

PUBLIC DISCLOSURE

November 27, 2023

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Western State Bank
Certificate Number: 9123

110 4th St Se
Devils Lake, North Dakota 58301

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

1100 Walnut St, Suite 2100
Kansas City, Missouri 64106

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

TABLE OF CONTENTS

INSTITUTION RATING	1
DESCRIPTION OF INSTITUTION	2
DESCRIPTION OF ASSESSMENT AREAS.....	3
SCOPE OF EVALUATION.....	3
CONCLUSIONS ON PERFORMANCE CRITERIA.....	5
DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW.....	12
NORTH DAKOTA.....	13
DESCRIPTION OF INSTITUTION’S OPERATIONS IN NORTH DAKOTA.....	13
SCOPE OF EVALUATION – NORTH DAKOTA	13
CONCLUSIONS ON PERFORMANCE CRITERIA IN NORTH DAKOTA.....	13
DEVILS LAKE ASSESSMENT AREA – Full-Scope Review	16
FARGO, ND-MN MSA – Full-Scope Review	21
ARIZONA.....	27
DESCRIPTION OF INSTITUTION’S OPERATIONS IN ARIZONA.....	27
SCOPE OF EVALUATION – ARIZONA	28
CONCLUSIONS ON PERFORMANCE CRITERIA IN ARIZONA.....	29
APPENDICES	33
LARGE BANK PERFORMANCE CRITERIA.....	33
SUMMARY OF RATINGS FOR RATED AREAS	35
GLOSSARY	36

INSTITUTION RATING

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

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

PERFORMANCE LEVELS	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		X
Low Satisfactory		X	
Needs to Improve			
Substantial Noncompliance			
* The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.			

The Lending Test is rated High Satisfactory.

- Lending levels reflect good responsiveness to the assessment areas’ credit needs.
- A small percentage of loans are made in the institution’s assessment areas.
- The geographic distribution of loans reflects good penetration throughout the assessment areas.
- The distribution of borrowers reflects, given the product lines offered by the institution, adequate penetration among business customers of different sizes and retail customers of different income levels.
- The institution exhibits a good record of serving the credit needs of the most economically disadvantaged areas, low-income individuals, and/or very small businesses, consistent with safe and sound banking practices.
- The institution has made a relatively high level of community development loans.
- The institution uses innovative and/or flexible lending practices in order to serve the assessment areas’ credit needs.

The Investment Test is rated Low Satisfactory.

- The institution has an adequate level of qualified community development investments.
- The institution exhibits adequate responsiveness to credit and community economic development needs.
- The institution rarely uses innovative and/or complex investments to support community development initiatives.

The Service Test is rated High Satisfactory.

- Delivery systems are accessible to essentially all portions of the institution's assessment areas.
- To the extent changes have been made, the institution's opening and closing of branches has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and/or to low- and moderate-income individuals.
- Services, including business hours, do not vary in a way that inconveniences certain portions of the assessment areas, particularly low- and moderate-income geographies and/or individuals.
- The institution provides a relatively high level of community development services.

DESCRIPTION OF INSTITUTION

Western State Agency, Inc., a one-bank holding company located in Devils Lake, North Dakota, wholly owns Western State Bank. Western State Bank received a Satisfactory rating at its previous FDIC Performance Evaluation dated October 19, 2020, based on Interagency Intermediate Small Institution Examination Procedures. The bank demonstrated satisfactory performance under both the Lending and Community Development tests.

The bank continues to operate from its main office in Devils Lake, as well as from nine full-service branches in North Dakota and Arizona. Since the prior evaluation, Western State Bank relocated its Fargo, North Dakota, branch and opened a new branch in Phoenix, Arizona. In addition, the former bank subsidiary Western Equipment Finance became a bank division in 2022. Western Equipment Finance has offices in Devils Lake and Marshall, Minnesota; however, it originates commercial and agricultural equipment loans and leases throughout the U.S.

Western State Bank offers a variety of credit products, including commercial, home mortgage, agricultural, and consumer loans. In addition, the bank offers loan products through various government-sponsored programs and sells home mortgage loans to secondary market investors. Commercial lending continues to be the institution's primary business focus, followed by home mortgage lending. Western State Bank also offers a full line of traditional deposit services, including checking, savings, and certificates of deposit accounts.

