

# **PUBLIC DISCLOSURE**

August 22, 2022

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Pilot Grove Savings Bank  
Certificate Number: 9100

1341 Pilot Grove Road  
Pilot Grove, Iowa 52648

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.

Pilot Grove Savings Bank's satisfactory Community Reinvestment Act (CRA) performance under the Lending Test and Community Development Test supports the 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 institution's size, financial condition, and assessment area needs.
- A majority of small farm, small business, and home mortgage loans are inside the bank's assessment area.
- The geographic distribution of loans reflects overall reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects overall reasonable penetration among farms and businesses of different revenue sizes, as well as individuals of varying income levels.
- 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.**

- Overall, the institution demonstrated adequate responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and the provision of community development services. Examiners considered the institution's capacity, as well as the needs and availability of opportunities in the assessment area.

## DESCRIPTION OF INSTITUTION

Pilot Grove Savings Bank (PGSB) is headquartered in Pilot Grove, Iowa, and remains wholly owned by one-bank holding company, Pilot Bancorp, Inc., Pilot Grove, Iowa. The institution received a Satisfactory rating at its previous FDIC Performance Evaluation, dated September 16, 2019, based on Interagency Intermediate Small Institution Examination Procedures. There have been no merger or acquisition activities or branch closures since the prior evaluation; however, the bank opened a new branch in West Burlington, Iowa, on January 27, 2020. In addition to the Pilot Grove main office, the institution operates ten full-service locations in Donnellson, Fairfield, Fort Madison, Houghton, Keokuk, Mount Pleasant, Packwood, West Burlington, West Point, and Winfield, Iowa. An additional three limited-service facilities are located in Fort Madison and Keokuk (2), Iowa. PGSB also operates a convenience location at River Hills Village, a retirement community in Keokuk, Iowa.

The bank offers various loan products, including agricultural, commercial, residential real estate, and consumer loans, with a primary lending focus in agricultural lending followed by residential real estate lending. PGSB has also made special financing alternatives available through the following channels during the review period: Farm Service Agency, Iowa Agricultural Development Authority, Small Business Administration, Iowa Economic Development Authority, United States Department of Agriculture Rural Housing, Iowa Finance Authority, Southeast Iowa Regional Planning Commission, Veterans Administration, and Federal Housing Administration. Related programs are generally designed to assist small farms, small businesses, and individuals who may not qualify for loans through conventional financing methods. Secondary market financing options are also accessible through PGSB for qualifying home mortgage loans. Finally, in response to the COVID-19 pandemic, PGSB originated loans via the Small Business Administration Paycheck Protection Program (PPP) to assist agricultural- and business-related entities in the area.

The institution provides a variety of deposit-related products that include checking, savings, money market, certificates of deposit, and Individual Retirement accounts. Alternative banking products or services include debit cards, direct deposit, telephone banking, night deposit, electronic statements, online and mobile bill payment, mobile wallet, remote deposit capture, bank-by-mail, and online banking services that enable users to make transfers and deposits. PGSB operates 19 automated teller machines. A machine is located at each office location except the Winfield branch. The unit at the 601 Main Street branch in Keokuk is cash-dispensing only, while the remainder are full-service units. Six additional machines are operated within Fort Madison, Keokuk (2), Mount Pleasant (2), and Salem, Iowa. One of these off-site machines accepts deposits; all others are cash-dispensing units. PGSB also offers investment advisory services from the Pilot Grove and Mount Pleasant offices.

Assets totaled approximately \$817.5 million as of June 30, 2022, representing an increase of 37.5 percent since the June 30, 2019, Consolidated Reports of Condition and Income (Call Report). Total deposits equaled approximately \$738.9 million, representing a 41.5 percent increase, and total loans were approximately \$593.0 million, representing a 13.7 percent increase during the same

timeframe. Portfolio concentrations have remained generally consistent over the period reviewed. Management attributes loan and deposit increases to government stimulus and PPP activity, as well as organic growth stemming from normal operations. The following table illustrates the composition of the loan portfolio as of June 30, 2022.

| <b>Loan Portfolio Distribution as of 6/30/2022</b>          |                 |              |
|---|-----------------|--------------|
| <b>Loan Category</b>  | <b>\$(000s)</b> | <b>%</b>     |
| Construction, Land Development, and Other Land Loans        | 8,123           | 1.4          |
| Secured by Farmland   | 166,043         | 28.0         |
| Secured by 1-4 Family Residential Properties                | 221,935         | 37.4         |
| Secured by Multifamily (5 or more) Residential Properties   | 1,223           | 0.2          |
| Secured by Nonfarm Nonresidential Properties                | 25,337          | 4.3          |
| <b>Total Real Estate Loans</b>                              | <b>422,661</b>  | <b>71.3</b>  |
| Commercial and Industrial Loans                             | 55,964          | 9.4          |
| Agricultural Production and Other Loans to Farmers          | 84,227          | 14.2         |
| Consumer Loans  | 27,749          | 4.7          |
| Obligations of State and Political Subdivisions in the U.S. | 2,185           | 0.4          |
| Other Loans   | 226             | 0.0          |
| Lease Financing Receivable (net of unearned income)         | 0               | 0            |
| Less: Unearned Income                                       | (0)             | (0)          |
| <b>Total Loans</b>  | <b>593,012</b>  | <b>100.0</b> |
| <i>Source: Call Report</i>                                  |                 |              |

Examiners did not identify any financial, legal, or other impediments that would limit the institution's ability to meet the credit or community development needs of its assessment areas.

