PUBLIC DISCLOSURE

April 1, 2024

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Mechanics Bank
Certificate Number: 29011

2 South Main St
Mansfield, Ohio 44902

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 (AA), including low- and moderate-income geographies, in a manner consistent with its resources and capabilities. Mechanics Bank's (Mechanics) Satisfactory Community Reinvestment Act Performance (CRA) under the Lending Test and Community Development (CD) Test support the overall rating. The following points summarize the bank's performance under the Interagency Intermediate Small Institution Examination Procedures.

The Lending Test is rated Satisfactory.

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and the credit needs of its AA.
- The institution made a majority of its home mortgage loans in the 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.
- 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.

Mechanics' CD activities demonstrate adequate responsiveness to CD needs in its AA through CD loans, qualified investments and donations, and CD services, considering the institution's capacity and the need and availability of such opportunities in the AA.

DESCRIPTION OF INSTITUTION

Mechanics, a community bank headquartered in Mansfield, Ohio, operates in Richland County, Ohio. Mechanics is wholly-owned by Mechanics Financial Corporation, a single-bank holding company also located in Mansfield, Ohio. Examiners assigned a "Satisfactory" CRA rating at the previous FDIC Performance Evaluation, dated June 1, 2021, based on Interagency Intermediate Small Institution Examination Procedures.

Mechanics operates nine full-service offices in its AA, including the main office. All branches are located in Richland County. The institution did not open or close any branches in the AA during the review period, and was not involved in merger or acquisition activities since the previous evaluation.

Mechanics offers a range of credit, deposit, and other financial products to meet the needs of its customers. Deposit products include personal and business checking and savings accounts, money market accounts, certificates of deposit, health savings accounts, and individual retirement accounts. In addition, Mechanics continues to offer the "Be the Change" checking account for high school students. Credit products include home mortgage, commercial, consumer, agriculture, construction, and deposit secured loans, primarily focusing on home mortgage loans. Mechanics also offers several government loan programs through the Small Business Administration (SBA), U.S. Department of Agriculture (USDA), and Farm Service Agency (FSA). Mechanics offers other financial services including trust services and retail investments offered through Cetera. Alternative delivery systems include telephone, mobile, and online banking. Mechanics operates 11 institution-owned Automated Teller Machines (ATMs) at its branch locations, and one off-site, non-deposit taking ATM at Gorman Rupp Company in Mansfield.

As of March 31, 2024, Mechanics' assets totaled $816.5 million, including total loans of $629.3 million, and total securities of $100.6 million. Deposits totaled $753.5 million. The following table illustrates the loan portfolio composition.

Loan Portfolio Distribution as of 3/31/2024		
Loan Category	**$(000s)**	**%**
Construction, Land Development, and Other Land Loans	3,605	0.6
Secured by Farmland	13,168	2.1
Secured by 1-4 Family Residential Properties	558,375	88.7
Secured by Multifamily (5 or more) Residential Properties	5,929	0.9
Secured by Nonfarm Nonresidential Properties	27,859	4.5
Total Real Estate Loans	**608,936**	**96.8**
Commercial and Industrial Loans	8,759	1.4
Agricultural Production and Other Loans to Farmers	4,447	0.7
Consumer Loans	6,048	1.0
Obligations of State and Political Subdivisions in the U.S.	1,060	0.1
Other Loans	51	<0.1
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	**629,301**	**100.0**
Source: Reports of Condition and Income		

Examiners did not identify any financial, legal, or other impediments that affect the institution's ability to meet the credit needs of the AA.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more AAs within which examiners will evaluate its CRA performance. Mechanics designated one AA, Richland County, Ohio, which makes up the entirety of the Mansfield, OH Metropolitan Statistical Area. Product offerings, hours of operations, and alternative delivery systems are consistent throughout the AA. Mechanics' AA conforms to CRA regulations as it consists of a whole county and does not arbitrarily exclude low- or moderate-income geographies.