As of September 30, 2023, Western State Bank reported total assets of \$2.1 billion, total loans of \$1.9 billion, and total deposits of \$1.8 billion; the following table illustrates the loan portfolio. Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet the credit needs of its assessment areas.

Loan Portfolio Distribution as of 9/30/2023		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	134,338	7.2
Secured by Farmland	17,519	0.9
Secured by 1-4 Family Residential Properties	168,134	9.0
Secured by Multifamily (5 or more) Residential Properties	115,318	6.2
Secured by Nonfarm Nonresidential Properties	372,501	19.9
Total Real Estate Loans	807,810	43.2
Commercial and Industrial Loans	996,419	53.3
Agricultural Production and Other Loans to Farmers	22,071	1.2
Consumer Loans	12,218	0.7
Obligations of State and Political Subdivisions in the U.S.	5,122	0.3
Other Loans	135	<0.1
Lease Financing Receivable (net of unearned income)	24,387	1.3
Less: Unearned Income	0	0.0
Total Loans	1,868,162	100.0
<i>Source: Reports of Condition and Income</i>		

DESCRIPTION OF ASSESSMENT AREAS

Western State Bank continues to operate in three assessment areas, two in North Dakota and one in Arizona. The Phoenix-Mesa-Chandler, AZ Metropolitan Statistical Area (MSA) is the sole Arizona assessment area, whereas the North Dakota assessment areas include the Devils Lake and Fargo, ND-MN MSA assessment areas. Ratings are assigned for the states of North Dakota and Arizona. Further, 2015 American Community Survey (ACS) and 2020 U.S. Census data are referenced throughout this evaluation since the bank's performance spans two sets of census data. Activities related to 2020 and 2021 utilize 2015 ACS data, whereas activities for 2022 and beyond use 2020 U.S. Census data. Additional information regarding the assessment areas and rated areas is presented later in the evaluation.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated October 19, 2020, to the current evaluation dated November 27, 2023. Examiners used Interagency Large Institution Examination Procedures to evaluate Western State Bank's CRA performance, which include the Lending, Investment, and Service Tests. The aforementioned tests are used to determine the bank's overall rating, as well as its ratings in North Dakota and Arizona. Banks must achieve at least a Low Satisfactory rating under the Lending Test to obtain an overall Satisfactory rating. Refer to the Appendices for information on each test.

Examiners used full-scope examination procedures to assess the bank's performance in each assessment area. As depicted in the following table, the majority of lending and deposit activity occurs in North Dakota, whereas the majority of the branch activity occurs in Arizona. Therefore,

examiners gave equal weight to the bank’s performance in North Dakota and Arizona when assessing the bank’s overall performance.

Assessment Area Breakdown of Loans, Deposits, and Branches			
Assessment Area	% Reported Loans (by #)	% Deposits (by \$)	% Branches (by #)
Devils Lake	19.4	30.8	10.0
Fargo, ND-MN MSA	39.4	28.6	20.0
North Dakota Subtotal	58.8	59.4	30.0
Phoenix-Mesa-Chandler, AZ MSA	41.2	40.6	70.0
Arizona Subtotal	41.2	40.6	70.0
Total	100.0	100.0	100.0

Source: 2022 CRA and HMDA Data; FDIC Summary of Deposits (6/30/2023)

Activities Reviewed

Bank records indicated that the lending focus and product mix remained consistent throughout the evaluation period. As noted earlier, the bank’s primary lending focus is commercial lending, followed by home mortgage lending.

The evaluation considered all home mortgage loans reported on the institution’s 2020, 2021, and 2022 Home Mortgage Disclosure Act (HMDA) Loan Application Registers. Specifically, the institution reported 850 loans totaling \$248.5 million in 2020, 741 loans totaling \$235.1 million in 2021, and 319 loans totaling \$169.4 million in 2022. In addition, examiners analyzed all small business and small farm loans reported under the CRA data collection requirements for 2022, which was the first year that Western State Bank was required to report this data. For small business lending, the bank originated 6,500 loans totaling \$536.6 million in 2022.

