bancshares acquired Boundary Waters Bank (Ely, Minnesota) and merged the affiliated bank into Highland Bank in August 2023. Prior to the merger, Highland Bank operated five full-service offices in Minnesota. As a result of the merger, three full-service offices located in Blaine, Ely, and Woodbury were acquired. The Blaine and Ely offices are in middle-income census tracts and the Woodbury office is located in an upper-income census tract. The institution received a Satisfactory rating at its previous FDIC Performance Evaluation dated October 25, 2021, based on Interagency Intermediate Small Institution Examination Procedures.

Highland Bank offers various loan products including commercial, home mortgage, and consumer loans. Commercial lending remains the institution's primary business line, followed by home mortgage lending. Highland Bank continues to offer and originate loan products through the Small Business Administration (SBA).

The institution provides a variety of deposit services including checking, savings, money market, certificates of deposit, and individual retirement accounts. In addition to traditional banking services, customers have access to surcharge-free ATMs affiliated with the MoneyPass Network; online banking, including bill pay and periodic statements; telephone banking; and mobile banking, including mobile deposit.

As of June 30, 2024, assets totaled \$759.1 million, loans totaled \$547.5 million, and deposits totaled \$654.2 million. The bank's loan portfolio distribution is illustrated in the following table.

Loan Portfolio Distribution as of June 30, 2024		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	14,933	2.8
Secured by Farmland	724	0.1
Secured by 1-4 Family Residential Properties	109,696	20.0
Secured by Multifamily (5 or more) Residential Properties	11,081	2.0
Secured by Nonfarm Nonresidential Properties	283,647	51.8
Total Real Estate Loans	420,081	76.7
Commercial and Industrial Loans	126,644	23.2
Agricultural Production and Other Loans to Farmers	0	0.0
Consumer Loans	692	0.1
Other Loans	44	0.0
Total Loans	547,461	100.0
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any legal, financial, or other impediments that affect the bank’s ability to meet the credit needs of its assessment areas.

DESCRIPTION OF ASSESSMENT AREAS

CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. Highland Bank designated two non-contiguous assessment areas, which will be referred to as the Minneapolis MSA Assessment Area and the Duluth MSA Assessment Area. The Minneapolis MSA Assessment Area changed since the last evaluation with the addition of Chisago, Isanti, Le Sueur, and Mille Lacs counties in Minnesota and Pierce and St. Croix counties in Wisconsin. With these changes, the Minneapolis MSA Assessment Area is now comprised of the entirety of the Minneapolis-St. Paul-Bloomington, MN-WI Metropolitan Statistical Area (MSA). The Duluth MSA Assessment Area, which is a new assessment area since the previous evaluation, is comprised of the entirety of the Duluth, MN-WI MSA. Additional details regarding assessment area demographics and other information can be found in the Conclusions on Performance section for each respective assessment area. In addition, census tracts have been updated based on 2020 U.S. Census data. The following table describes the two assessment areas in more depth.

Description of Assessment Areas			
Assessment Area	Counties in Assessment Area	# of Tracts	# of Branches
Minneapolis MSA	Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Le Sueur, Mille Lacs, Pierce*, Ramsey, St. Croix*, Scott, Sherburne, Washington, and Wright	892	7
Duluth MSA	Carlton, Douglas*, Lake, and St. Louis	104	1

*Source: 2020 U.S. Census Data; *Wisconsin Portion of MSA*

Additional details regarding assessment area demographics and other information can be found in the Conclusions on Performance section for each respective assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated October 25, 2021, to the current evaluation dated September 3, 2024. Examiners used Interagency Intermediate Small Institution Examination Procedures to evaluate the institution’s performance. These procedures include two tests: the Lending Test and the Community Development Test. Banks must achieve at least a Satisfactory rating under each test to obtain an overall Satisfactory rating. Based on Highland Bank’s lending, deposit, and branch activity, examiners performed a full-scope review of the bank’s performance in the Minneapolis MSA Assessment Area. Examiners performed a full-scope review of the Duluth MSA Assessment Area since it is a new assessment area since the previous evaluation. Given a majority of the institution’s activities during the evaluation period occurred in the Minneapolis MSA Assessment Area, the performance in this area carried the greatest weight in determining the overall rating. The following table provides a breakdown of loans, deposits, and branches in the assessment areas.

