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## **Community Reinvestment Act**

### **Section 2: CRA Public Evaluation**

# **PUBLIC DISCLOSURE**

May 5, 2022

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

1<sup>st</sup> State Bank  
Certificate Number: 57626

4800 Fashion Square Boulevard, Suite 100  
Saginaw, Michigan 48604

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

300 South Riverside Plaza, Suite 1700  
Chicago, Illinois 60606

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.**

1<sup>st</sup> State Bank's satisfactory Community Reinvestment Act (CRA) performance under the Lending Test is supported by the following:

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

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

1<sup>st</sup> State Bank's community development performance demonstrates adequate responsiveness to community development needs in its AA through community development loans, qualified investments, and community development services, as appropriate, considering the institution's capacity and the need and availability of such opportunities for community development in the institution's AA.

## DESCRIPTION OF INSTITUTION

### ***Background***

1<sup>st</sup> State Bank is a full-service commercial bank headquartered in Saginaw, Michigan and a wholly owned subsidiary of 1<sup>st</sup> State Financial, LTD., a one bank holding company also located in Saginaw, Michigan. 1<sup>st</sup> State Bank received a "Satisfactory" rating at its previous FDIC CRA Performance Evaluation dated July 29, 2019, based on Interagency Small Institution Examination Procedures. The current evaluation is the bank's first under the Interagency Intermediate Small Institution Examination Procedures.

### **Operations**

1<sup>st</sup> State Bank operates within Saginaw, Bay, and Midland Counties in Michigan. In addition to its main office in Saginaw, 1<sup>st</sup> State Bank operates four full-service branches. The bank has five on-site automated teller machines (ATMs) in its AA. The following table provides additional information on the branch and ATM locations.

<b>Office Locations</b>					
<b>Address</b>	<b>City</b>	<b>State</b>	<b>County</b>	<b>ATM</b>	<b>Census Tract Income Level</b>
4800 Fashion Square Boulevard, Suite 100 (Main Office)	Saginaw	Michigan	Saginaw	Yes	Middle
5424 State Street	Saginaw	Michigan	Saginaw	Yes	Middle
400 Ashman Street	Midland	Michigan	Midland	Yes	Moderate
601 North Madison Avenue	Bay City	Michigan	Bay	Yes	Moderate
3907 Wilder Road	Bay City	Michigan	Bay	Yes	Moderate

1<sup>st</sup> State Bank offers a variety of loan products including commercial, home mortgage, and consumer loans, with commercial lending as its primary focus. Deposit products include checking and savings accounts, and certificates of deposit. Alternative banking services include online and mobile banking, person-to-person payments and electronic delivery of disclosures.

### **Ability and Capacity**

Assets totaled approximately \$456.5 million as of December 31, 2021 and included total loans of \$249.5 million and total securities of \$61.6 million. 1<sup>st</sup> State Bank's total deposits were \$403.2 million as of December 31, 2021. The following table shows the loan portfolio composition.

<b>Loan Portfolio Distribution as of 12/31/2021</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	6,163	2.5
Secured by Farmland	118	< 0.1
Secured by 1-4 Family Residential Properties	24,808	9.9
Secured by Multifamily (5 or more) Residential Properties	2,292	0.9
Secured by Nonfarm Nonresidential Properties	110,355	44.2
<b>Total Real Estate Loans</b>	<b>143,736</b>	<b>57.5</b>
Commercial and Industrial Loans	104,949	42.1
Agricultural Production and Other Loans to Farmers	0	0.0
Consumer Loans	442	0.2
Obligations of State and Political Subdivisions in the U.S.	154	0.1
Other Loans	284	0.1
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	(57)	< 0.1
<b>Total Loans</b>	<b>249,508</b>	<b>100.0</b>

*Source: Reports of Condition and Income. Due to rounding, totals may not equal 100.0.*

Total loans increased by \$48.5 million since the previous evaluation. The composition of the loan portfolio remained relatively consistent. Since the previous evaluation, loans secured by non-farm,

non-residential properties increased by 6.8 percentage points, commercial and industrial loans decreased by 4.5 percentage points, and 1-4 family residential real estate loans decreased by 2.4 percentage points. No other loan category changed more than 0.3 percentage points since the last evaluation.