Economic and Demographic Data

Examiners relied on the 2015 American Community Survey (ACS) to evaluate institution performance in 2021, and the 2020 U.S. Census data to evaluate performance in 2022 and 2023. Based on the 2020 U.S. Census data, Mechanics' AA consists of 30 CTs with the following income designations: 3 low-, 7 moderate-, 13 middle-, and 6 upper-income. In addition, one census tract had no income designation. With the recent Census data changes in 2020, the number of census tracts did not increase or decrease; however, some of the census tract income levels did change. The following table provides additional demographic data.

Demographic Information of the Assessment Area						
Demographic Characteristics	**#**	**Low % of #**	**Moderate % of #**	**Middle % of #**	**Upper % of #**	**NA* % of #**
Geographies (Census Tracts)	30	10.0	23.3	43.3	20.0	3.3
Population by Geography	124,936	8.6	14.2	47.9	25.3	4.0
Housing Units by Geography	54,149	10.2	16.7	49.0	24.0	0.1
Owner-Occupied Units by Geography	32,762	6.9	9.1	55.1	28.9	0.0
Occupied Rental Units by Geography	16,205	16.5	26.4	38.4	18.5	0.1
Vacant Units by Geography	5,182	11.5	35.1	43.9	9.3	0.2
Businesses by Geography	10,542	4.9	22.5	42.7	28.7	1.3
Farms by Geography	504	4.6	8.9	55.4	31.2	0.0
Family Distribution by Income Level	30,135	20.5	17.1	22.6	39.8	0.0
Household Distribution by Income Level	48,967	23.5	16.5	18.6	41.5	0.0
Median Family Income MSA - 31900 Mansfield, OH MSA		$63,284	Median Housing Value			$107,645
			Median Gross Rent			$674
			Families Below Poverty Level			10.0%
Source: 2020 U.S. Census and 2022 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 the 2020 U.S. Census data, the AA consists of 54,149 housing units, of which 60.5 percent are owner-occupied, 29.9 percent are occupied rental units, and 9.6 percent are vacant. The Geographic Distribution criterion compares the institution's home mortgage lending to the distribution of owner-occupied housing units in the AA.

Examiners used the Federal Financial Institutions Examination Council (FFIEC) median family income (MFI) ranges to analyze home mortgage lending under the Borrower Profile criterion. The following table outlines the ranges for the AA during the evaluation period.

Median Family Income Ranges				
Median Family Incomes	**Low <50%**	**Moderate 50% to <80%**	**Middle 80% to <120%**	**Upper ≥120%**
2021 ($61,500)	<$30,750	$30,750 to <$49,200	$49,200 to <$73,800	≥$73,800
2022 ($70,700)	<$35,350	$35,350 to <$56,560	$56,560 to <$84,840	≥$84,840
Source: FFIEC				

Examiners considered unemployment data when evaluating the institution's ability to lend within the AA. Data obtained from the U.S. Bureau of Labor Statistics indicates that in 2021, the annualized unemployment rates in the AA trended lower than unemployment rates in Ohio and the nation. In 2022 and 2023, annualized unemployment rates trended higher in the AA than unemployment rates in Ohio and the nation. Unemployment rates in the AA ranged from high of 4.5 to a low of 4.1, while unemployment rates in Ohio ranged from 5.1 to 3.5. Additionally, the national unemployment rate ranged from 5.3 to 3.6 during the same period.

Competition

There is a moderate level of competition for financial services in the AA. According to the FDIC Deposit Market Share data as of June 30, 2023, 12 financial institutions operated 38 full-service offices in the AA. Of the 12 institutions, Mechanics ranked first with 29.7 percent of the deposit market share. The top two institutions accounted for 57.8 percent of the total deposit market share.

Aggregate HMDA data indicates a moderate level of competition for home mortgage loans in the AA. According to 2022 Peer Mortgage Data, 246 lenders originated or purchased 5,117 home mortgage loans in the AA, with the top three lenders originating or purchasing 28.9 percent of home mortgage loans. Of the 246 lenders, Mechanics ranked first with 11.0 percent of the total market share.