The bank’s 2022 small business lending performance is not representative of its performance during the evaluation period due to Western Equipment Finance becoming a bank division in 2022. Therefore, examiners also analyzed all 128 small business loans totaling \$35.2 million that were originated, renewed, or extended in 2021 for the Assessment Area Concentration and Geographic Distribution performance criteria. For the Borrower Profile criterion, examiners selected a sample of 49 small business loans totaling \$14.3 million originated within the assessment areas in 2021. The 2021 small business loan analysis did not include loans that were originated, renewed, or extended and subsequently paid off during the evaluation period as this information was not readily available. Finally, examiners did not include the small farm lending data in this evaluation since agricultural lending is not a lending focus of the bank; however, examiners did analyze this data and did not identify any concerns.

HMDA aggregate lending, 2015 ACS, and 2020 U.S Census data provided a standard of comparison for the home mortgage loans reviewed; examiners placed more weight on the comparison to aggregate lending data since it is typically a better indicator of market conditions and loan demand. In addition, D&B data for 2021 and 2022 provided a standard of comparison for the small business loans reviewed; the 2022 CRA aggregate data was not available to use as a standard of comparison. Examiners did not identify any trends between the 2020, 2021, and 2022 HMDA data or the 2021 and 2022 small business data that materially affected conclusions. Therefore, only

2022 HMDA and small business data is presented for the Geographic Distribution and Borrower Profile criteria.

For the Lending Test, the small business lending performance received the most weight when arriving at conclusions since commercial lending is the bank's primary lending focus. While both the number and dollar volume of loans are presented, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of businesses and individuals served.

Community development lending, qualified investments, and community development services were considered from the prior evaluation dated October 19, 2020, through the current evaluation dated November 27, 2023. Furthermore, investments that were made before the prior evaluation and remain outstanding are included at the current book values as prior period investments. The Investment Test also included an analysis of the institution's responsiveness to opportunities for qualified investments, as well as the use of any innovative or complex investments.

For the Service Test, examiners analyzed community development services, the innovativeness of the services, including whether they serve low- or moderate-income customers in new ways or serve groups of customers not previously served, and the degree to which they serve low- or moderate-income areas or individuals. Examiners also considered the institution's record of opening and closing branch offices, the hours of operations, and the accessibility and use of alternative systems for delivering retail banking services in low- and moderate-income geographies and to low- and moderate-income individuals.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Western State Bank demonstrated good performance under the Lending Test, which is consistent with its performance in both North Dakota and Arizona. While the Borrower Profile performance is adequate and the Assessment Area Concentration performance is poor, the other factors offset this performance.

Lending Activity

Lending levels reflect good responsiveness to the credit needs of the assessment areas. The bank is an active lender by originating or purchasing a significant volume of small business and home mortgage loans. Based on 2022 HMDA aggregate data, Western State Bank ranked 135th, by number, out of 1,024 lenders for originating home mortgage loans in its assessment areas. Examiners were unable to determine how the bank's small business performance ranked among all assessment area lenders since the 2022 CRA aggregate data was not available.

Western State Bank's net loan-to-deposit ratio averaged 100.3 percent over the past 14 calendar quarters; however, this does not include all lending activity as home mortgage loans sold on the secondary market are not reflected on the bank's balance sheet. Since the prior evaluation, the bank sold 1,117 loans totaling \$282.2 million. Secondary market lending is responsive to the credit needs of the assessment areas because it provides long-term home mortgage financing.

Assessment Area Concentration

A small percentage of loans are made in Western State Bank’s assessment areas as depicted in the table below. However, this performance had little impact on the overall Lending Test rating due to the following mitigating factors. The bank’s 2022 CRA Self-Assessment noted, which examiners corroborated, that lending inside its assessment areas significantly declined between 2021 and 2022 due to Western Equipment Finance becoming a bank division. When analyzing its Assessment Area Concentration, the bank removed all Western Equipment Finance loans and the results indicated that a majority of its core lending is occurring within the assessment areas. At the prior evaluation, a substantial majority of the bank’s 221 small business loans (86.4 percent) were made within its assessment areas. The bank’s level of small business lending inside its assessment areas increased in 2022 by number and dollar amount, and its 2021 lending volume compares favorably to the peer banks included in the 2021 CRA aggregate data. As previously noted, the 2021 small business loan universe does not include loans that were paid off during the evaluation period, so the bank’s level of lending was likely higher than what is reflected in the table. Given this information, Western State Bank appears to be meeting the small business credit needs of its assessment areas. Lastly, a high percentage of the bank’s home mortgage loans are made within the bank’s assessment areas, demonstrating a commitment to the assessment areas’ credit needs.