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

## **DESCRIPTION OF ASSESSMENT AREAS**

The CRA requires each financial institution to define one or more AAs within which examiners will evaluate its performance. 1<sup>st</sup> State Bank maintains one contiguous geographic area composed of three separate AAs: the Saginaw, MI Metropolitan Statistical Area (MSA); the Bay City, MI MSA; and the Midland, MI MSA. The three MSAs form the Saginaw-Midland-Bay City Combined Statistical Area (CSA) and includes the entire Counties of Saginaw, Bay, and Midland, and the demographics and other performance context is similar among the individual MSAs. Examiners initially reviewed the bank’s performance at the MSA level and determined that performance is consistent across each MSA. Therefore, this Performance Evaluation presents combined conclusions at the CSA level.

### **Economic and Demographic Data**

1<sup>st</sup> State Bank made no changes to their AAs since the previous evaluation. The AAs conform to CRA requirements, consist of contiguous whole geographies in which the bank has offices and operates, do not reflect illegal discrimination, and do not arbitrarily exclude any low- or moderate-income geographies.

The following table presents a brief description of each AA, showing the counties and numbers of census tracts and 1<sup>st</sup> State Bank’s offices.

<b>Description of Assessment Areas</b>			
<b>Assessment Area</b>	<b>Counties in Assessment Area</b>	<b>Census Tracts</b>	<b>Offices</b>
Bay City, MI MSA	Bay	27	2
Midland, MI MSA	Midland	19	1
Saginaw, MI MSA	Saginaw	56	2
<i>Source: Bank Records</i>			

Based on the 2015 U.S. Census American Community Survey (ACS), the AA includes 10 low-, 21 moderate-, 48 middle-, and 22 upper-income census tracts, and 1 census tract without an income designation.

The following table details select demographic characteristics of the AA.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	102	9.8	20.6	47.1	21.6	1.0
Population by Geography	386,801	6.7	16.6	48.2	28.5	0.0
Housing Units by Geography	171,075	7.2	18.1	47.9	26.7	0.0
Owner-Occupied Units by Geography	115,473	4.4	14.4	51.3	30.0	0.0
Occupied Rental Units by Geography	39,634	12.7	24.9	41.4	21.0	0.0
Vacant Units by Geography	15,968	14.5	28.3	40.0	17.2	0.0
Businesses by Geography	22,367	5.2	18.1	44.7	32.0	0.0
Farms by Geography	1,131	0.8	7.5	58.7	33.0	0.0
Family Distribution by Income Level	100,624	20.5	17.5	21.1	40.9	0.0
Household Distribution by Income Level	155,107	23.8	16.6	17.9	41.7	0.0
Median Family Income MSA - 13020 Bay City, MI MSA		\$57,819	Median Housing Value			\$101,946
Median Family Income MSA - 33220 Midland, MI MSA		\$67,138	Median Gross Rent			\$697
Median Family Income MSA - 40980 Saginaw, MI MSA		\$54,210	Families Below Poverty Level			11.7%
<i>Source: 2015 ACS and 2021 D&amp;B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

The Geographic Distribution criterion compares the bank’s home mortgage lending to the distribution of owner-occupied housing units in the AA by census tract income level. Based on 2015 ACS data, the AA contains 171,075 housing units, of which 67.5 percent are owner-occupied, 23.2 percent are rental units, and 9.3 percent are vacant.

D&B data from 2021 shows the largest industries in the AA are services (41.6 percent); retail trade (14.8 percent); non-classifiable establishments (11.1 percent); finance, insurance, and real estate (8.0 percent); and construction (7.3 percent). Moody’s Analytical data is not available for the AA; however, examiners determined top employers in Saginaw, Midland, and Bay Counties are Nexteer Automotive, Covenant HealthCare, MidMichigan Health, Dow Inc., and McLaren Bay Region Health Care Services.

Examiners also consider unemployment data when evaluating a bank’s ability to lend in its AA. Data obtained from the U.S. Bureau of Labor Statistics, as illustrated in the following table, shows the unemployment rates within the AA increased significantly from 2019 to 2020, and then decreased significantly from 2020 to 2021, consistent with state and national unemployment rates.