Assessment Area Breakdown of Loans, Deposits, and Branches						
Assessment Area	Loans		Deposits		Branches	
	\$(000s)	%	\$(000s)	%	#	%
Minneapolis MSA	542,764	99.1	609,409	93.2	7	87.5
Duluth MSA	4,697	0.9	44,789	6.8	1	12.5
Total	547,461	100.0	654,198	100.0	8	100.0
<i>Source: 6/30/2024 Bank Data</i>						

Activities Reviewed

Examiners determined that small business and home mortgage loans are the bank's primary business focus. This conclusion considered discussions with management regarding the bank's business strategy, the number and dollar volume of loans originated during the evaluation period, and the bank's Reports of Condition data. Small business loans received the most weight when deriving overall conclusions. Home mortgage loans were also evaluated given the number and dollar volume of loans originated during the evaluation period. Agricultural loans are not major product line and represent a small portion of the loan portfolio. As such, small farm loans offered no material support for conclusions or ratings, and therefore was not analyzed.

Bank records indicate that the lending focus and product mix remained generally consistent throughout the evaluation period. Therefore, examiners reviewed all home mortgage loans reported as originated or purchased on the bank's 2023 Home Mortgage Disclosure Act (HMDA) Loan Application Register. Since the previous CRA evaluation, this is the only year that Highland Bank was required to collect and report HMDA data. When analyzing the bank's 2023 home mortgage lending performance, the 2020 U.S. Census data and 2023 HMDA aggregate data provided a standard of comparison. Examiners also reviewed all small business loans originated or renewed in 2023. D&B data for 2023 provided a standard comparison for the bank's small business lending performance.

For the Lending Test, examiners reviewed the entire universe of loans to evaluate the Assessment Area Concentration criterion. All loans inside the assessment areas were further reviewed to evaluate the Geographic Distribution criterion. Finally, examiners reviewed all home mortgage loans, and a sample of small business loans originated inside the assessment areas, to evaluate the Borrower Profile criterion. The table below provides information on the number and dollar volume of loans reviewed.

Loan Products Reviewed				
Loan Category	Universe		Reviewed	
	#	\$(000s)	#	\$(000s)
Small Business	149	43,689	53	14,023
Home Mortgage	363	44,670	363	44,670
<i>Source: Bank Data</i>				

While the number and dollar volume of loans are presented, examiners emphasized performance by number of loans because it is a better indicator of the number of businesses and individuals served.

For the Community Development Test, bank management provided data on community development loans, qualified investments, and community development services from the prior evaluation date of October 25, 2021, to the current evaluation date of September 3, 2024. Examiners reviewed community development activity for the entire review period and presented the information for each year within this performance evaluation.

CONCLUSIONS ON PERFORMANCE CRITERIA (BANKWIDE)

LENDING TEST

Highland Bank demonstrated satisfactory performance under the Lending Test. The bank’s performance under all evaluated criteria supports this conclusion.

Loan-to-Deposit Ratio

Highland Bank’s average net loan-to-deposit ratio is reasonable given the institution’s size, financial condition, and the credit needs in the assessment areas. The bank’s net loan-to-deposit ratio, calculated from Reports of Condition data, averaged 77.8 percent over the past 11 calendar quarters from December 31, 2021, to June 30, 2024. The ratio ranged from a low of 69.4 percent as of March 31, 2022, to a high of 85.4 percent as of September 30, 2023. As illustrated in the following table, Highland Bank’s average net loan-to-deposit ratio is comparable to other institutions. The bank’s net loan-to-deposit ratio has been stable and consistently reasonable since the previous CRA evaluation. Examiners selected comparable institutions based on their asset size, lending focus, and geographic location.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 6/30/24 \$(000s)	Average Net LTD Ratio (%)
21 st Century Bank, Loretto, MN	738,455	96.5
Highland Bank, Saint Michael, MN	759,078	77.8
Northeast Bank, Minneapolis, MN	743,475	72.2
The Bank of Elk River, Elk River, MN	675,454	57.7
<i>Source: Reports of Condition 12/31/2021 through 6/30/2024</i>		

Assessment Area Concentration

Highland Bank originated a substantial majority of its small business and home mortgage loans within its assessment area.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total	Dollar Amount of Loans \$(000s)				
	Inside		Outside			Inside		Outside		Total
	#	%	#	%	#	\$	%	\$	%	\$(000s)
Small Business	137	91.9	12	8.1	149	39,114	89.5	4,575	10.5	43,689
Home Mortgage	344	94.8	19	5.2	363	41,675	93.3	2,995	6.7	44,670

Source: Bank Data

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion overall. This conclusion is consistent with the bank’s performance in each of the assessment areas. Refer to comments specific to each assessment area later in this evaluation for further information.