Lending Inside and Outside of the Assessment Areas											
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)	
	Inside		Outside			Inside		Outside			
	#	%	#	%		\$	%	\$	%		
Home Mortgage											
2020	714	84.0	136	16.0	850	202,632	81.5	45,867	18.5	248,499	
2021	628	84.8	113	15.3	741	198,770	84.6	36,320	15.4	235,090	
2022	271	85.0	48	15.0	319	148,817	87.9	20,567	12.1	169,384	
Subtotal	1,613	84.5	297	15.5	1,910	550,219	84.3	102,754	15.7	652,973	
Small Business											
2021	102	79.7	26	20.3	128	28,251	80.3	6,927	19.7	35,178	
2022	449	6.9	6,051	93.1	6,500	98,177	18.3	438,392	81.7	536,569	
Subtotal	551	8.3	6,077	91.7	6,628	126,428	22.1	445,319	77.9	571,747	
Total	2,164	25.3	6,374	74.7	8,538	676,647	55.2	548,073	44.8	1,224,720	
<i>Source: Bank Data Due to rounding, totals may not equal 100.0%</i>											

Geographic Distribution

The geographic distribution of loans reflects good penetration throughout the assessment areas, which is consistent with the bank’s North Dakota performance. The bank’s performance in Arizona was excellent, which received equal weight in the analysis; however, it did not warrant overall excellent performance. Examiners focused on the percentage of loans in low- and moderate-income census tracts as applicable. Detailed discussion of the bank’s performance under this criterion is included in the applicable State and assessment area sections of the evaluation.

Borrower Profile

The distribution of borrowers reflects adequate penetration among retail customers of different income levels and business customers of different sizes, which is consistent with the bank's performance in both North Dakota and Arizona. Examiners focused on the percentage of small business loans to businesses with gross annual revenues of \$1 million or less and the percentage of home mortgage loans to low- and moderate-income borrowers. Detailed discussion of the bank's performance under this criterion is included in the applicable State and assessment area sections of the evaluation.

Innovative or Flexible Lending Practices

Western State Bank uses innovative and/or flexible lending practices in order to serve the assessment areas' credit needs. The bank used flexible lending programs offered through various government-sponsored agencies, which are outlined in the table below. Most of these programs, with the exception of a few state-specific programs, are offered in all of the assessment areas and are designed to assist borrowers who might not otherwise qualify for credit. These programs require extra effort and expertise by bank personnel and meet a defined need compared to conventional loans. Further, the bank utilized programs that provided relief to businesses struggling due to the coronavirus (COVID) pandemic, including 1,018 loans totaling \$87.6 million under the Small Business Administration's Paycheck Protection Program in 2021 and 3 loans totaling \$1.8 million through the Bank of North Dakota's COVID PACE Recovery Program in 2020. Finally, the bank used flexible lending practices within its Western Equipment Finance division as it does not rely on revenues when making credit decisions unless the loan relationship is over \$350,000 or the loan amount is over \$250,000. Since becoming a bank division, Western Equipment Finance has originated 6,910 loans under \$250,000 totaling \$412.5 million.

Innovative or Flexible Lending Programs										
Type of Program	2020		2021		2022		2023		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
North Dakota Housing Finance Agency	9	1,585	42	7,477	73	16,679	18	4,259	142	30,000
U.S. Department of Agriculture	1	72	1	71	1	149	0	0	3	292
U.S. Department of Veterans Affairs	9	2,287	19	4,624	5	1,376	2	680	35	8,967
Federal Housing Administration	13	2,449	46	9,442	23	5,014	6	1,334	88	18,239
Minnesota Housing Finance Agency	3	413	11	2,178	8	1,483	0	0	22	4,074
Bank of North Dakota	7	4,351	7	913	3	279	4	3,404	21	8,947
Small Business Administration	4	3,867	1,028	90,442	4	1,324	3	4,254	1,039	99,887
Totals	46	15,024	1,154	115,147	117	26,304	33	13,931	1,350	170,406