## **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. PGSB has defined one assessment area consisting of Des Moines, Henry, Jefferson, Lee, and Van Buren counties in nonmetropolitan Iowa. The assessment area was expanded in January 2020 to include Des Moines County upon opening the new branch office in West Burlington.

### **Economic and Demographic Data**

According to 2015 American Community Survey (ACS) Census data, the assessment area consists of 33 census tracts with 1 low-, 6 moderate-, 25 middle-, and 1 upper-income designations. The following table illustrates select demographic characteristics of the defined assessment area.

| Demographic Information of the Assessment Area |          |                              |                 |               |              |            |
|--|----------|------------------------------|-----------------|---------------|--------------|------------|
| Demographic Characteristics                    | #        | Low % of #                   | Moderate % of # | Middle % of # | Upper % of # | NA* % of # |
| Geographies (Census Tracts)                    | 33       | 3.0                          | 18.2            | 75.8          | 3.0          | 0.0        |
| Population by Geography                        | 120,407  | 1.9                          | 18.4            | 76.2          | 3.6          | 0.0        |
| Housing Units by Geography                     | 54,141   | 2.0                          | 19.2            | 75.3          | 3.6          | 0.0        |
| Owner-Occupied Units by Geography              | 35,733   | 1.6                          | 15.4            | 78.8          | 4.1          | 0.0        |
| Occupied Rental Units by Geography             | 12,900   | 3.7                          | 26.7            | 67.3          | 2.2          | 0.0        |
| Vacant Units by Geography                      | 5,508    | 0.0                          | 25.7            | 71.0          | 3.3          | 0.0        |
| Businesses by Geography                        | 11,444   | 1.9                          | 14.1            | 80.2          | 3.8          | 0.0        |
| Farms by Geography                             | 1,269    | 0.2                          | 2.9             | 89.3          | 7.6          | 0.0        |
| Family Distribution by Income Level            | 31,342   | 22.8                         | 20.4            | 23.0          | 33.8         | 0.0        |
| Household Distribution by Income Level         | 48,633   | 25.4                         | 18.7            | 18.9          | 37.0         | 0.0        |
| Median Family Income Nonmetropolitan - Iowa    | \$61,681 | Median Housing Value         |                 |               |              | \$98,149   |
|  |          | Median Gross Rent            |                 |               |              | \$606      |
|  |          | Families Below Poverty Level |                 |               |              | 11.0%      |

Source: 2015 ACS and 2021 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.

According to 2021 D&B data, service industries represent the largest portion of agricultural and commercial operations at 35.3 percent by number, followed by non-classifiable establishments at 15.5 percent and retail trade at 11.4 percent. Additionally, 67.0 percent of farms and businesses in the assessment area have four or fewer employees, and 89.6 percent operate from a single location.

FFIEC-estimated median family incomes were used to analyze home mortgage loans under the Borrower Profile criterion, as well as certain community development activities related to housing. The following table details these income levels for the nonmetropolitan portion of Iowa.

| Median Family Income Ranges |           |                       |                       |             |
|-----------------------------|-----------|-----------------------|-----------------------|-------------|
| Median Family Incomes       | Low <50%  | Moderate 50% to <80%  | Middle 80% to <120%   | Upper ≥120% |
| 2019 (\$66,900)             | <\$33,450 | \$33,450 to <\$53,520 | \$53,520 to <\$80,280 | ≥\$80,280   |
| 2020 (\$69,200)             | <\$34,600 | \$34,600 to <\$55,360 | \$55,360 to <\$83,040 | ≥\$83,040   |
| 2021 (\$70,500)             | <\$35,250 | \$35,250 to <\$56,400 | \$56,400 to <\$84,600 | ≥\$84,600   |

Source: FFIEC.

### **Competition**

The assessment area is moderately competitive with regard to financial services. The FDIC Deposit Market Share Report as of June 30, 2021, reflects 21 institutions operating from 68 locations within the assessment area. These institutions range in size from small community banks to larger financial institutions with branch locations in the assessment area. PGSB ranks 2<sup>nd</sup> amongst these institutions with 17.5 percent of deposit market share.