Borrower Profile

The distribution of borrowers reflects reasonable penetration of loans overall. This conclusion is consistent with the bank’s performance in each of the assessment areas. Refer to comments specific to each assessment area later in this evaluation for further information.

Response to Complaints

The institution has not received any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

COMMUNITY DEVELOPMENT TEST

Highland Bank demonstrated satisfactory performance under the Community Development Test. The bank’s community development performance demonstrates adequate responsiveness to the community development needs of the assessment areas. Highland Bank’s community development investment and loan activity primarily supports this conclusion. Examiners considered the bank’s capacity and the need and availability of such opportunities within the assessment areas.

Comparable institutions are also used in the analysis of a financial institution to help provide perspective on a bank’s performance. For this evaluation, examiners reviewed the activities of four institutions that have similar lending focus, operations, and assessment areas as Highland Bank, and were evaluated using Interagency Intermediate Small Institution Examination Procedures since October 25, 2021. Highland Bank’s overall community development performance compares reasonably to these institutions.

Highland Bank was responsive to the community development needs of its assessment areas; therefore, community development activity that benefitted a broader statewide area was also considered.

Community Development Loans

Since the prior evaluation, the bank originated or renewed 19 community development loans totaling approximately \$10.2 million. Highland Bank extended loans to revitalize or stabilize low- and moderate-income geographies, provide affordable housing, and promote economic development initiatives.

The bank’s community development loans to total assets (1.3 percent) and community development loans to net loans (1.9 percent) is lower than comparable institutions, whose ratios ranged from 9.9 to 16.4 percent and 15.5 to 24.7 percent, respectively. The following tables provide a breakdown of the community development loans by area benefited and activities by year for each community development purpose.

Community Development Lending by Area										
Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Minneapolis MSA	1	376	0	0	4	5,596	14	4,188	19	10,160
Duluth MSA	0	0	0	0	0	0	0	0	0	0
Total	1	376	0	0	4	5,596	14	4,188	19	10,160

Source: Bank Data

Community Development Lending by Year										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2021	0	0	0	0	1	562	4	1,306	5	1,868
2022	1	376	0	0	1	1,682	5	1,101	7	3,159
2023	0	0	0	0	2	3,352	3	1,200	5	4,552
YTD 2024	0	0	0	0	0	0	2	581	2	581
Total	1	376	0	0	4	5,596	14	4,188	19	10,160

Source: Bank Data

Qualified Investments

Qualified investments and donations funded from October 25, 2021, to September 3, 2024, were considered under this criterion as well as qualifying investments purchased prior to this evaluation that are still outstanding as of the date of this evaluation. Highland Bank received consideration for 40 qualified investments totaling approximately \$11.8 million. This total included 22 donations totaling \$113.0 thousand, which primarily promoted community development by donating to organizations that provide community services to low- and moderate-income persons. The bank was responsive to its assessment areas’ community development investments; therefore, qualified community development investment activity that benefitted the statewide area was included.

When aggregated for the evaluation period, the bank’s qualified investments to total assets ratio was 1.6 percent and represents 6.3 percent of total securities. Highland Bank’s qualified investments to total assets ratio was comparable to similar institutions whose ratios ranged from 0.3 to 2.5 percent.

The bank’s qualified investments to total securities ratio reasonably compares to comparable institutions whose ratios ranged from 2.0 to 8.1 percent. Overall, Highland Bank’s community development investment and donation activity is responsive to the needs within the assessment areas. The following tables illustrates the bank’s qualified investments by area benefited and by year and activity for each community development purpose.

Community Development Qualified Investments by Area										
Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Minneapolis MSA	6	5,411	22	1,350	4	671	4	2,950	36	10,382
Duluth MSA	0	0	1	400	2	894	0	0	3	1,294
Broader Statewide	1	100	0	0	0	0	0	0	1	100
Total	7	5,511	23	1,750	6	1,565	4	2,950	40	11,776
<i>Source: Bank Data</i>										

Community Development Qualified Investments by Year										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	4	2,010	4	1,644	4	1,559	1	500	13	5,713
2021	0	0	0	0	0	0	1	1,000	1	1,000
2022	1	1,000	0	0	0	0	2	1,450	3	2,450
2023	0	0	0	0	0	0	0	0	0	0
YTD 2024	1	2,500	0	0	0	0	0	0	1	2,500
Subtotal	6	5,510	4	1,644	4	1,559	4	2,950	18	11,663
Qualified Grants & Donations	1	1	19	106	2	6	0	0	22	113
Total	7	5,511	23	1,750	6	1,565	4	2,950	40	11,776
<i>Source: Bank Data</i>										

Community Development Services

Highland Bank employees provided 7 instances of qualified community development services totaling 258 hours during the evaluation period. This service activity was provided to organizations that promote economic development initiatives. Of the 7 instances, 4 were provided to an organization that serves the broader statewide area, which includes both of Highland Bank’s assessment areas.