<b>Unemployment Rates</b>			
<b>Area</b>	2019	2020	2021
	%	%	%
Saginaw County	4.7	10.0	6.8
Midland County	3.7	7.5	4.7
Bay County	4.5	9.2	7.0
Michigan	4.1	10.0	7.1
National Average	3.7	8.1	5.4

*Source: U.S. Bureau of Labor Statistics*

Examiners utilized the 2019, 2020, and 2021 FFIEC-updated median family income levels to analyze home mortgage loans under the Borrower Profile criterion. The following table presents the low-, moderate-, middle-, and upper-income categories for the AA.

<b>Median Family Income Ranges</b>				
<b>Median Family Incomes</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
<b>Bay City, MI MSA Median Family Income (13020)</b>				
2019 (\$59,200)	<\$29,600	\$29,600 to <\$47,360	\$47,360 to <\$71,040	≥\$71,040
2020 (\$59,500)	<\$29,750	\$29,750 to <\$47,600	\$47,600 to <\$71,400	≥\$71,400
2021 (\$63,500)	<\$31,750	\$31,750 to <\$50,800	\$50,800 to <\$76,200	≥\$76,200
<b>Midland, MI MSA Median Family Income (33220)</b>				
2019 (\$74,600)	<\$37,300	\$37,300 to <\$59,680	\$59,680 to <\$89,520	≥\$89,520
2020 (\$82,200)	<\$41,100	\$41,100 to <\$65,760	\$65,760 to <\$98,640	≥\$98,640
2021 (\$72,100)	<\$36,050	\$36,050 to <\$57,680	\$57,680 to <\$86,520	≥\$86,520
<b>Saginaw, MI MSA Median Family Income (40980)</b>				
2019 (\$63,600)	<\$31,800	\$31,800 to <\$50,880	\$50,880 to <\$76,320	≥\$76,320
2020 (\$62,900)	<\$31,450	\$31,450 to <\$50,320	\$50,320 to <\$75,480	≥\$75,480
2021 (\$63,900)	<\$31,950	\$31,950 to <\$51,120	\$51,120 to <\$76,680	≥\$76,680

*Source: FFIEC  
Due to rounding, totals may not equal 100.0*

## **Competition**

There is a high level of competition for deposits in the AA. According to FDIC deposit market share data as of June 30, 2020, 33 FDIC-insured financial institutions hold \$12.0 billion in deposits and operate 102 branches within the AA. Of these institutions, 1<sup>st</sup> State Bank ranks 7<sup>th</sup> with 3.0 percent of the deposit market share. The top three institutions account for 29.9 percent of the deposit market share.

There is a high level of competition for home mortgage loans from credit unions, non-bank lenders, and regional and national banks. Based on 2020 Home Mortgage Disclosure Act (HMDA) aggregate data, 337 lenders originated or purchased 19,185 home mortgage loans in the AA. The bank ranked 9<sup>th</sup> with a market share of 3.2 percent. The top three lenders accounted for 24.0 percent of the home mortgage lending market share.



The bank is not required to collect or report its small business lending data, and it has not elected to do so. Therefore, the analysis of small business loans under the Lending Test does not include comparisons to aggregate data. The aggregate data, however, reflects the level of competition for small business loans. In 2020, the most recent year for which data is available, 87 lenders originated 5,152 small business loans in the AA, indicating a high level of competition. The top three lenders accounted for 52.7 percent of all reported small business loans by number.

### **Community Contact**

As part of the evaluation process, examiners contact third parties active in the AA to assist in identifying the credit and community development needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit and community development opportunities are available.

Examiners interviewed a representative of an affordable housing development organization in the AA. The contact stated there is a need for affordable housing in the AA. The contact stated financial institutions are adequately providing lending opportunities to low- and moderate-income individuals, but the area needs home repair programs and monies for elderly low- and moderate-income individuals who can afford to pay their mortgages, but cannot afford to pay for upkeep and repairs.