### **Community Contact**

As part of the evaluation process, examiners conducted a community contact interview with an individual knowledgeable about economic conditions in the assessment area, particularly Lee County. Local economic conditions were reported to vary throughout the area. The contact opined that local economies near Burlington and Mount Pleasant remain fairly strong, but areas such as Fort Madison and Keokuk continue to struggle. Housing has been identified as a need by several area communities, including owner-occupied and rental housing, and both single-family and multi-family dwellings. Existing housing stock in Burlington, Fort Madison, and Keokuk is in need of rehabilitation due to age and condition. The contact opined that building codes need to be updated for older commercial structures as it is difficult and costly to renovate buildings built in the late 1800's to early 1900's to current code. Additionally, it is a challenge to find suitable housing in affordable neighborhoods. Locating individuals that can qualify to participate in housing assistance programs is difficult. The contact indicated that individuals potentially eligible for housing assistance have at times been hesitant due to unfamiliarity with the lending process.

Generational poverty remains a challenge in the area. However, projects such as the "Grow Lee" initiative continue to expand with collaboration of community groups and local businesses. The initiative was designed to develop a pipeline of workers for current and future careers. The programs have included Lego Robotics for elementary school students, an employability class for high school students called "12 Plus", and training existing workforce utilizing the local community college's Industrial Technology Center. Overall, the contact reported that financial institutions are working to meet area credit needs, and several local banks are having a positive impact.

### **Credit and Community Development Needs and Opportunities**

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that small farm, small business, and home mortgage loans are primary credit needs of the assessment area. Call Reports filed by area financial institutions also support this assertion. Further, opportunities for community development exist in the area.

## **SCOPE OF EVALUATION**

### **General Information**

This evaluation covers the period from the prior evaluation dated September 16, 2019, to the current evaluation date of August 22, 2022. Examiners used the Interagency Intermediate Small Institution Examination Procedures to evaluate the institution's CRA performance. These procedures include the Lending and Community Development Tests, which the Appendices describe in detail. Examiners conducted a full-scope review of PGSB's assessment area to evaluate performance.



### **Activities Reviewed**

Examiners determined the institution's major product lines are agricultural, commercial, and residential real estate loans. Examiners based this conclusion on the bank's business strategy, loan portfolio distribution, and records regarding the number and dollar volume of loans originated or renewed during the evaluation period. Therefore, small farm, small business, and home mortgage lending was reviewed at the current evaluation. In consideration of the aforementioned factors, examiners gave the greatest weight to small farm lending, followed by home mortgage lending, then small business lending.

For the Assessment Area Concentration review, examiners evaluated lending performance based on all small farm, small business, and home mortgage loans originated during calendar year 2021. For the Geographic Distribution review, examiners evaluated lending performance based on all small farm, small business, and home mortgage loans originated inside the bank's defined assessment area during calendar year 2021. Borrower Profile performance for small farm, small business, and home mortgage lending was evaluated using a sample of loans originated inside the assessment area during calendar year 2021. Management agreed that the loan activity reviewed was representative of the institution's performance during the evaluation period. The following table provides universe and sample information.

| <b>Loan Products Reviewed</b> |                 |                 |                 |                 |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|
| <b>Loan Category</b>          | <b>Universe</b> |                 | <b>Reviewed</b> |                 |
|                               | <b>#</b>        | <b>\$(000s)</b> | <b>#</b>        | <b>\$(000s)</b> |
| Small Farm                    | 705             | 71,695          | 63              | 6,420           |
| Small Business                | 605             | 44,726          | 63              | 3,814           |
| Home Mortgage                 | 683             | 72,306          | 63              | 5,453           |

*Source: Bank Data.*

For small farm and small business conclusions, 2021 D&B data provided a standard of comparison. When arriving at home mortgage conclusions, 2015 ACS Census data provided a standard of comparison. Examiners obtained the data necessary for this evaluation from institution loan data and other records, individual customer loan files, interviews with bank management, and information gathered as part of the examination process. Examiners analyzed lending performance by both the number and dollar volume of loans; however, the performance by number of loans was emphasized as it is generally a better indicator of the number of farms, businesses, and individuals served.

For the Community Development Test, examiners reviewed data presented by management on community development loans, qualified investments, and community development services provided since the prior CRA evaluation.



## CONCLUSIONS ON PERFORMANCE CRITERIA

### LENDING TEST

PGSB demonstrated satisfactory performance under the Lending Test. The institution's performance under the Loan-to-Deposit Ratio, Assessment Area Concentration, Geographic Distribution, and Borrower Profile criteria support this conclusion. The following is a discussion of each performance criterion and its support for the institution's overall rating.

#### Loan-to-Deposit Ratio

PGSB's loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The institution's net loan-to-deposit ratio, calculated from Call Report data, averaged 84.0 percent over the 12 calendar quarters from September 30, 2019, to June 30, 2022. The net loan-to-deposit ratio ranged from a high of 95.1 percent as of September 30, 2019, to a low of 76.8 percent as of March 31, 2022. The ratio has generally declined over the review period as gains in total deposits have outpaced net loans. Management ascribed the influx of deposits to government stimulus and other payments made available to individuals and businesses during the COVID-19 pandemic.