Community Contact

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

Examiners reviewed a recent community contact with a representative of a non-profit organization dedicated to lifting the economically disadvantaged population of Richland County out of poverty. The contact stated that affordable housing is the most significant need in the area. According to the contact, rent is high and even HUD Fair Market Rents are not achievable for most low- and moderate-income families. Increased utility costs have also significantly affected low- and moderate-income families. The contact also stated that most small business owners obtain credit in their own names, based on their personal credit worthiness. Opportunities for participation by local financial institutions include affordable housing, and financial education for low- and moderate-income individuals and small businesses.

Credit and Community Development Needs and Opportunities

Considering information from the community contact, institution management, and demographic and economic data, examiners determined that home mortgage and small business loans represent primary credit needs in the AA. In addition, affordable housing and financial education continue to be a primary CD need in the AA.

SCOPE OF EVALUATION

General Information
This evaluation covers the period from June 1, 2021 to April 1, 2024. Examiners used Intermediate Small Institution Examination Procedures to evaluate Mechanics' CRA performance. Institutions must achieve at least a satisfactory rating under each the Lending Test and CD Test to obtain an overall "Satisfactory" or higher rating.

Activities Reviewed
Based on the March 31, 2024, Call Report data, Mechanics' major product line continues to be home mortgage lending. Examiners considered the institution's business strategy, loan portfolio composition, and number and dollar volume of loans originated during the evaluation period. No other loan types, such as small business, small farm or consumer lending, represent a major product line. Therefore, they provide no material support for the conclusions or ratings.

Examiners considered all home mortgage loans reported on Mechanics' 2021, 2022, and 2023 HMDA LARs. In 2021, Mechanics originated 884 home mortgage loans totaling $147.3 million, and 715 home mortgage loans totaling $124.8 million in 2022. In 2023, the bank originated 494 home mortgage loans totaling $83.9 million. Examiners analyzed 2021, 2022, and 2023 data under the Geographic Distribution and Borrower Profile criteria. The volume of home mortgage originations steadily declined during the review period. Examiners only presented 2022 data, the most recent year with aggregate data available, because lending performance was generally consistent during each year of the review period. Aggregate HMDA data, 2015 ACS data (for 2021), and the 2020 U.S. Census data (for 2022 and 2023) served as standards of comparison in analyzing home mortgage lending. Examiners generally focused on the comparison to aggregate data, as it is a better indicator of market demand and lending opportunities.

For the Lending Test, examiners analyzed and presented both the number and dollar volume of home mortgage loans. However, examiners emphasized performance relative to the number of loans as this is a better indicator of the number of individuals and small businesses served.

For the CD Test, Mechanics' management provided data on CD loans, qualified investments and donations, and CD services since the previous evaluation.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST
Mechanics demonstrated reasonable performance under the Lending Test. Geographic Distribution and Borrower Profile performances primarily support this conclusion.

Loan-to-Deposit Ratio (LTD)
The loan-to-deposit ratio is reasonable given Mechanics' size, financial condition, and AA credit needs. The LTD ratio, calculated from the Call Report data, averaged 79.6 percent over the past 11

calendar quarters from June 30, 2021 to December 31, 2023. The ratio ranged from a low of 74.2 percent as of December 31, 2021, to a high of 84.6 percent as of March 31, 2023. As reflected in the following table, Mechanics' ratio was higher than three of the four similarly-situated institutions.

Loan-to-Deposit (LTD) Ratio Comparison		
Bank	**Total Assets as of 12/31/2023 ($000s)**	**Average Net LTD Ratio (%)**
Mechanics Bank	**806,594**	**79.6**
Similarly-Situated Institution #1	619,312	69.4
Similarly-Situated Institution #2	552,680	68.5
Similarly-Situated Institution #3	2,810,395	107.1
Similarly-Situated Institution #4	500,602	73.5
Source: Reports of Condition and Income 6/30/2021 - 12/31/2023		

Assessment Area Concentration

Mechanics originated a majority of home mortgage loans, by number and dollar volume, within the AA. Although examiners only present the geographic distribution and borrower profile criterion for 2022, the most recent full year with aggregate home mortgage data, the following table illustrates the lending activity both inside and outside of the AA for the entire review period.