The contact stated housing values in the area are low due to a property tax cap in the City of Saginaw, where homes will appraise for nearly half the cost of the build due to the cap. The contact stated that it is very difficult to find vacant land in Saginaw to build homes. In addition, there is a shortage of construction workers locally and statewide, which influences home building since non-profit, volunteer workers cannot complete all aspects of construction.

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

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that home mortgage and small business lending represent primary credit needs in the AA. Although examiners identified no major, unmet credit needs, there remain opportunities for affordable housing, economic development, and revitalization/stabilization of low- and moderate-income areas.

Through demographic information and community contacts, examiners determined that affordable housing, community services, and economic development are all community development needs in the AA. The presence of 10 low- and 21 moderate-income census tracts in this 102-tract AA indicates high opportunities for community development activities geared towards low- and moderate-income neighborhoods. In addition, 38.0 percent of families residing in the area are low- and moderate-income. There is a relatively high level of individuals who could benefit from eligible community development activities.

## SCOPE OF EVALUATION

### **General Information**

The evaluation covers the period from the prior evaluation dated July 29, 2019, to the current evaluation dated May 5, 2022. Examiners used the Interagency Intermediate Small Institution Examination Procedures to evaluate 1<sup>st</sup> State Bank's CRA performance. These procedures include the Lending Test and the Community Development Test. Performance criteria for each of these tests are contained in the first Appendix. Banks must achieve a rating of at least "Satisfactory" under each test to obtain an overall "Satisfactory" rating.

As noted in the previous section, 1<sup>st</sup> State Bank's AA consists of three contiguous MSAs located in the same CSA. Examiners conducted a full scope review of the Saginaw-Midland-Bay City CSA AA. This evaluation does not include any lending activity performed by affiliates.

### **Activities Reviewed**

Examiners determined the bank's major product lines are home mortgage and small business loans. This conclusion considered the number and dollar volume of loans originated during the evaluation period, the composition of the bank's loan portfolio, and the bank's business strategy. No other loan types, such as small farm or consumer loans, represent a major product line. Examiners placed equal weight on home mortgage and small business lending performance. Home mortgage lending represents a greater level of the bank's lending activity due to the volume of loans sold on the secondary market; however, the bank's primary lending focus is commercial lending.

Examiners compared the bank's home mortgage lending performance to 2019 and 2020 aggregate HMDA data and demographic data obtained from the 2015 ACS. Examiners compared the bank's 2021 home mortgage lending performance to the percentage of owner occupied housing units, as aggregate data is not yet available. Examiners emphasized performance compared to the HMDA aggregate data over the applicable demographic information, as the aggregate data is a better indicator of market demand and lending opportunities in each AA. With regard to small business lending, examiners compared the bank's performance to applicable 2019, 2020, and 2021 D&B data.

Examiners used bank records to identify small business loans originated in 2019, 2020, and 2021. 1<sup>st</sup> State Bank originated 182 loans totaling \$30.8 million, 123 loans totaling \$23.5 million, and 145 loans totaling \$31.0 million, in 2019, 2020, and 2021, respectively. Examiners analyzed all of these loans to determine the geographic distribution of small business loans. The bank is not required to collect or report borrower revenue data for small business loans; therefore, examiners selected and reviewed samples of 51 loans in 2019 and 47 loans each for 2020 and 2021 to determine the distribution of lending to businesses of different sizes. D&B data provided a standard comparison for small business loans.

For the Lending Test, examiners considered the number and dollar volume of home mortgage and small business loans. Examiners emphasized performance by number of loans because it is a better indicator of the number of individuals and businesses served.

For the Community Development Test, examiners considered all applicable community development loans and qualified investments since the prior CRA evaluation dated July 29, 2019.

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

### **LENDING TEST**

Overall, 1<sup>st</sup> State Bank demonstrated reasonable performance on the Lending Test. The institution’s Geographic Distribution and Borrower Profile performance primarily support this conclusion.