To evaluate the bank's performance, examiners compared PGSB's average net-loan-to-deposit ratio to those of three similarly-situated institutions. Comparable institutions were selected based on similarities in lending focus, asset size, and geographic markets served. As shown in the following table, PGSB's ratio compares reasonably to those of the other institutions. For the period reviewed, ratios of the other banks ranged from a low of 50.5 percent to a high of 101.0 percent. Additionally, to varying degrees, each institution experienced increases in deposit volume that outpaced loan volume similar to PGSB.

| <b>Loan-to-Deposit Ratio Comparison</b>            |  |  |
|--|--|--|
| <b>Bank</b>  | <b>Total Assets as of<br/>6/30/2022<br/>\$(000s)</b> | <b>Average Net Loan<br/>to Deposit Ratio<br/>(%)</b> |
| <b>Pilot Grove Savings Bank, Pilot Grove, Iowa</b> | <b>817,536</b>                                       | <b>84.0</b>  |
| Two Rivers Bank & Trust, Burlington, Iowa          | 960,722  | 85.3   |
| The Libertyville Savings Bank, Fairfield, Iowa     | 424,627  | 70.4   |
| Washington State Bank, Washington, Iowa            | 513,405  | 71.8   |

*Source: Call Reports 9/30/2019 to 6/30/2022.*

PGSB also originates mortgage loans that are subsequently sold through secondary market relationships; these loans are not included in the institution's loan-to-deposit ratio. Management reports originating and selling 77 loans totaling over \$12.6 million to the secondary market since the prior evaluation. While the sale of secondary market loans does not influence the average net loan-to-deposit ratio, this activity provides liquidity to originate other loans. Secondary market lending is responsive to assessment area credit needs by providing long-term home mortgage financing.

**Assessment Area Concentration**

PGSB originated a majority of small farm, small business, and home mortgage loans within the assessment area, demonstrating a willingness to extend credit in the area it serves. See the following table.

| <b>Lending Inside and Outside of the Assessment Area</b> |                        |          |                |          |                    |  |          |                |          |                           |
|--|------------------------|----------|----------------|----------|--------------------|--|----------|----------------|----------|---------------------------|
| <b>Loan Category</b>                                     | <b>Number of Loans</b> |          |                |          | <b>Total<br/>#</b> | <b>Dollar Amount of Loans \$(000s)</b> |          |                |          | <b>Total<br/>\$(000s)</b> |
|  | <b>Inside</b>          |          | <b>Outside</b> |          |                    | <b>Inside</b>                          |          | <b>Outside</b> |          |                           |
|  | <b>#</b>               | <b>%</b> | <b>#</b>       | <b>%</b> |                    | <b>\$</b>                              | <b>%</b> | <b>\$</b>      | <b>%</b> |                           |
| Small Farm   | 577                    | 81.8     | 128            | 18.2     | 705                | 54,483                                 | 76.0     | 17,212         | 24.0     | 71,695                    |
| Small Business   | 521                    | 86.1     | 84             | 13.9     | 605                | 36,184                                 | 80.9     | 8,542          | 19.1     | 44,726                    |
| Home Mortgage  | 597                    | 87.4     | 86             | 12.6     | 683                | 62,132                                 | 85.9     | 10,174         | 14.1     | 72,306                    |

*Source: Bank Data. Due to rounding, totals may not equal 100.0%.*

**Geographic Distribution**

The overall geographic distribution of loans reflects reasonable dispersion. The bank’s reasonable performance in small farm lending primarily supports this conclusion, in conjunction with small business lending. The analysis includes only loans originated to borrowers inside the assessment area with a particular focus on lending in the one low- and six moderate-income census tracts.

***Small Farm Loans***

The geographic distribution of small farm loans reflects reasonable dispersion. As reflected in the following table, PGSB’s lending exceeds corresponding D&B data in the single low-income census tract but is lower than demographics within moderate-income census tracts. Overall, moderate-income census tracts comprise a small geographic portion of the assessment area and encompass less than 3.0 percent of the area’s total farms. The six moderate-income tracts are located in the urban areas of Burlington, Fort Madison, and Keokuk, thereby limiting agricultural opportunities. As such, PGSB’s performance is reasonable given the product type, available opportunities, and geographic considerations.

| <b>Geographic Distribution of Small Farm Loans</b> |                   |            |              |                 |              |
|--|-------------------|------------|--------------|-----------------|--------------|
| <b>Tract Income Level</b>                          | <b>% of Farms</b> | <b>#</b>   | <b>%</b>     | <b>\$(000s)</b> | <b>%</b>     |
| Low  | 0.2               | 5          | 0.9          | 281             | 0.5          |
| Moderate   | 2.9               | 3          | 0.5          | 354             | 0.6          |
| Middle   | 89.3              | 563        | 97.6         | 53,572          | 98.3         |
| Upper  | 7.6               | 6          | 1.0          | 276             | 0.5          |
| <b>Totals</b>                                      | <b>100.0</b>      | <b>577</b> | <b>100.0</b> | <b>54,483</b>   | <b>100.0</b> |