Highland Bank’s level of community development services is significantly lower than comparable institutions, whose total reported community development services ranged from 25 to 150. The following table provides a breakdown of community development services by area benefited and by year and activity for each community development purpose.

Community Development Services by Area					
Area	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
Minneapolis MSA	0	0	3	0	3
Duluth MSA	0	0	0	0	0
Broader Statewide	0	0	4	0	4
Total	0	0	7	0	7
<i>Source: Bank Data</i>					

Community Development Services by Year					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2021	0	0	0	0	0
2022	0	0	3	0	3
2023	0	0	2	0	2
YTD 2024	0	0	2	0	2
Total	0	0	7	0	7
<i>Source: Bank Data</i>					

In addition to the services noted above, Highland Bank waives surcharges and bank fees at Money Pass network ATMs, offers free checking and savings accounts, and provides no cost electronic and mobile banking services. Overall, Highland Bank provides reasonable access to banking services for individuals throughout the assessment areas.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution’s overall CRA rating.

MINNEAPOLIS MSA ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN MINNEAPOLIS MSA ASSESSMENT AREA

The Minneapolis MSA Assessment Area contains all census tracts within the Minneapolis-St. Paul-Bloomington, MN-WI MSA.

According to 2015 ACS data, the Minneapolis MSA Assessment Area included 785 census tracts and was comprised of 54 low-income, 175 moderate-income, 351 middle-income, and 198 upper-income census tracts, as well as 7 census tracts with no income level available. Based on 2020 U.S. Census data, the assessment area now includes 892 census tracts and is comprised of 49 low-income, 193 moderate-income, 404 middle-income, and 235 upper-income census tracts, as well as 11 census tracts with no income level available.

The bank operates seven full-services offices located in Blaine, Bloomington, Maple Grove, Minnetonka, Saint Michael, Saint Paul, and Woodbury. The Blaine, Bloomington, and Saint Paul offices are located in middle-income census tracts, and the Maple Grove, Minnetonka, Saint Michael, and Woodbury offices are located in upper-income census tracts. The Saint Michael office relocated in 2022 and remains located in the same census tract.

Economic and Demographic Data

The following table illustrates select demographic characteristics of the assessment area based on 2020 U.S. Census data.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	892	5.5	21.6	45.3	26.3	1.2
Population by Geography	3,690,261	4.9	20.3	46.9	27.2	0.8
Housing Units by Geography	1,456,697	4.7	20.8	47.3	26.6	0.6
Owner-Occupied Units by Geography	979,442	2.2	16.8	50.6	30.3	0.1
Occupied Rental Units by Geography	411,006	10.3	29.8	39.8	18.3	1.8
Vacant Units by Geography	66,249	6.5	23.5	45.2	23.9	0.9
Businesses by Geography	418,160	3.8	17.8	44.4	33.3	0.8
Farms by Geography	11,294	1.5	15.5	54.9	28.0	0.2
Family Distribution by Income Level	889,700	19.6	18.2	23.2	39.0	0.0
Household Distribution by Income Level	1,390,448	23.0	16.8	19.2	41.0	0.0
Median Family Income MSA – 33460 Minneapolis-St. Paul- Bloomington, MN-WI MSA		\$103,977	Median Housing Value			\$284,139
			Median Gross Rent			\$1,150
			Families Below Poverty Level			5.1%
<i>Source: 2020 U.S. Census and 2023 D&B Data Due to rounding, totals may not equal 100.0% (*) The NA category consists of geographies that have not been assigned an income classification.</i>						

D&B data for 2023 indicates that service industries represent the largest portion of businesses in the assessment area at 38.5 percent; followed by non-classifiable establishments (19.8 percent); and finance, insurance, and real estate (11.6 percent). In addition, 65.8 percent of area businesses have 4 or fewer employees, and 92.9 percent operate from a single location.

The Federal Financial Institutions Examination Council (FFIEC) provides updated median family incomes that are used to analyze home mortgage loans under the Borrower Profile criterion as well as community development activities. The low-, moderate-, middle-, and upper-income categories for the evaluation period are presented in the following table.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Minneapolis-St. Paul-Bloomington, MN-WI MSA Median Family Income (33460)				
2023 (\$124,300)	<\$62,150	\$62,150 to <\$99,440	\$99,440 to <\$149,160	≥\$149,160
<i>Source: FFIEC</i>				

Competition

The Minneapolis MSA Assessment Area reflects a highly competitive market among financial service providers. According to Reports of Condition data filed by financial institutions, there are 189 financial institutions operating 766 locations within the assessment area. These institutions range from small community banks to larger national financial institutions. Highland Bank is ranked 38th with 0.2 percent of the deposit market share.

