

# **PUBLIC DISCLOSURE**

October 25, 2021

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Highland Bank  
Certificate Number: 16111

701 Central Avenue East  
Saint Michael, Minnesota 55376

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

1100 Walnut Street, 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 area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

**The Lending Test is rated Satisfactory.**

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- A substantial majority of the small business loans reviewed were located inside the assessment area.
- The geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects reasonable penetration among businesses of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

**The Community Development Test is rated Satisfactory.**

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

## 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, the bank operates four full-service branch offices located in Bloomington, Maple Grove, Minnetonka, and Saint Paul, Minnesota. Changes in branch structure since the previous evaluation is limited to the relocation of the Maple Grove branch to a building within one mile of the former location. This branch continues to be located in an upper-income census tract. The institution received a Satisfactory rating at its previous FDIC Performance Evaluation dated November 26, 2018, 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. Highland Bank continues to be involved with loan programs offered through the Small Business Administration (SBA), including participation in the SBA Paycheck Protection Program (PPP).

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; online banking, including bill pay and periodic statements; telephone banking; and mobile banking including mobile deposit.

As of June 30, 2021, assets totaled approximately \$667,032,000; loans totaled \$402,957,000; and deposits totaled \$546,601,000. The loan portfolio distribution is detailed in the following table.

<b>Loan Portfolio Distribution as of June 30, 2021</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	31,416	7.8
Secured by Farmland	587	0.1
Secured by 1-4 Family Residential Properties	33,219	8.2
Secured by Multifamily (5 or more) Residential Properties	6,324	1.6
Secured by Nonfarm Nonresidential Properties	211,016	52.4
<b>Total Real Estate Loans</b>	<b>282,562</b>	<b>70.1</b>
Commercial and Industrial Loans	118,097	29.3
Agricultural Production and Other Loans to Farmers	0	0.0
Consumer Loans	2,285	0.6
Other Loans	13	0.0
<b>Total Loans</b>	<b>402,957</b>	<b>100.0</b>
<i>Source: Report of Condition and Income</i>		

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

## DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. Highland Bank designated a single assessment area comprised of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, Sherburne, Washington, and Wright counties in the State of Minnesota. All of the assessment area counties are included in the Minneapolis-St. Paul-Bloomington Minnesota-Wisconsin Statistical Area (MSA).

### **Economic and Demographic Data**

According to 2015 American Community Survey (ACS) data, the assessment area includes 54 low-income census tracts, 158 moderate-income census tracts, 317 middle-income census tracts, 196 upper-income census tracts, and 7 census tracts without an income designation. The following table illustrates select demographic characteristics of the assessment area.

<b>Demographic Information of the Assessment Area</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	732	7.4	21.6	43.3	26.8	1.0
Population by Geography	3,171,206	6.0	18.6	45.5	29.6	0.3
Housing Units by Geography	1,289,111	5.6	19.4	46.3	28.3	0.3
Owner-Occupied Units by Geography	847,611	2.2	14.5	48.9	34.3	0.1
Occupied Rental Units by Geography	378,382	12.8	29.8	40.7	15.9	0.9
Vacant Units by Geography	63,118	9.2	22.0	46.4	21.6	0.8
Businesses by Geography	315,218	5.0	16.5	45.5	32.7	0.3
Farms by Geography	7,302	1.9	10.6	55.1	32.3	0.1
Family Distribution by Income Level	788,752	20.2	17.2	22.0	40.5	0.0
Household Distribution by Income Level	1,225,993	23.6	16.1	18.4	42.0	0.0
Median Family Income MSA - 33460 Minneapolis-St. Paul-Bloomington, MN-WI MSA	\$84,589	Median Housing Value				\$230,018
		Median Gross Rent				\$965
		Families Below Poverty Level				7.0%
<i>Source: 2015 ACS and 2020 D&amp;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 2020 indicates that service industries represent the largest portion of businesses in the assessment area at 38.4 percent; followed by non-classifiable establishments (21.6 percent); finance, insurance, and real estate (10.0 percent); retail trade (9.5 percent); and construction (7.8 percent). In addition, 61.9 percent of area businesses have 4 or fewer employees, and 92.0 percent operate from a single location.