#### **Loan-to-Deposit Ratio**

The bank’s LTD ratio is reasonable, given its size, financial condition, and AA credit needs. The bank’s net LTD ratio, calculated from Call Report data, averaged 73.2 percent over the previous 10 quarters since the previous evaluation. The LTD ratio steadily decreased during the evaluation period and ranged from a low of 60.7 percent to a high of 84.0 percent. The decline is due to deposit growth outpacing loan growth because of the COVID-19 pandemic and its economic effects. 1<sup>st</sup> State Bank’s LTD ratio is reasonable, as it exceeds two similarly-situated institutions, as shown in the following table. Examiners chose these institutions based on their size, lending focus, and geographic location.

<b>Loan-to-Deposit Ratio Comparison</b>		
<b>Bank</b>	<b>Total Assets as of 12/31/2021 (\$000s)</b>	<b>Average Net LTD Ratio (%)</b>
<b>1<sup>st</sup> State Bank</b>	<b>456,542</b>	<b>73.2</b>
Similarly-Situated Institution #1	438,489	61.5
Similarly-Situated Institution #2	302,429	65.6
<i>Source: Reports of Condition and Income 9/30/2019 through 12/31/21</i>		

#### **Assessment Area Concentration**

1<sup>st</sup> State Bank originated a substantial majority of its small business and a majority of its home mortgage loans, by number and dollar volume, within its AA during the evaluation period, as shown in the following table.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2019	232	76.8	70	23.2	302	33,859	71.5	13,489	28.5	47,348
2020	450	80.6	108	19.4	558	75,093	73.7	26,833	26.3	101,926
2021	394	77.0	118	23.0	512	74,832	74.7	25,354	25.3	100,186
<b>Subtotal</b>	<b>1,076</b>	<b>78.4</b>	<b>296</b>	<b>21.6</b>	<b>1,372</b>	<b>183,784</b>	<b>73.7</b>	<b>65,676</b>	<b>26.3</b>	<b>249,460</b>
Small Business										
2019	164	90.1	18	9.9	182	28,733	93.3	2,079	6.7	30,812
2020	113	91.9	10	8.1	123	21,174	90.2	2,297	9.8	23,471
2021	132	91.0	13	9.0	145	27,409	88.5	3,557	11.5	30,966
<b>Subtotal</b>	<b>409</b>	<b>90.9</b>	<b>41</b>	<b>9.1</b>	<b>450</b>	<b>77,316</b>	<b>90.7</b>	<b>7,933</b>	<b>9.3</b>	<b>85,249</b>
<b>Total</b>	<b>1,485</b>	<b>81.5</b>	<b>337</b>	<b>18.5</b>	<b>1,822</b>	<b>261,100</b>	<b>78.0</b>	<b>73,609</b>	<b>22.0</b>	<b>334,709</b>
<i>Source: Bank Data Due to rounding, totals may not equal 100.0%</i>										

## **Geographic Distribution**

The geographic distribution of loans reflects reasonable dispersion throughout the AA. The bank's reasonable performance in both home mortgage and small business lending supports the overall conclusion.

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

As shown in the following table, the geographic distribution of home mortgage loans reflects reasonable dispersion throughout the AA. Examiners focused on comparisons to the aggregate data for the 2019 and 2020 lending activities. 1<sup>st</sup> State Bank's performance in low- and moderate-income tracts in 2019 and 2020 was similar to aggregate performance. In 2021, the institution's home mortgage lending performance in low- and moderate-income tracts trailed the percentage of owner-occupied units, but was consistent with its performance in 2019 and 2020. The 2021 aggregate HMDA data is not yet available.

The institution's home mortgage lending performance in low- and moderate-income tracts, therefore, is reasonable overall considering its performance in 2019 and 2020 and the high level of competition for home mortgage loans in the AA.