According to 2023 aggregate HMDA data, 673 HMDA data reporters collectively reported 84,892 home mortgage loans within the assessment area. The top lenders by number are national financial institutions and mortgage corporations. Like many of these competing entities, Highland Bank reports HMDA data. According to the 2023 aggregate HMDA data, Highland Bank ranked 52nd with a market share of 0.4 percent. The overall volume of home mortgage lending reflects a highly competitive market.

Highland Bank is not required to collect or report small business CRA loan data and has elected not to do so. Therefore, examiners did not compare the bank’s small business lending performance to aggregate CRA data within this evaluation. However, the aggregate CRA data provides an indication of the level of demand for small business loans and the level of competition within the assessment area. According to 2022 aggregate CRA data (most recent available), 176 CRA data reporters collectively reported 83,067 small business loans within the assessment area. The top lenders by number are large national banks and credit card lenders. These figures do not include a high number of loans originated by smaller or mid-sized institutions, such as Highland Bank, that are not required to report small business lending data but that operate within the assessment area. The overall volume of small business lending reflects a highly competitive market.

Community Contacts

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying credit needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit opportunities are available. For this evaluation, examiners used a recently conducted community contact interview with a representative of an economic development organization that serve a portion of the assessment area.

The contact noted that parts of Wright County remain rural in nature, but communities along the Interstate 94 corridor are growing and businesses are expanding. Some local businesses are experiencing labor shortages and retention issues as the majority of residents commute outside the county for employment. As a result, the county is focusing on workforce development in an effort to encourage residents to find employment within the county. The contact also noted there are record numbers of market rate single-family homes being built in the larger communities; however,

there is a continuing need for affordable housing in nearly all communities within the area. Furthermore, the county has a low vacancy rate and a low turnover of existing housing stock, making it difficult for lower income families to find housing. Overall, the contact stated there were a large number of banks in the area and felt that housing development loans were the primary credit need of the community, but the home mortgage and small business loans are always needed. The contact added that all area financial institutions are receptive to the credit needs and there are no unmet needs.

Credit and Community Development Needs and Opportunities

Considering information from the community contact, and demographic and economic data, examiners determined that small business and home mortgage loans represent the primary credit needs. According to management and the community contact, opportunity exists for originating these loans in the assessment area. In addition, community development opportunities in the area include affordable housing, economic development, community services for low-and moderate-income individuals, and revitalization/stabilization of applicable geographies.

CONCLUSIONS ON PERFORMANCE CRITERIA IN MINNEAPOLIS MSA ASSESSMENT AREA

LENDING TEST

Highland Bank demonstrated reasonable performance under the Lending Test in the Minneapolis MSA Assessment Area. The bank's Geographic Distribution and Borrower Profile performance supports this conclusion.

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. This is supported by reasonable small business and home mortgage lending performance. Examiners focused on the percentage of loans made in low- and moderate-income census tracts within the assessment area.

Small Business Loans

As shown in the following table, the geographic distribution of small business loans in both low- and moderate-income census tracts reasonably compares to demographic data. Therefore, the geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	3.8	3	2.3	665	1.7
Moderate	17.8	23	17.6	5,987	15.5
Middle	44.4	66	50.4	20,897	54.0
Upper	33.3	39	29.7	11,124	28.8
Not Available	0.7	0	0.0	0	0.0
Totals	100.0	131	100.0	38,673	100.0

Source: 2023 D&B Data; 2023 Bank Data

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the assessment area. As shown in the following table, the bank’s home mortgage lending performance in low-income census tracts reasonably compares to aggregate and demographic data while performance in moderate-income census tracts trails aggregate and demographic data. Management stated, and aggregate HMDA data confirmed, the competition for home mortgage loans is significant and affects lending opportunities in these areas. The distance from Highland Bank’s offices to numerous moderate-income census tracts within its assessment area also limits the bank’s ability to penetrate these areas, especially when considering the level of competition already present. Examiners’ review of aggregate data filed by HMDA reporters confirmed that competing financial institutions with the highest market share of lending activity in moderate-income census tracts were large national banks and credit unions or national mortgage companies. Further, examiners’ review of Report of Condition data filed by financial institutions confirmed that 79 competing financial institutions operate 167 branches in the assessment area’s moderate-income census tracts. Lastly, the top-ranking financial institution for lending in moderate-income census tracts operates 23 branches in these areas within the assessment area. Overall, the bank’s performance is generally comparable to aggregate data and competition is significant. Considering these factors, the bank’s performance is reasonable.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low	2.2	2.8	2	0.6	983	2.4
Moderate	16.8	17.3	30	8.9	3,848	9.4
Middle	50.6	50.1	165	49.1	15,874	38.9
Upper	30.3	29.6	139	41.4	20,136	49.3
Not Available	0.1	0.2	0	0.0	0	0.0
Totals	100.0	100.0	336	100.0	40,841	100.0