*Source: 2021 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%.*

### ***Small Business Loans***

The geographic distribution of small business loans reflects reasonable dispersion when considering performance context factors. As illustrated in the following table, the bank's lending within the low-income census tract closely mirrors demographics but lags slightly behind within moderate-income census tracts. Bank management notes the impact of PGSB's expansion into Des Moines County with the 2020 opening of the West Burlington office. West Burlington lies within a middle-income census tract; the moderate-income census tracts of Des Moines County are to the east of West Burlington, along the river in downtown Burlington. PGSB is still working to establish itself within this moderately competitive market. The June 2021 FDIC Deposit Market share report identifies 19 offices of 11 financial institutions operating within Des Moines County, with 15 of these offices and 9 of these institutions located within the cities of Burlington and West Burlington. Presently, PGSB claims less than 0.5 percent deposit market share within these areas. Despite this fact, the small business universe includes loans to borrowers located within Des Moines County moderate-income census tracts. Review of the bank's small business lending within the rest of the assessment area further evidences a willingness to lend within moderate-income geographies. When excluding Des Moines County, PGSB's lending in moderate-income census tracts exceeds corresponding D&B demographics. Given these factors, the institution's geographic dispersion of small business loans is reasonable.

| <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  | 1.9                    | 9          | 1.7          | 441             | 1.2          |
| Moderate   | 14.1                   | 66         | 12.7         | 2,810           | 7.8          |
| Middle   | 80.2                   | 442        | 84.8         | 32,763          | 90.5         |
| Upper  | 3.8                    | 4          | 0.8          | 170             | 0.5          |
| <b>Totals</b>  | <b>100.0</b>           | <b>521</b> | <b>100.0</b> | <b>36,184</b>   | <b>100.0</b> |

*Source: 2021 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%.*

### ***Home Mortgage Loans***

The geographic distribution of home mortgage loans reflects poor dispersion. PGSB's lending within the low-income census tract compares reasonably to demographics. Conversely, the bank's lending in moderate-income census tracts is considerably lower than demographics. PGSB's expansion into Des Moines County and the West Burlington/Burlington market described above potentially impacts this area; however, geographic dispersion of the home mortgage loan universe for the remainder of the assessment area also shows penetration within moderate-income census tracts below demographics. Management noted the overall small proportion of moderate-income tracts geographically, as well as challenges associated with the condition of housing within the moderate-income census tracts of Fort Madison and Keokuk. This latter concern is supported by comments from the community contact. Although evidencing a general willingness to lend in areas of all income levels, the institution's geographic dispersion of home mortgage loans is poor. See the following table.

| <b>Geographic Distribution of Home Mortgage Loans</b> |  |            |              |                 |              |
|---|--|------------|--------------|-----------------|--------------|
| <b>Tract Income Level</b>                             | <b>% of Owner-Occupied Housing Units</b> | <b>#</b>   | <b>%</b>     | <b>\$(000s)</b> | <b>%</b>     |
| Low   | 1.6                                      | 8          | 1.3          | 822             | 1.3          |
| Moderate  | 15.4                                     | 39         | 6.5          | 2,716           | 4.4          |
| Middle  | 78.8                                     | 538        | 90.1         | 57,321          | 92.3         |
| Upper   | 4.1                                      | 12         | 2.0          | 1,273           | 2.0          |
| <b>Total</b>  | <b>100.0</b>                             | <b>597</b> | <b>100.0</b> | <b>62,132</b>   | <b>100.0</b> |

*Source: 2015 ACS; Bank Data. Due to rounding, totals may not equal 100.0%.*

### **Borrower Profile**

PGSB's distribution of borrowers reflects an overall reasonable penetration among farms and businesses of different sizes and home mortgage borrowers of differing income levels. This conclusion is supported by the bank's reasonable performance in small farm and home mortgage lending given the greater weight assigned to these loan categories. This analysis focused on the percentage of loans to farms and businesses with gross annual revenues of equal to, or less than, \$1.0 million, as well as home mortgage borrowers qualifying as low- or moderate-income.