Source: Bank Data

Community Development Loans

Western State Bank has made a relatively high level of community development loans, which is consistent with its performance in North Dakota. Stronger performance was noted in Arizona, which received equal weight in the analysis, but it did not warrant overall outstanding performance. The bank originated 54 community development loans totaling \$190.5 million during the evaluation period, which represents 9.2 percent of total assets and 10.4 percent of net loans. These ratios decreased since the previous evaluation when community development loans represented 15.1 percent of total assets and 17.0 percent of net loans. The level of community development lending also decreased from the prior evaluation, which reported 1,017 loans totaling \$220.0 million; however, the prior evaluation included a significant level of COVID-related loans. Examiners compared the institution’s level of community development lending to two similarly situated institutions, which revealed the bank’s performance was better. Specifically, the similarly situated institutions’ community development loans ranged from 2.7 to 4.4 percent of their total assets and 4.5 to 5.3 percent of their net loans. Finally, Western State Bank was responsive to the community development lending opportunities available in its assessment areas. The tables below illustrate the institution’s community development lending activity by rated area and by year.

Community Development Lending by Rated Area										
Rated Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
North Dakota	5	7,233	0	0	8	34,894	1	2,000	14	44,127
Arizona	7	17,284	0	0	28	116,432	5	12,687	40	146,403
Total	12	24,517	0	0	36	151,326	6	14,687	54	190,530

Source: Bank Data

Community Development Lending										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2020	1	212	0	0	3	5,411	0	0	4	5,623
2021	8	19,111	0	0	14	41,956	5	7,687	27	68,754
2022	2	3,731	0	0	13	92,370	1	7,000	16	103,101
YTD 2023	1	1,463	0	0	6	11,589	0	0	7	13,052
Total	12	24,517	0	0	36	151,326	6	14,687	54	190,530

Source: Bank Data

INVESTMENT TEST

Western State Bank demonstrated adequate performance under the Investment Test, which is consistent with its performance in both North Dakota and Arizona.

Investment and Grant Activity

Western State Bank has an adequate level of qualified community development investments and grants, although rarely in a leadership position, particularly those that are not routinely provided by private investors. The bank purchased, retained, or donated 233 qualified investments totaling \$3.0 million during the evaluation period, which represents 0.1 percent of total assets and 6.6 percent of total securities. These ratios are similar to the prior evaluation when qualified investments represented 0.1 percent of total assets and 7.5 percent of total securities. In addition, the level of qualified investments increased from the prior evaluation, which reported 170 qualified investments totaling \$1.7 million. Finally, a review of the similarly situated institutions revealed that qualified investments ranged from 0.5 to 0.6 percent of their total assets and 1.4 to 4.9 percent of their total securities. The tables below illustrate the institution’s qualified investment activity by rated area and by year.

Qualified Investments by Rated Area										
Rated Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
North Dakota	8	7	124	117	4	4	30	1,495	166	1,623
Arizona	0	0	57	1,144	9	272	1	1	67	1,417
Total	8	7	181	1,261	13	276	31	1,496	233	3,040

Source: Bank Data

Qualified Investments										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	0	0	0	0	1	250	3	556	4	806
2020	0	0	0	0	0	0	0	0	0	0
2021	0	0	0	0	0	0	1	328	1	328
2022	0	0	0	0	0	0	4	577	4	577
YTD 2023	0	0	0	0	0	0	0	0	0	0
Subtotal	0	0	0	0	1	250	8	1,461	9	1,711
Qualified Grants & Donations	8	7	181	1,261	12	26	23	35	224	1,329
Total	8	7	181	1,261	13	276	31	1,496	233	3,040

Source: Bank Data

Responsiveness to Credit and Community Development Needs

Western State Bank exhibits adequate responsiveness to credit and community economic development needs. Further details are located in the separate assessment area sections of the evaluation.

Community Development Initiatives

Western State Bank rarely uses innovative and/or complex investments to support community development initiatives. While the bank’s investments are beneficial to the needs of the assessment areas, they are noncomplex and routinely provided by private investors.

SERVICE TEST

Western State Bank demonstrated good performance under the Service Test, which is consistent with its performance in both North Dakota and Arizona.

Accessibility of Delivery Systems

Western State Bank’s delivery systems are accessible to essentially all portions of its assessment areas. The bank’s service delivery systems include 10 offices and six ATMs located within its assessment areas; the tables below illustrate the overall distribution of branches, ATMs, and population by census tract income level based on 2015 ACS and 2020 U.S. Census data. Western State Bank also offers alternative delivery systems that enhance accessibility to financial services that are readily accessible throughout the assessment areas, including to low- and moderate-income individuals. These systems include internet and mobile banking, the ability to open deposit accounts or apply for loans online, bill pay, mobile check deposit, electronic periodic statements, and prepaid cards, among others.