Lending Inside and Outside of the Assessment Area										
Loan Category	**Number of Loans**				**Total #**	**Dollars Amount of Loans $(000s)**				**Total $(000s)**
	Inside		**Outside**			**Inside**		**Outside**		
	#	**%**	**#**	**%**		**$**	**%**	**$**	**%**	
Home Mortgage										
2021	680	76.9	204	23.1	884	111,854	75.9	35,484	24.1	147,338
2022	496	69.4	219	30.6	715	83,909	67.2	40,896	32.8	124,805
2023	355	71.9	139	28.1	494	56,360	67.1	27,573	32.9	83,933
Total	**1,531**	**73.1**	**562**	**26.9**	**2,093**	**252,123**	**70.8**	**103,953**	**29.2**	**356,076**
Source: 2021 & 2022 HMDA Reported Data; Bank Data										

Geographic Distribution

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the AA. Mechanics' lending to low- and moderate-income borrowers was in line with demographic data and aggregate data. See the following table for details.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	**% of Owner-Occupied Housing Units**	**Aggregate Performance % of #**	**#**	**%**	**$(000s)**	**%**
Low						
2022	6.9	6.6	25	5.0	2,077	2.5
Moderate						
2022	9.1	10.0	42	8.5	3,158	3.8
Middle						
2022	55.1	53.0	262	52.8	44,589	53.1
Upper						
2022	28.9	30.5	167	33.7	34,085	40.6
Totals						
2022	**100.0**	**100.0**	**496**	**100.0**	**83,909**	**100.0**
Source: 2020 U.S. Census; 2022 HMDA Aggregate Data, 2022 HMDA LARs; Due to rounding, totals may not equal 100.0%						

Borrower Profile

The distribution of home mortgage loans reflects reasonable penetration among individuals of different income levels. Loans to low-income borrowers was below the demographic and trailed aggregate performance. As stated previously, ten percent of the families in the assessment area generate income below the poverty level. These families likely face difficulties in qualifying for home mortgage loans due to financial constraints. When available, aggregate data is a better indicator of market demand and lending opportunities.

Loans to moderate-income borrowers exceeded the demographic and was in line with aggregate performance. See the following table for details.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	**% of Families**	**Aggregate Performance % of #**	**#**	**%**	**$(000s)**	**%**
Low						
2022	20.5	9.4	33	6.7	2,688	3.2
Moderate						
2022	17.1	21.5	101	20.4	10,357	12.3
Middle						
2022	22.6	24.2	124	25.0	17,560	20.9
Upper						
2022	39.8	29.4	204	41.1	47,341	56.4
Not Available						
2022	0.0	15.4	34	6.9	5,962	7.1
Totals						
2022	**100.0**	**100.0**	**496**	**100.0**	**83,909**	**100.0**
Source: 2020 U.S. Census; 2022 HMDA LARs; 2022 HMDA Aggregate Data; Due to rounding, totals may not equal 100.0%						

Response to Complaints

Mechanics did not receive any CRA-related complaints during the evaluation period; therefore, this criterion did not affect the Lending Test rating.

COMMUNITY DEVELOPMENT TEST

Mechanics demonstrated adequate responsiveness to the CD needs of its AA through CD loans, qualified investment and donations, and CD services. Examiners considered the institution's capacity and the need and availability of such opportunities, and analyzed the performance of a similarly-situated institution for comparison purposes. Examiners were only able to identify one suitable similarly-situated institution as the majority of Performance Evaluations for financial institutions operating in Richland County were for large national and regional banks that did not present the volume of CD activities at the MSA or county level.

Community Development Loans

During the evaluation period, Mechanics originated 22 CD loans totaling $4.2 million. This level of activity represents 0.5 percent of total assets, and 0.7 percent of net loans as of March 31, 2024. The bank's performance represents a decrease by number and dollar volume since the previous evaluation when the bank originated 64 CD loans totaling $14.1 million during a similar timeframe. The similarly-situated institution originated four CD loans in the AA totaling $5.0 million during a similar timeframe, representing 0.4 percent of total assets, and 1.5 percent of net loans.