*Source: 2020 U.S. Census; 2023 Bank Data; 2023 HMDA Aggregate Data
Due to rounding, totals may not equal 100.0%*

Borrower Profile

The bank's lending performance demonstrates reasonable penetration among businesses of different revenue sizes and individuals of different income levels. Specifically, the bank's reasonable lending performance to businesses with gross annual revenues of \$1 million or less and to low- and moderate-income borrowers primarily supports this conclusion.

Small Business Loans

The distribution of sampled small business loans reflects reasonable penetration to businesses with gross annual revenues of \$1 million or less. As shown in the following table, the bank's lending performance lags the demographic data. Management stated, and aggregate 2022 CRA data confirmed, that competition for small business loans in the area is significant. Further, a review of two similarly situated banks (SSBs) with reasonable lending penetration also operating in a similar assessment area revealed that Highland Bank's performance is comparable. Specifically, Highland Bank's lending to businesses with gross annual revenues of \$1 million or less, by number, was 59.6 percent while the two SSBs lending to the same sized businesses reached 60.0 percent and 60.9 percent. Considering these factors, the bank's performance is reasonable.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	89.2	28	59.6	6,072	44.7
>1,000,000	3.8	19	40.4	7,511	55.3
Revenue Not Available	7.0	0	0.0	0	0.0
Total	100.0	47	100.0	13,583	100.0

Source: 2023 D&B Data; 2023 Bank Data

Home Mortgage Loans

The distribution of home mortgage loans reflects reasonable penetration among individuals of different income levels. As illustrated in the following table, the bank's home mortgage lending to low-income borrowers is lower than aggregate and demographic data. However, it is often difficult for these borrowers to obtain a home mortgage loan given the requirements of obtaining such loans. In addition, 5.1 percent of families, per the 2020 U.S. Census, in the assessment area live below the poverty level. Examiners confirmed that based on calculations derived from the average median housing value within the assessment area and industry-standard underwriting criteria, low-income individuals and those living below the poverty level are very likely to experience difficulty in qualifying for home mortgage loans due to monthly payment and down-payment requirements. Highland Bank's lending performance among moderate-income borrowers is reasonably comparable to demographic data. Overall, the distribution of home mortgage lending to individuals of different income levels is reasonable.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	19.6	11.1	13	3.9	599	1.5
Moderate	18.2	25.8	57	17.0	3,197	7.8
Middle	23.2	23.3	80	23.8	6,352	15.6
Upper	39.0	26.8	175	52.1	25,940	63.5
Not Available	0.0	13.1	11	3.3	4,754	11.6
Totals	100.0	100.0	336	100.0	40,841	100.0
<i>Source: 2020 U.S. Census; 2023 Bank Data; 2023 HMDA Aggregate Data Due to rounding, totals may not equal 100.0%</i>						

COMMUNITY DEVELOPMENT TEST

Community Development Loans

Highland Bank originated 19 community development loans totaling approximately \$10.2 million within this assessment area during the evaluation period. Loans primarily supported revitalization or stabilization of low- and moderate-income geographies, affordable housing, and economic development initiatives.

Qualified Investments

Highland Bank made 36 investments totaling approximately \$10.4 million during the evaluation period. Of these investments, 22 were donations totaling approximately \$113.0 thousand. Qualified investments were provided to organizations that provide community services targeted to low- and moderate-income individuals, support revitalization or stabilization of low- and moderate-income geographies, promote economic development, and support affordable housing within the assessment area.

Community Development Services

During the evaluation period, Highland Bank employees provided three instances of community development services in this assessment area, which promoted economic development initiatives.

DULUTH MSA ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN DULUTH MSA ASSESSMENT AREA

The Duluth MSA Assessment Area contains all census tracts in the Duluth, MN-WI MSA.