<b>Geographic Distribution of Home Mortgage Loans</b>						
<b>Assessment Area: Saginaw-Midland-Bay City CSA AA</b>						
<b>Tract Income Level</b>	<b>% of Owner-Occupied Housing Units</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>Low</b>						
2019	4.4	1.4	4	1.7	227	0.7
2020	4.4	1.1	6	1.3	342	0.5
2021	4.4	--	3	0.8	780	1.0
<b>Moderate</b>						
2019	14.4	11.1	26	11.2	2,538	7.5
2020	14.4	9.4	43	9.6	6,019	8.0
2021	14.4	--	42	10.7	4,962	6.6
<b>Middle</b>						
2019	51.3	52.3	103	44.4	11,918	35.2
2020	51.3	49.9	175	38.9	25,514	34.0
2021	51.3	--	163	41.4	21,623	28.9
<b>Upper</b>						
2019	30.0	35.2	99	42.7	19,176	56.6
2020	30.0	39.6	226	50.2	43,218	57.6
2021	30.0	--	186	47.2	47,468	63.4
<b>Totals</b>						
<b>2019</b>	<b>100.0</b>	<b>100.0</b>	<b>232</b>	<b>100.0</b>	<b>33,859</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>100.0</b>	<b>450</b>	<b>100.0</b>	<b>75,093</b>	<b>100.0</b>
<b>2021</b>	<b>100.0</b>	<b>--</b>	<b>394</b>	<b>100.0</b>	<b>74,832</b>	<b>100.0</b>
<i>Source: 2015 ACS; Bank Data, 2019 &amp; 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

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

As shown in the following table, the geographic distribution of small business loans reflects reasonable dispersion throughout the AA. 1<sup>st</sup> State Bank's small business lending performance in low-income tracts slightly exceeded the percentage of businesses in both 2019 and 2020, while the institution's performance in moderate-income tracts slightly trailed the percentage of businesses in 2019 and 2020. In 2021, the institution did not originate any small business loans in low-income tracts, and lending in moderate-income tracts slightly trailed the percentage of businesses.

<b>Geographic Distribution of Small Business Loans</b>						
<b>Assessment Area: Saginaw-Midland-Bay City CSA AA</b>						
<b>Tract Income Level</b>		<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>Low</b>						
	2019	5.1	10	6.1	2,447	8.5
	2020	5.0	7	6.2	1,163	5.5
	2021	5.2	0	0.0	0	0.0
<b>Moderate</b>						
	2019	18.7	23	14.0	3,438	12.0
	2020	18.2	18	15.9	4,307	20.3
	2021	18.1	18	13.6	3,148	11.5
<b>Middle</b>						
	2019	45.1	70	42.7	10,545	36.7
	2020	44.7	41	36.3	5,512	26.0
	2021	44.7	60	45.5	13,747	50.2
<b>Upper</b>						
	2019	31.0	61	37.2	12,303	42.8
	2020	32.0	47	41.6	10,193	48.1
	2021	32.0	54	40.9	10,513	38.4
<b>Totals</b>						
	<b>2019</b>	<b>100.0</b>	<b>164</b>	<b>100.0</b>	<b>28,733</b>	<b>100.0</b>
	<b>2020</b>	<b>100.0</b>	<b>113</b>	<b>100.0</b>	<b>21,174</b>	<b>100.0</b>
	<b>2021</b>	<b>100.0</b>	<b>132</b>	<b>100.0</b>	<b>27,409</b>	<b>100.0</b>
<i>Source: 2019, 2020 &amp; 2021 D&amp;B Data; Bank Data; 2019 &amp; 2020 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

## **Borrower Profile**

The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration of loans among businesses of different sizes and individuals of different income levels overall. Examiners noted stronger performance in small business lending, which compensated for generally poor performance in home mortgage lending, in the overall conclusion for this criterion.

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

The distribution of home mortgage loans reflects, given the demographics of the AA, poor penetration among individuals of different income levels. As shown in the following table, approximately 20.5 percent of the families in the AA have low-incomes. This category includes the 11.6 percent of families in the AA with incomes below the poverty level. Some families at that income level may face difficulty qualifying for and/or servicing debt in amounts necessary to finance homes in the AA. As a result, examiners focused on the comparison of the bank's lending levels to the aggregate HMDA data, as this represents market demand from qualified, credit-worthy

low-income borrowers. As shown in the following table, the bank’s lending is lower than the aggregate data in both 2019 and 2020, with similar levels in 2021.

Similarly, the bank’s lending to moderate-income borrowers was below both the aggregate data and the percentage of families in both 2019 and 2020, with a consistent trend in 2021.