## **Competition**

The assessment area is a highly competitive market for credit products and financial services. According to FDIC Deposit Market Share data as of June 30, 2021, there were 122 financial institutions operating 671 locations within the assessment area. These institutions range from small community banks to larger national financial institutions. The top 2 institutions by total deposits were large financial institutions and captured 66.1 percent of the market share within the assessment area. Highland Bank is ranked 26<sup>th</sup> with 0.3 percent of the deposit market share.

Highland Bank is not required to collect or report small business CRA loan data and has not elected to do so. Therefore, examiners did not compare the bank's small business lending performance to aggregate CRA data within this evaluation. However, 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 2019 aggregate CRA data (most recently available), 170 CRA data reporters collectively reported 70,140 small business loans originated within the assessment area. These figures do not include the number of loans originated by smaller institutions that are not required to report small business lending data, but operate within the assessment area. The overall volume of small business lending in the assessment area also 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 the credit and community development needs. This information helps determine whether local financial institutions are responsive to these needs and if credit opportunities are available. For this evaluation, examiners utilized three previously conducted interviews of assessment area representatives from local community development organizations.

All contacts noted that the Coronavirus pandemic has had a negative impact on businesses within the assessment area and there is a credit need to support businesses as they transition into operations that are more normal. One contact noted that many businesses have slowed down expanding their business compared to previous years and that there is a credit need to assist in the financing of commercial and industrial expansions. Another contact noted that small business loans, especially those to startups, are the greatest credit need in the assessment area.

One contact noted there are a record number of market rate single-family homes being built in the larger communities; however, there is a need for affordable housing. This need is particularly strong in the smaller communities as it is difficult for these communities to qualify for tax credits and residential developers are not willing to build affordable homes without the tax credits. In addition, the majority of homes in the assessment area are out of the price range for lower-income families in the current market environment, and it is difficult for lower-income families to qualify for home mortgage loans. This contact also noted that there is a credit need for multi-family housing of all types, including small residential rentals for workforce housing. Overall, the contacts indicated that banks are meeting the credit needs of the assessment area.

**Credit and Community Development Needs and Opportunities**

Considering information from the community contacts, bank management, and demographic and economic data, examiners determined that small business and home mortgage lending represent the primary credit needs of the assessment area. Community development opportunities include economic development, revitalization and stabilization of low and moderate-income areas, affordable housing, and community services for low-and moderate-income individuals.

**SCOPE OF EVALUATION**

**General Information**

This evaluation covers the period from the previous evaluation dated November 26, 2018, to the current evaluation dated October 25, 2021. Examiners used Interagency Intermediate Small Institution Examination Procedures to evaluate Highland Bank’s CRA performance. These procedures focus on the bank’s performance under the Lending and Community Development Tests as outlined in the Intermediate Small Bank Performance Criteria Appendix. Banks must achieve at least a Satisfactory rating under each test to obtain an overall Satisfactory rating.

**Activities Reviewed**

Examiners determined that the bank’s major product line is small business loans. This conclusion considered discussion with management regarding the bank’s business strategy, review of bank records of the number and dollar volume of loans originated during the evaluation period, and a review of the Consolidated Report of Condition and Income (Report of Condition). This is consistent with the bank’s loan composition and volume of loans recently originated. Examiners did not review home mortgage lending and small farm lending activities because management indicated that home mortgage and agricultural lending is not a business focus and these two products represent a small portion of the total loan portfolio.

Bank records and discussions with bank management indicate that the lending focus in 2020 was generally consistent with the rest of the evaluation period. Therefore, examiners reviewed all small business loans originated or renewed in 2020. D&B data for 2020 provided a standard of 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. To evaluate the Geographic Distribution criterion, examiners reviewed the entire universe of small business loans originated or renewed inside the assessment area. Further, to evaluate the Borrower Profile criterion, examiners reviewed a sample of small business loans originated inside the assessment area. Small business loans considered under the Community Development Test were excluded from the Lending Test review. 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	748	103,954	699	96,736
<i>Source: 2020 Bank Records</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 served.