According to 2020 U.S. Census data, the Duluth MSA Assessment Area includes 104 census tracts and is comprised of 3 low-income, 21 moderate-income, 55 middle-income, and 20 upper-income census tracts, as well as 5 census tracts with no income level available. The bank operates one full-service office located in Ely, Minnesota, which is in a middle-income census tract.

Economic and Demographic Data

The following table illustrates select demographic characteristics of the assessment area based on 2020 U.S. Census data.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	104	2.9	20.2	52.9	19.2	4.8
Population by Geography	291,638	2.0	17.6	55.9	22.9	1.5
Housing Units by Geography	152,311	2.3	17.4	59.1	19.4	1.8
Owner-Occupied Units by Geography	89,813	0.7	15.4	59.0	24.5	0.3
Occupied Rental Units by Geography	34,395	7.0	27.3	47.0	12.5	6.3
Vacant Units by Geography	28,103	1.5	11.6	74.5	11.2	1.2
Businesses by Geography	25,659	4.7	14.9	49.6	23.8	7.0
Farms by Geography	733	1.1	9.5	60.8	26.1	2.5
Family Distribution by Income Level	72,450	18.6	18.4	22.9	40.0	0.0
Household Distribution by Income Level	124,208	24.5	16.0	18.1	41.4	0.0
Median Family Income MSA – 20260 Duluth, MN-WI MSA		\$77,796	Median Housing Value			\$180,795
			Median Gross Rent			\$797
			Families Below Poverty Level			6.7%
<i>Source: 2020 U.S. Census and 2023 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

D&B data for 2023 indicates that service industries represent the largest portion of businesses in the assessment area at 38.4 percent; followed by non-classifiable establishments (15.4 percent); and retail trade (12.0 percent). In addition, 64.6 percent of area businesses have 4 or fewer employees, and 88.3 percent operate from a single location.

The FFIEC provides updated median family incomes that are used to analyze home mortgage loans under the Borrower Profile criterion as well as community development activities. The low-, moderate-, middle-, and upper-income categories for the evaluation period are presented in the following table.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Duluth, MN-WI MSA Median Family Income (20260)				
2023 (\$93,900)	<\$46,950	\$46,950 to <\$75,120	\$75,120 to \$112,680	≥\$112,680
<i>Source: FFIEC</i>				

Competition

The Duluth MSA Assessment Area reflects a competitive market among financial service providers. According to Reports of Condition data filed by financial institutions, there are 52 financial institutions operating 99 locations within the assessment area. These institutions range from small community banks to larger national financial institutions. Highland Bank is ranked 35th with 0.6 percent of the deposit market share.

According to 2023 aggregate HMDA data, 284 HMDA data reporters collectively reported 6,173 home mortgage loans within the assessment area. The top lenders by number are national financial institutions and mortgage corporations. Like many of these competing entities, Highland Bank reports HMDA data. According to the 2023 aggregate HMDA data, Highland Bank ranked 95th with a market share of 0.1 percent. The overall volume of home mortgage lending reflects a highly competitive market.

As previously stated, Highland Bank is not required to collect or report small business CRA loan data and has elected not to do so. Therefore, examiners did not compare the bank's small business lending performance to aggregate CRA data within this evaluation. However, the aggregate CRA data provides an indication of the level of demand for small business loans and the level of competition within the assessment area. According to 2022 aggregate CRA data (most recent available), 78 CRA data reporters collectively reported 4,513 small business loans within the assessment area. The top lenders by number are large national banks and credit card lenders. These figures do not include a high number of loans originated by smaller or mid-sized institutions, such as Highland Bank, that are not required to report small business lending data but that operate within the assessment area. The overall volume of small business lending reflects a highly competitive market.

Credit and Community Development Needs and Opportunities

Considering demographic and economic data, examiners determined that small business and home mortgage loans represent the primary credit needs. In addition, community development opportunities in the area include affordable housing, economic development, community services for low-and moderate-income individuals, and revitalization/stabilization of applicable geographies.

CONCLUSIONS ON PERFORMANCE CRITERIA IN DULUTH MSA ASSESSMENT AREA

LENDING TEST

Highland Bank demonstrated reasonable performance under the Lending Test in the Duluth MSA Assessment Area. The bank's Geographic Distribution and Borrower Profile performance supports this conclusion.

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. This is supported by reasonable small business and home mortgage lending performance. Examiners focused on the percentage of loans made in low- and moderate-income census tracts within the assessment area.