<b>Distribution of Home Mortgage Loans by Borrower Income Level</b>						
<b>Assessment Area: Saginaw-Midland-Bay City CSA AA</b>						
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>Low</b>						
2019	20.5	10.6	15	6.5	1,005	3.0
2020	20.5	8.1	27	6.0	1,922	2.6
2021	20.5	--	22	5.6	1,707	2.3
<b>Moderate</b>						
2019	17.5	22.1	38	16.4	3,286	9.7
2020	17.5	18.3	50	11.1	5,114	6.8
2021	17.5	--	55	14.0	5,787	7.7
<b>Middle</b>						
2019	21.1	22.5	41	17.7	4,243	12.5
2020	21.1	21.8	77	17.1	10,798	14.4
2021	21.1	--	66	16.8	9,035	12.1
<b>Upper</b>						
2019	40.9	34.3	117	50.4	21,259	62.8
2020	40.9	39.3	275	61.1	53,881	71.8
2021	40.9	--	234	59.4	46,005	61.5
<b>Not Available</b>						
2019	0.0	10.4	21	9.1	4,066	12.0
2020	0.0	12.6	21	4.7	3,377	4.5
2021	0.0	--	17	4.3	12,298	16.4
<b>Totals</b>						
<b>2019</b>	<b>100.0</b>	<b>100.0</b>	<b>232</b>	<b>100.0</b>	<b>33,859</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>100.0</b>	<b>450</b>	<b>100.0</b>	<b>75,093</b>	<b>100.0</b>
<b>2021</b>	<b>100.0</b>	<b>--</b>	<b>394</b>	<b>100.0</b>	<b>74,832</b>	<b>100.0</b>
<i>Source: 2015 ACS; Bank Data, 2019 &amp; 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

***Small Business Loans***

The distribution of small business loans reflects, given the demographics of the AA, reasonable penetration to businesses of different sizes. As illustrated in the following table, the bank’s lending

to businesses with gross annual revenues (GARs) of \$1.0 million or less trailed the percentage of businesses in the AA in all three years.

However, the sampled data shows an increasing trend year to year. In addition, the majority of small businesses (63.7 percent) in the AA are very small, with four or fewer employees. Small businesses of this size may be more likely to seek alternative financing, such as credit cards or home equity lines of credit.

As noted earlier, the bank is not required to collect or report borrower GAR data for small business loans, and as a result, examiners did not compare the bank’s performance to aggregate small business lending data. However, the aggregate data is useful in determining potential market demand generally. The aggregate data shows that in 2019 and 2020, reporting lenders granted 46.4 percent and 36.4 percent, respectively, of their small business loans to businesses with GARs of \$1 million or less.

Considering the business demographics of the AA and the demand for small business lending, examiners considered the bank’s performance reasonable.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>					
<b>Assessment Area: Saginaw-Midland-Bay City CSA AA</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>&lt;=\$1,000,000</b>					
2019	78.4	27	52.9	4,047	48.8
2020	79.7	25	53.2	3,933	51.2
2021	80.5	33	70.2	7,813	73.7
<b>&gt;\$1,000,000</b>					
2019	6.8	24	47.1	4,253	51.2
2020	6.2	22	46.8	3,746	48.8
2021	5.8	14	29.8	2,795	26.3
<b>Revenue Not Available</b>					
2019	14.8	0	0.0	0	0.0
2020	14.1	0	0.0	0	0.0
2021	13.7	0	0.0	0	0
<b>Totals</b>					
<b>2019</b>	<b>100.0</b>	<b>51</b>	<b>100.0</b>	<b>8,300</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>47</b>	<b>100.0</b>	<b>7,679</b>	<b>100.0</b>
<b>2021</b>	<b>100.0</b>	<b>47</b>	<b>100.0</b>	<b>10,607</b>	<b>100.0</b>
<i>Source: 2019, 2020 &amp; 2021 D&amp;B Data; Bank Data; 2019 &amp; 2020 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0%</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**

Overall, 1<sup>st</sup> State Bank demonstrated adequate responsiveness to the community development needs of its AA through community development loans, qualified investments, and community development services. Examiners considered the institution’s capacity and the need and availability of such opportunities. As noted previously, this is 1<sup>st</sup> State Bank’s first evaluation under the Intermediate Small Institution procedures and more specifically, the Community Development Test.