For the Community Development Test, bank management provided data on community development loans, qualified investments, and community development services from the previous evaluation date of November 26, 2018, to the current evaluation date of October 25, 2021. Examiners reviewed community development activity for the entire review period and presented the information for each year within the performance evaluation. To help evaluate community development performance, examiners make comparisons to peers. For this evaluation, examiners reviewed the activities of five institutions that have operations in the assessment area, and were evaluated using Interagency Intermediate Small Institution Examination Procedures since June 1, 2020.

## CONCLUSIONS ON PERFORMANCE CRITERIA

### LENDING TEST

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

### Loan-to-Deposit Ratio

The average net loan-to-deposit ratio is reasonable given the institution’s size, financial condition, and credit needs of the assessment area. The net loan-to-deposit ratio, calculated from Report of Condition data, averaged 86.4 percent over the past 11 calendar quarters from December 31, 2018, to June 30, 2021. The ratio ranged from a low of 72.5 percent as of June 30, 2021, to a high of 94.3 percent as of June 30, 2020. Overall, Highland Bank’s average net loan-to-deposit ratio is comparable to similarly situated institutions as illustrated in the following table. Examiners selected comparable institutions based on asset size, geographic location, and lending focus.

<b>Loan-to-Deposit Ratio Comparison</b>		
<b>Bank</b>	<b>Total Assets as of 6/30/21 \$(000s)</b>	<b>Average Net LTD Ratio (%)</b>
21st Century Bank, Loretto, Minnesota	607,133	98.9
Fidelity Bank, Edina, Minnesota	674,585	109.3
<b>Highland Bank, Saint Michael, Minnesota</b>	<b>667,032</b>	<b>86.4</b>
Northeast Bank, Minneapolis, Minnesota	760,775	97.5
The Bank of Elk River, Elk River, Minnesota	609,803	69.3
<i>Source: Reports of Condition 12/31/2018 through 6/30/2021</i>		

### Assessment Area Concentration

Highland Bank originated a substantial majority of small business loans reviewed within the assessment area, as shown in the following table.



<b>Lending Inside and Outside of the Assessment Area</b>										
<b>Loan Category</b>	<b>Number of Loans</b>					<b>Dollar Amount of Loans \$(000s)</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$(000s)</b>
<b>Small Business</b>	699	93.4	49	6.6	<b>748</b>	96,736	93.1	7,218	6.9	<b>103,954</b>

*Source: 2020 Bank Records*

### **Geographic Distribution**

The geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area. As illustrated in the following table, Highland Bank’s lending performance in low- and moderate-income census tracts was comparable to demographic data.

<b>Geographic Distribution of Small Business Loans</b>					
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low	5.0	23	3.3	4,408	4.6
Moderate	16.5	95	13.6	14,459	14.9
Middle	45.5	309	44.2	40,400	41.8
Upper	32.7	271	38.8	36,983	38.2
Not Available	0.3	1	0.1	486	0.5
<b>Totals</b>	<b>100.0</b>	<b>699</b>	<b>100.0</b>	<b>96,736</b>	<b>100.0</b>

*Source: 2020 D&B Data; 2020 Bank Records*

### **Borrower Profile**

The bank’s lending performance demonstrates reasonable penetration among businesses of different revenue sizes. Examiners focused on the percentage of small business loans to borrowers with gross annual revenues of \$1 million or less. As illustrated in the following table, the bank’s lending performance to businesses with gross annual revenues of \$1 million or less is lower than demographic data. As stated previously, there is significant competition for small business loans in the assessment area, which management and CRA aggregate data confirmed. Furthermore, the following table includes 13 SBA PPP loans to borrowers in which revenues were not required to be collected. The majority of these loans were originated to customers with loan sizes of \$100,000 or less, indicating the bank’s willingness to serve the needs of smaller businesses. Considering these factors, performance is reasonable.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<=\$1,000,000	87.9	29	46.0	2,338	30.7
>\$1,000,000	4.8	21	33.4	4,348	57.1
Revenue Not Available	7.3	13	20.6	931	12.2
<b>Total</b>	<b>100.0</b>	<b>63</b>	<b>100.0</b>	<b>7,617</b>	<b>100.0</b>
<i>Source: 2020 D&amp;B Data, Bank Records</i>					