Community Development Lending										
Activity Year	**Affordable Housing**		**Community Services**		**Economic Development**		**Revitalize or Stabilize**		**Totals**	
	#	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**
2021	1	114	4	705	1	100	2	852	**8**	**1,771**
2022	-	-	5	1,120	-	-	3	648	**8**	**1,768**
2023	1	200	1	260	4	185	-	-	**6**	**645**
YTD 2024	-	-	-	-	-	-	-	-	**-**	**-**
Total	**2**	**314**	**10**	**2,085**	**5**	**285**	**5**	**1,500**	**22**	**4,184**
Source: Bank Data										

Notable examples of CD loans include:

- The renewal of a line of credit for an organization that provides counseling and psychiatric services primarily to low- and moderate-income individuals.
- A $260,000 loan to a non-profit organization that intends to use the proceeds of the loan to develop housing for low- and moderate-income elderly individuals.
- The renewal of a line of credit for a community service organization that acts as a stabilizing anchor in a low-income geography.

<u>Qualified Investments</u>

Overall, Mechanics made 128 qualified investments and donations, totaling $1.9 million in its AA. The dollar amount of qualified investments and donations equates to 0.2 percent of total assets and 1.9 percent of total investments as of March 31, 2024. Although this level of activity reflects a decrease since the previous evaluation when the bank made 117 qualified investments and donations totaling $5.1 million (0.7 percent of assets and 5.7 percent of total investments), the level of activity compares favorably to the similarly-situated institution that made 12 qualified investments and donations in this AA totaling $1.0 million, representing less than 0.1 percent of total assets, and 0.6 percent of total investments.

Because the bank met the CD needs inside the AA, examiners also considered three prior period investments outside the AA totaling $648,000 (not included in the table below) for school bonds in districts that primarily serve students from low- and moderate-income families.

Community Development Investments										
Activity Year	**Affordable Housing**		**Community Services**		**Economic Development**		**Revitalize or Stabilize**		**Totals**	
	#	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**
Prior Period	-	-	6	1,059	-	-	-	-	**6**	**1,059**
2021	-	-	-	-	-	-	-	-	**-**	**-**
2022	-	-	-	-	-	-	-	-	**-**	**-**
2023	-	-	2	500	-	-	-	-	**2**	**500**
YTD 2024	-	-	-	-	-	-	-	-	**-**	**-**
Subtotal	**-**	**-**	**8**	**1,559**	**-**	**-**	**-**	**-**	**8**	**1,559**
Qualified Grants & Donations	8	12	110	287	-	-	2	3	**120**	**302**
Total	**8**	**12**	**118**	**1,846**	**-**	**-**	**2**	**3**	**128**	**1,861**
Source: Bank Data										

Notable examples include:

- In 2023, a $250,000 deposit in a minority-owned financial institution.
- In 2022, a $5,000 donation to an organization that provides free housing to low- and moderate-income families.
- Over $120,000 in donations during the evaluation period to an organization dedicated to providing essential services to low- and moderate-income individuals in Richland County.

Community Development Services

During the evaluation period, bank employees provided 99 instances of financial expertise or technical assistance to various CD-related organizations in the AA. This level of activity is a decrease since the previous evaluation when bank employees provided 237 CD services over a similar time period. This level of services is higher than the similarly-situated institution that provided eight instances of financial expertise or technical assistance in the AA. See the following table for details.

Community Development Services					
Activity Year	**Affordable Housing**	**Community Services**	**Economic Development**	**Revitalize or Stabilize**	**Totals**
	#	**#**	**#**	**#**	**#**
2021	2	26	2	4	**34**
2022	3	24	2	3	**32**
2023	3	26	2	2	**33**
YTD 2024	0	0	0	0	**0**
Total	**8**	**76**	**6**	**9**	**99**
Source: Bank Data					

Notable examples include:

- Two bank employees served as trustees for an organization dedicated to providing affordable housing to low-income elderly members of the community.
- A bank employee served on the Board of Directors of an organization that provides food,

rent, and utility assistance to low- and moderate-income individuals.

- A bank employee served in an advisory capacity to an organization dedicated to providing affordable childcare to low- and moderate-income mothers.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this criterion 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 <u>financial</u> 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.