### ***Small Farm Loans***

The distribution of borrowers reflects reasonable penetration among farms of different revenue levels. As evidenced in the following table, the bank's performance closely mirrors D&B data for the smaller revenue category.

| <b>Distribution of Small Farm Loans by Gross Annual Revenue Category</b> |                   |           |              |                 |              |
|--|-------------------|-----------|--------------|-----------------|--------------|
| <b>Gross Revenue Level</b>   | <b>% of Farms</b> | <b>#</b>  | <b>%</b>     | <b>\$(000s)</b> | <b>%</b>     |
| <=\$1,000,000  | 98.5              | 60        | 95.2         | 6,077           | 94.7         |
| >\$1,000,000   | 0.6               | 3         | 4.8          | 343             | 5.3          |
| Revenue Not Available  | 0.9               | 0         | 0.0          | 0               | 0.0          |
| <b>Total</b>   | <b>100.0</b>      | <b>63</b> | <b>100.0</b> | <b>6,420</b>    | <b>100.0</b> |

*Source: 2021 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%.*

### ***Small Business Loans***

The distribution of borrowers reflects excellent penetration among businesses of different revenue levels. Most notably, the bank's performance exceeds D&B data within the smaller revenue category. See the following table.

| Distribution of Small Business Loans by Gross Annual Revenue Category |                 |           |              |              |              |
|---|-----------------|-----------|--------------|--------------|--------------|
| Gross Revenue Level   | % of Businesses | #         | %            | \$(000s)     | %            |
| <=\$1,000,000   | 84.5            | 56        | 88.9         | 3,059        | 80.2         |
| >\$1,000,000  | 4.4             | 5         | 7.9          | 713          | 18.7         |
| Revenue Not Available   | 11.1            | 2         | 3.2          | 42           | 1.1          |
| <b>Total</b>  | <b>100.0</b>    | <b>63</b> | <b>100.0</b> | <b>3,814</b> | <b>100.0</b> |

*Source: 2021 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%.*

### ***Home Mortgage Loans***

The distribution of borrowers reflects reasonable penetration among individuals of different income levels. As shown in the following table, PGSB's lending to moderate-income borrowers exceeds demographics, evidencing excellent penetration. Conversely, the bank's level of lending to low-income borrowers is below demographics. Further review of demographics reveals that 11.0 percent of assessment area families are below the poverty level, thereby potentially limiting the demand and opportunity for mortgage lending to this sub-set of the low-income category. PGSB's lending and underwriting policies do not include restrictions that would prevent qualified applicants from obtaining credit; however, general affordability can be an obstacle given the loan product. In light of these additional factors, the bank's distribution of home mortgage loans collectively reflects reasonable penetration among income levels, including low- and moderate-income.

| Distribution of Home Mortgage Loans by Borrower Income Level |               |           |              |              |              |
|--|---------------|-----------|--------------|--------------|--------------|
| Borrower Income Level  | % of Families | #         | %            | \$(000s)     | %            |
| Low  | 22.8          | 8         | 12.7         | 370          | 6.8          |
| Moderate   | 20.4          | 21        | 33.3         | 1,641        | 30.1         |
| Middle   | 23.0          | 15        | 23.8         | 1,401        | 25.7         |
| Upper  | 33.8          | 18        | 28.6         | 1,936        | 35.5         |
| Not Available  | 0.0           | 1         | 1.6          | 105          | 1.9          |
| <b>Total</b>   | <b>100.0</b>  | <b>63</b> | <b>100.0</b> | <b>5,453</b> | <b>100.0</b> |

*Source: 2015 ACS Data; Bank Data. Due to rounding, totals may not equal 100.0%.*

### **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**

PGSB demonstrated adequate responsiveness to the community development needs of the assessment area through community development loans, qualified investments, and community development services. Examiners considered the institution's capacity and the need and availability of such opportunities to evaluate performance under this test. Community development activities that benefitted the broader statewide and/or regional area were included in this analysis as the



institution adequately responded to the overall community development needs of the assessment area.

Information from performance evaluations of three intermediate small institutions conducted during the evaluation period was used for comparative purposes under the Community Development Test. Examiners selected these institutions on the basis of similarities in asset size, business focus, and types of areas served. Overall, PGSB's performance compared reasonably to these institutions when considering available community development opportunities in the assessment area.

### **Community Development Loans**

PGSB originated 1,561 community development loans totaling approximately \$62.9 million during the evaluation period. This activity included 1,503 loans, totaling nearly \$43.7 million, originated as part of the Small Business Administration's PPP. These loans helped to promote economic development by financing small businesses and farms as they struggled with the impact of the COVID-19 pandemic. PPP originations included 195 community development loans, totaling nearly \$4.5 million, benefitting a broader statewide or regional area that includes the bank's assessment area. Although a bulk of commercial and community development lending involved the PPP, the institution also extended loans to support affordable housing and community services, promote economic development, and aid revitalization or stabilization efforts.

As of June 30, 2022, PGSB's total community development loans represented 7.7 percent of total assets and 10.8 percent of net loans. Excluding PPP loans, the bank's community development lending increased significantly since the prior evaluation by both number and dollar volume. PGSB's community development lending levels compare reasonably to those of the three similarly-situated intermediate small banks. The ratio of community development loans to total assets for these institutions ranged from 5.1 percent to 13.1 percent, while the ratio of community development loans to net loans ranged from 8.5 percent to 18.3 percent.