**Community Development Loans**

1<sup>st</sup> State Bank originated 143 community development loans totaling \$31.7 million during the evaluation period with the AA. Community development loans represent 12.7 percent of average total loans as of December 31, 2021. This exceeds the performance of two similarly-situated banks that have community development loans to average total loans ratios of 2.5 percent and 3.0 percent, respectively.

Of the 143 community development loans, 135 loans totaling \$23.1 million were granted under the Small Business Administration’s (SBA) Paycheck Protection Program (PPP). PPP loans are SBA-backed loans to help businesses keep their workforce employed during the COVID-19 crisis.

The following table contains the bank’s community development lending within the AA by year and purpose.

<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>
2020	1	1,440	0	0	103	20,040	0	0	<b>104</b>	<b>21,480</b>
2021	0	0	0	0	33	4,575	6	5,613	<b>39</b>	<b>10,188</b>
<b>Total</b>	<b>1</b>	<b>1,440</b>	<b>0</b>	<b>0</b>	<b>136</b>	<b>24,615</b>	<b>6</b>	<b>5,613</b>	<b>143</b>	<b>31,668</b>

*Source: Bank Records*

Notable examples of the bank’s non-PPP community development loans include:

- Two loans totaling \$4.5 million to a local company to finance operations that helped revitalize and stabilize a moderate-income geography in the bank’s AA.
- One loan for \$1.8 million to finance the expansion of a local small business and create jobs for low- and moderate-income individuals.
- Four loans totaling \$1.1 million to create job opportunities and provide health services to low- and moderate-income individuals in the CSA.

**Qualified Investments**

1<sup>st</sup> State Bank’s qualified investment activities during the evaluation period were limited to the purchase of one municipal bond in 2021, totaling \$370,025. The purpose of the bond is to improve and provide benefits to schools in the bank’s AA, where the majority of students receive free or reduced cost lunches. In addition, the bank made 23 donations totaling roughly \$38,150 to organizations that assist low- and moderate-income individuals and families. Total investments and donations amounted to 0.1 percent of the bank’s total assets and 0.5 percent of its total securities as of December 31, 2021. This trails the performance of two similarly-situated banks. These banks had qualified investment and donation ratios of 0.1 percent and 2.6 percent of total assets, and 0.8 percent and 42.5 percent of total securities. Though this performance lagged the similarly-situated institutions, the investment and donations addressed community development needs in the AA. The following table illustrates community development investments and donations by purpose.

Qualified Investments and Donations										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2020	0	0	0	0	0	0	0	0	0	0
2021	0	0	0	0	0	0	1	370	1	370
<b>Subtotal</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>370</b>	<b>1</b>	<b>370</b>
Qualified Grants & Donations	3	1	11	6	0	0	9	31	23	38
<b>Total</b>	<b>3</b>	<b>1</b>	<b>11</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>10</b>	<b>401</b>	<b>24</b>	<b>408</b>

*Source: Bank Records,  
Due to rounding, totals may not be exact*

Notable donations include:

- \$10,000 to an organization that supports inner city children through recreational activities.
- Donations totaling \$16,250 to an organization focused on providing resources to students from low- and moderate-income families to prepare them for college.

**Community Development Services**

During the evaluation period, bank management and employees provided 14 instances of financial expertise or technical assistance to eight community development organizations serving the AA. The following table illustrates community development services by year and purpose.

Community Development Services					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2021	1	6	0	7	14
<b>Total</b>	<b>1</b>	<b>6</b>	<b>0</b>	<b>7</b>	<b>14</b>

*Source: Bank Records*

Notable examples of community development services include:

- Five members of the bank's staff provide financial expertise to students through an organization focused on assisting students from low- and moderate-income families in preparing for trade schools and college.
- A bank director chairs the Board of an organization that provides funds and scholarships to low- and moderate-income individuals.
- A bank director serves on the Board of an organization designed to attract new families and businesses to the community by providing post-secondary education to low- and moderate-income adults.

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

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

## 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.