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area. The following table shows that the bank did not make any loans in low-income census tracts, although there are only 4.8 percent of businesses located in these tracts according to demographic data. The bank’s lending performance in moderate-income census tracts exceeds demographic data. Overall, the geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	4.8	0	0.0	0	0.0
Moderate	14.9	2	33.3	110	25.0
Middle	49.5	4	66.7	330	75.0
Upper	23.8	0	0.0	0	0.0
Not Available	7.0	0	0.0	0	0.0
Totals	100.0	6	100.0	440	100.0

Source: 2023 D&B Data; 2023 Bank Data

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the assessment area. The following table shows that the bank did not make any loans in low-income census tracts, although there are only 0.7 percent of owner-occupied housing units in these tracts according to demographic data. Additionally, aggregate lending performance at 1.2 percent also reflects the limited home lending opportunities in these tracts. The bank’s lending performance in moderate-income census tracts exceeds aggregate and demographic data. Overall, the geographic distribution of home mortgage loans reflects reasonable dispersion throughout the assessment area.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low	0.7	1.2	0	0.0	0	0.0
Moderate	15.4	17.2	2	25.0	115	13.8
Middle	59.0	57.6	4	50.0	333	39.9
Upper	24.5	23.7	2	25.0	386	46.3
Not Available	0.3	0.3	0	0.0	0	0.0
Totals	100.0	100.0	8	100.0	834	100.0

*Source: 2020 U.S. Census; 2023 Bank Data; 2023 HMDA Aggregate Data
Due to rounding, totals may not equal 100.0%*

Borrower Profile

The bank’s lending performance demonstrates reasonable penetration among businesses of different revenue sizes and individuals of different income levels. The bank’s reasonable small business lending performance supports this conclusion. Although the bank’s home mortgage lending performance is very poor, examiners gave lesser weight to this loan product when arriving at the overall conclusion. Examiners focused on the percentage of lending to businesses with gross annual revenues of \$1 million or less. Examiners also focused on the percentage of home mortgage loans to low- and moderate-income borrowers.

Small Business Loans

The distribution of sampled small business loans reflects reasonable penetration among businesses with gross annual revenues of \$1 million or less. As shown in the following table, the bank’s lending to businesses with gross annual revenues of \$1 million or less mirrors demographic data.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	83.8	5	83.3	220	50.0
>1,000,000	4.2	1	16.7	220	50.0
Revenue Not Available	12.0	0	0.0	0	0.0
Total	100.0	6	100.0	440	100.0

Source: 2023 D&B Data; 2023 Bank Data

Home Mortgage Loans

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, is very poor. As illustrated in the following table, the bank did not make any loans to low- or moderate-income borrowers.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	18.6	10.5	0	0.0	0	0.0
Moderate	18.4	23.7	0	0.0	0	0.0
Middle	22.9	22.8	1	12.5	50	6.0
Upper	40.1	30.9	6	75.0	724	86.8
Not Available	0.0	12.1	1	12.5	60	7.2
Totals	100.0	100.0	8	100.0	834	100.0

*Source: 2020 U.S. Census; 2023 Bank Data; 2023 HMDA Aggregate Data
Due to rounding, totals may not equal 100.0%*

COMMUNITY DEVELOPMENT TEST

Community Development Loans

During the evaluation period, Highland Bank did not originate any community development loans in this assessment area.

Qualified Investments

During the evaluation period, Highland Bank retained 3 prior period investments totaling approximately \$1.3 million, which support community services targeted to low- and moderate-income persons and economic development initiatives.

Community Development Services

During the evaluation period, Highland Bank employees provided no instances of community development services in the assessment area.

APPENDICES

INTERMEDIATE SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

Community Development Test

The Community Development Test considers the following criteria:

- 1) The number and amount of community development loans;
- 2) The number and amount of qualified investments;
- 3) The extent to which the bank provides community development services; and
- 4) The bank's responsiveness through such activities to community development lending, investment, and service needs.

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.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Community Development: For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms; or
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. Institution CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Institution CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Community Development Loan: A loan that:

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose institution:
 - (i) Has not been reported or collected by the institution or an affiliate for consideration in the institution's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
 - (ii) Benefits the institution's assessment area(s) or a broader statewide or regional area including the institution's assessment area(s).

Community Development Service: A service that:

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the institution's retail banking services under § 345.24(d).

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.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Distressed Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

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. Other family 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).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g, 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 applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area.

Performance under applicable tests is often analyzed using only quantitative factors (e.g, geographic distribution, borrower profile, 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.

Low Income Housing Tax Credit: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

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.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties 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 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 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as **non-MSA**): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

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 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.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Investment Company (SBIC): SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

Small Business Loan: 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 are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: 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, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Underserved Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

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

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

"Urban" excludes the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.