The following tables reflect the number and dollar volume of community development lending in each category by area and activity year. The first table also identifies lending activities in the broader statewide or regional areas that received consideration. Notable examples of the bank's community development lending include:

- financing of qualifying businesses that created and/or retained permanent jobs for low- and moderate-income persons;
- home mortgage loans for low- or moderate-income borrowers under the Iowa Finance Authority's First-time Homebuyer program; and
- financing for revitalization efforts targeting a moderate-income area.

| Community Development Lending by Area |                    |            |                    |            |                      |               |                         |              |              |               |
|---------------------------------------|--------------------|------------|--------------------|------------|----------------------|---------------|-------------------------|--------------|--------------|---------------|
| Area                                  | Affordable Housing |            | Community Services |            | Economic Development |               | Revitalize or Stabilize |              | Totals       |               |
|                                       | #                  | \$(000s)   | #                  | \$(000s)   | #                    | \$(000s)      | #                       | \$(000s)     | #            | \$(000s)      |
| Assessment Area                       | 6                  | 509        | 2                  | 950        | 1,352                | 54,747        | 6                       | 2,179        | 1,366        | 58,385        |
| Statewide Activities                  | 0                  | 0          | 0                  | 0          | 167                  | 2,977         | 0                       | 0            | 167          | 2,977         |
| Regional Activities                   | 0                  | 0          | 0                  | 0          | 28                   | 1,502         | 0                       | 0            | 28           | 1,502         |
| <b>Total</b>                          | <b>6</b>           | <b>509</b> | <b>2</b>           | <b>950</b> | <b>1,547</b>         | <b>59,226</b> | <b>6</b>                | <b>2,179</b> | <b>1,561</b> | <b>62,864</b> |

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)      |
| 2019 (partial)                        | 2                  | 179        | 0                  | 0          | 5                    | 1,162         | 0                       | 0            | 7            | 1,341         |
| 2020                                  | 1                  | 105        | 2                  | 950        | 305                  | 27,898        | 3                       | 636          | 311          | 29,589        |
| 2021                                  | 3                  | 225        | 0                  | 0          | 1,229                | 26,210        | 2                       | 210          | 1,234        | 26,645        |
| 2022 (year-to-date)                   | 0                  | 0          | 0                  | 0          | 8                    | 3,956         | 1                       | 1,333        | 9            | 5,289         |
| <b>Total</b>                          | <b>6</b>           | <b>509</b> | <b>2</b>           | <b>950</b> | <b>1,547</b>         | <b>59,226</b> | <b>6</b>                | <b>2,179</b> | <b>1,561</b> | <b>62,864</b> |

Source: Bank Data

### **Qualified Investments**

The institution made 69 qualified investments totaling nearly \$18.2 million during the evaluation period, which represents 2.2 percent of total assets and 9.6 percent of total securities as of June 30, 2022. Qualified investment activity included 41 donations totaling approximately \$134,000, as well as 9 investments made in a prior period that had outstanding balances totaling nearly \$2.7 million as of the current evaluation date. A majority of PGSB's investment activity helped provide community services targeted to low- and moderate-income individuals or served to aid economic development efforts. Comparable institutions reported qualifying investment activity that ranged from 0.7 to 2.0 percent of total assets and 3.0 to 7.9 percent of total securities. PGSB's level of qualified investments significantly increased since the prior evaluation, and compares favorably to the similarly-situated institutions.

The following tables reflect the number and dollar volume of qualified investments in each category by area and activity year. The first table identifies investment activities in the broader statewide or regional areas that received consideration. Notable examples of the bank's qualified investments include a general obligation bond to support infrastructure and essential services within the City of Keokuk and the support of school bonds where a majority of enrolled students receive free or reduced-price lunches.



| Qualified Investments by Area |                    |          |                    |              |                      |               |                         |              |           |               |
|-------------------------------|--------------------|----------|--------------------|--------------|----------------------|---------------|-------------------------|--------------|-----------|---------------|
| Area                          | Affordable Housing |          | Community Services |              | Economic Development |               | Revitalize or Stabilize |              | Totals    |               |
|                               | #                  | \$(000s) | #                  | \$(000s)     | #                    | \$(000s)      | #                       | \$(000s)     | #         | \$(000s)      |
| Assessment Area               | 0                  | 0        | 27                 | 1,710        | 29                   | 13,044        | 4                       | 1,137        | 60        | 15,891        |
| Regional Activities           | 0                  | 0        | 7                  | 1,885        | 0                    | 0             | 0                       | 0            | 7         | 1,885         |
| Statewide Activities          | 0                  | 0        | 0                  | 0            | 0                    | 0             | 2                       | 400          | 2         | 400           |
| <b>Total</b>                  | <b>0</b>           | <b>0</b> | <b>34</b>          | <b>3,595</b> | <b>29</b>            | <b>13,044</b> | <b>6</b>                | <b>1,537</b> | <b>69</b> | <b>18,176</b> |

Source: Bank Data.