**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’s community development performance demonstrates adequate responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services. The bank’s responsiveness to community development lending and investments provided the most weight when deriving the overall conclusion. Examiners considered the bank’s capacity and the need and availability of such opportunities.

Highland Bank was responsive to the community development needs of its assessment area as identified through the community contact comments and by the demographic and economic data; therefore, community development activities that benefitted a broader statewide area were also considered.

**Community Development Loans**

Since the previous evaluation, the bank originated or renewed 289 community development loans totaling approximately \$92.4 million throughout its assessment area and broader statewide regional area. The bank extended loans in an effort to promote economic development by supporting permanent job creation or retention and improvement to low- and moderate-income persons or areas; supporting affordable housing; supporting the revitalization and stabilization of low-and moderate-income geographies; and providing community services to low-and moderate-income individuals.

Community development lending activity includes 274 SBA PPP loans totaling approximately \$78.5 million originated from April 14, 2020, to May 28, 2021. These loans helped promote economic development by financing small businesses as they struggled with the impact of the Coronavirus pandemic. Of the \$78.5 million in SBA PPP funds provided, \$4.5 million benefited areas outside the assessment area. The bank’s community development loans to total assets (13.9 percent) and community develop loans to net loans (23.3 percent) compare reasonably to the ratios of comparable institutions, which ranged from 5.3 to 32.9 percent and 8.6 to 42.7 percent, respectively. The bank’s community development ratios are within the range of the comparable institutions’ ratios, which also included SBA PPP loans.

The following tables provide a breakdown of the community development loans by area benefitted and activities by year for each community development purpose.

<b>Community Development Lending by Area Benefitted</b>										
<b>Assessment Area</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Assessment Area	1	950	2	6,390	270	77,761	6	2,789	<b>279</b>	<b>87,890</b>
Broader Statewide / Regional Area	0	0	0	0	10	4,544	0	0	<b>10</b>	<b>4,544</b>
<b>Total</b>	<b>1</b>	<b>950</b>	<b>2</b>	<b>6,390</b>	<b>280</b>	<b>82,305</b>	<b>6</b>	<b>2,789</b>	<b>289</b>	<b>92,434</b>
<i>Source: Bank Records</i>										

<b>Community Development Lending</b>										
<b>Activity Year</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
2019	1	950	1	3,080	5	3,359	2	420	<b>9</b>	<b>7,809</b>
2020	0	0	1	3,310	22	40,323	2	1,750	<b>25</b>	<b>45,383</b>
YTD 2021	0	0	0	0	253	38,623	2	619	<b>255</b>	<b>39,242</b>
<b>Total</b>	<b>1</b>	<b>950</b>	<b>2</b>	<b>6,390</b>	<b>280</b>	<b>82,305</b>	<b>6</b>	<b>2,789</b>	<b>289</b>	<b>92,434</b>
<i>Source: Bank Records</i>										

### **Qualified Investments**

Qualified investments and donations funded since the previous evaluation were considered under this criterion as well as qualifying investments purchased prior to this evaluation that are still outstanding. Highland Bank received consideration for 56 qualified investments totaling approximately \$5.3 million. This total included 48 donations totaling approximately \$120,000, primarily promoting community development by donating to organizations that provide community services to low- and moderate-income persons.