| Qualified Investments by Year |                    |          |                    |              |                      |               |                         |              |           |               |
|-------------------------------|--------------------|----------|--------------------|--------------|----------------------|---------------|-------------------------|--------------|-----------|---------------|
| Activity Year                 | Affordable Housing |          | Community Services |              | Economic Development |               | Revitalize or Stabilize |              | Totals    |               |
|                               | #                  | \$(000s) | #                  | \$(000s)     | #                    | \$(000s)      | #                       | \$(000s)     | #         | \$(000s)      |
| Prior Period                  | 0                  | 0        | 0                  | 0            | 9                    | 2,672         | 0                       | 0            | 9         | 2,672         |
| 2019 (partial)                | 0                  | 0        | 0                  | 0            | 0                    | 0             | 0                       | 0            | 0         | 0             |
| 2020                          | 0                  | 0        | 2                  | 250          | 3                    | 1,035         | 0                       | 0            | 5         | 1,285         |
| 2021                          | 0                  | 0        | 7                  | 2,980        | 1                    | 9,245         | 0                       | 0            | 8         | 12,225        |
| 2022 (year-to-date)           | 0                  | 0        | 2                  | 350          | 0                    | 0             | 4                       | 1,510        | 6         | 1,860         |
| <b>Subtotal</b>               | <b>0</b>           | <b>0</b> | <b>11</b>          | <b>3,580</b> | <b>13</b>            | <b>12,952</b> | <b>4</b>                | <b>1,510</b> | <b>28</b> | <b>18,042</b> |
| Qualified Grants & Donations  | 0                  | 0        | 23                 | 15           | 16                   | 92            | 2                       | 27           | 41        | 134           |
| <b>Total</b>                  | <b>0</b>           | <b>0</b> | <b>34</b>          | <b>3,595</b> | <b>29</b>            | <b>13,044</b> | <b>6</b>                | <b>1,537</b> | <b>69</b> | <b>18,176</b> |

Source: Bank Data.

### **Community Development Services**

The institution provided 28 community development services in support of 7 organizations targeting economic development or community services inside the assessment area. There were no services provided outside the assessment area. PGSB personnel provided technical or financial expertise to these organizations in many ways, all related to the same or similar skills used in their employment with the institution. Notable examples include employees serving as officers for organizations that promote economic development and a bank employee serving on the Board of an economic development organization aimed at recruiting and retaining jobs in low- and moderate-income areas. Additionally, bank staff have provided financial education in area schools where a majority of students receive free or reduced-price lunches.

PGSB's level of community development services has declined during the review period, with the bank having received consideration for 49 qualified services at the prior evaluation. Further, similarly-situated institutions reflect higher levels of activity than PGSB, reporting between 50 and 83 community development services with between 14 to 33 different organizations. Management attributes the bank's lower level of service activity to challenges associated with the COVID-19 pandemic. Many organizations discontinued meetings or activities during the pandemic, and several groups still meet infrequently. Further, bank personnel were busy with PPP activity during 2020 and 2021 due to the high lending volume. The following table illustrates the bank's community development services by activity year and by community development category.

| <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> |
|                                       | <b>#</b>                  | <b>#</b>                  | <b>#</b>                    | <b>#</b>                       | <b>#</b>      |
| 2019 (partial)                        | 0                         | 4                         | 2                           | 0                              | <b>6</b>      |
| 2020                                  | 0                         | 4                         | 2                           | 0                              | <b>6</b>      |
| 2021                                  | 0                         | 5                         | 3                           | 0                              | <b>8</b>      |
| 2022 (year-to-date)                   | 0                         | 4                         | 4                           | 0                              | <b>8</b>      |
| <b>Total</b>                          | <b>0</b>                  | <b>17</b>                 | <b>11</b>                   | <b>0</b>                       | <b>28</b>     |
| <i>Source: Bank Data.</i>             |                           |                           |                             |                                |               |

The bank offers various small business and personal retail credit and deposit products, including no- or low-cost savings and checking accounts for retail customers. PGSB maintains a transactional website through which consumers can access online banking, permitting them to check account balances, transfer funds between accounts, and pay bills. Account access is also available through bank-by-mail, mobile banking, and electronic statements. These services are generally free of charge to bank customers, which is beneficial to low- and moderate-income individuals. As mentioned previously, the bank also participates in various lending programs that aid small farms, small businesses, and potential homeowners.

PGSB operates two full-service branches encompassed by moderate-income census tracts within Fort Madison and Keokuk, as well as one limited-service branch in a low-income census tract within Keokuk. Additionally, the bank operates three automated teller machines in moderate-income census tracts and one automated teller machine in a low-income census tract. These branches and automated teller machines demonstrate the availability of banking services to low- and moderate-income individuals.

## **DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

The bank's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. The fair lending visitation identified a violation of the Equal Credit Opportunity Act and the implementing regulation, Regulation B. Although substantive in nature, the violation did not warrant a downgrade of the bank's CRA rating due to the limited impact on the assessment area, and the corrective measures taken by the institution, including management's commitment to enhance the compliance management system to prevent similar violations from occurring.

## 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.