When aggregated for the evaluation period, the bank's qualified investments to total assets ratio was 0.8 percent and represents 2.7 percent of total investments. Highland Bank's qualified investments to total assets ratio is comparable to the five peer institutions whose qualified investments to total asset ratios ranged from 0.2 to 2.4 percent, and qualified investments to total investment's ratio ranged from 1.8 to 14.1 percent. Overall, Highland Bank's community development investment and donation activity is responsive to the needs within the assessment area over the evaluation period and within the ranges of comparable institutions.

The following tables illustrate the bank's qualified investments by area benefitted and activities by years for each community development purpose.

<b>Community Development Investments by Area Benefited</b>										
<b>Assessment Area</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Assessment Area	8	3,973	35	1,156	4	7	8	22	<b>55</b>	<b>5,158</b>
Broader Statewide / Regional Area	1	130	0	0	0	0	0	0	<b>1</b>	<b>130</b>
<b>Total</b>	<b>9</b>	<b>4,103</b>	<b>35</b>	<b>1,156</b>	<b>4</b>	<b>7</b>	<b>8</b>	<b>22</b>	<b>56</b>	<b>5,288</b>
<i>Source: Bank Records</i>										

<b>Qualified Investments</b>										
<b>Activity Year</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Prior Period	4	2,934	0	0	0	0	0	0	<b>4</b>	<b>2,934</b>
2018	0	0	0	0	0	0	0	0	<b>0</b>	<b>0</b>
2019	0	0	0	0	0	0	0	0	<b>0</b>	<b>0</b>
2020	1	130	2	1,073	0	0	0	0	<b>3</b>	<b>1,203</b>
YTD 2021	1	1,031	0	0	0	0	0	0	<b>1</b>	<b>1,031</b>
<b>Subtotal</b>	<b>6</b>	<b>4,095</b>	<b>2</b>	<b>1,073</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8</b>	<b>5,168</b>
Qualified Grants & Donations	3	8	33	83	4	7	8	22	<b>48</b>	<b>120</b>
<b>Total</b>	<b>9</b>	<b>4,103</b>	<b>35</b>	<b>1,156</b>	<b>4</b>	<b>7</b>	<b>8</b>	<b>22</b>	<b>56</b>	<b>5,288</b>
<i>Source: Bank Records</i>										

### **Community Development Services**

During the evaluation period, bank employees provided nine instances of financial expertise or technical assistance to four different community development-related organizations. These services directly benefited the assessment area. The number of services has decreased since the previous evaluation where the bank received consideration for a total of 25 community development services serving three different community development entities.

The bank's level of community development services is less than comparable institutions, whose community development services ranged from 21 to 158 during their respective evaluation periods. Management estimates that employees dedicated approximately 174 hours to provide financial or technical assistance to promote community development. The following table provides a breakdown of community development services by year for each community development purpose.

<b>Community Development Services</b>					
<b>Activity Year</b>	<b>Affordable Housing</b>	<b>Community Services</b>	<b>Economic Development</b>	<b>Revitalize or Stabilize</b>	<b>Totals</b>
	#	#	#	#	#
2019	1	0	2	0	<b>3</b>
2020	1	1	1	0	<b>3</b>
YTD 2021	1	1	1	0	<b>3</b>
<b>Total</b>	<b>3</b>	<b>2</b>	<b>4</b>	<b>0</b>	<b>9</b>
<i>Source: Bank Records</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. Branch locations are centrally located throughout the assessment area and hours provide ease of access to all residents including low- and moderate-income individuals. The bank also implemented measures to accommodate customers affected by the Coronavirus pandemic, including loan modifications, waiving overdraft and late fees, and providing deposit accommodations. Such efforts are considered responsive to the needs of low- and moderate-income individuals and small businesses affected by the pandemic. Overall, Highland Bank provides reasonable access to banking services for individuals throughout the assessment area.

### **DISCRIMINATORY 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 during this evaluation.

## 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 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;
- 4) The geographic distribution of the bank's loans; 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 the area's community development needs considering the amount and combination of these activities, along with their qualitative aspects.

## 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.

**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.