Branch and ATM Distribution by Geography Income Level Per 2015 ACS Data								
Tract Income Level	Census Tracts		Population		Branches		ATMs	
	#	%	#	%	#	%	#	%
Low	111	10.6	470,061	10.1	0	0.0	0	0.0
Moderate	244	23.4	1,088,407	23.4	2	20.0	1	16.7
Middle	355	34.0	1,599,315	34.4	5	50.0	3	50.0
Upper	320	30.7	1,476,368	31.8	3	30.0	2	33.3
NA	14	1.3	15,503	0.3	0	0.0	0	0.0
Total	1,044	100.0	4,649,654	100.0	10	100.0	6	100.0

Source: 2015 ACS Data; Bank Data

Branch and ATM Distribution by Geography Income Level Per 2020 U.S. Census Data								
Tract Income Level	Census Tracts		Population		Branches		ATMs	
	#	%	#	%	#	%	#	%
Low	73	6.3	292,823	5.7	0	0.0	0	0.0
Moderate	309	26.4	1,308,854	25.6	4	40.0	2	33.3
Middle	393	33.6	1,804,219	35.3	4	40.0	3	50.0
Upper	369	31.5	1,672,246	32.7	2	20.0	1	16.7
NA	26	2.2	35,102	0.7	0	0.0	0	0.0
Total	1,170	100.0	5,113,244	100.0	10	100.0	6	100.0

Source: 2020 U.S. Census Data; Bank Data

Changes in Branch Locations

Western State Bank’s opening and closing of branches has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and/or to low- and moderate-income individuals. Refer to the applicable State sections of the evaluation for additional information.

Reasonableness of Business Hours and Services

Services, including business hours, do not vary in a way that inconveniences certain portions of the assessment areas, particularly low- and moderate-income geographies and/or individuals. Branch hours and services are convenient and reasonable in comparison to other financial institutions operating in the assessment areas. Finally, Western State Bank offers a wide variety of deposit and loan products, as well as other services, at all locations.

Community Development Services

Western State Bank provides a relatively high level of community development services. Bank employees provided 98 instances of financial expertise or technical assistance to community development organizations in the rated areas, the majority of which benefited North Dakota. The number of community development services increased since the prior evaluation, which reported 68 community development services. While the community development services are not particularly innovative, they demonstrate the bank’s responsiveness to community development needs considering its resources, business strategy, competition, and available opportunities. Finally, a review of the similarly situated institutions revealed that those institutions’ employees provided between 58 and 94 community development services. The tables below illustrate the bank’s community development services by rated area and by year.

Community Development Services by Rated Area					
Rated Area	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
North Dakota	19	29	10	15	73
Arizona	0	18	7	0	25
Total	19	47	17	15	98

Source: Bank Data

Community Development Services					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2020	0	1	0	0	1
2021	4	13	7	2	26
2022	7	14	6	4	31
YTD 2023	8	19	4	9	40
Total	19	47	17	15	98
<i>Source: Bank Data</i>					

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

NORTH DAKOTA

CRA RATING FOR NORTH DAKOTA: Satisfactory

The Lending Test is rated: High Satisfactory

The Investment Test is rated: Low Satisfactory

The Service Test is rated: High Satisfactory

DESCRIPTION OF INSTITUTION'S OPERATIONS IN NORTH DAKOTA

Western State Bank maintains two assessment areas in North Dakota: Devils Lake and Fargo, ND-MN MSA. The bank operates three full-service offices in North Dakota. Details regarding the individual assessment areas are provided in subsequent sections.

SCOPE OF EVALUATION – NORTH DAKOTA

The Fargo, ND-MN MSA received the most weight when arriving at the North Dakota State rating. Refer to the overall Scope of Evaluation section for additional information.

CONCLUSIONS ON PERFORMANCE CRITERIA IN NORTH DAKOTA

LENDING TEST

Western State Bank demonstrated good performance under the Lending Test, which is consistent with its performance in the Fargo, ND-MN MSA. While the bank's performance in the Devils Lake Assessment Area was adequate, it received less weight in the analysis.

Lending Activity

Western State Bank's lending activity reflects good responsiveness to the credit needs in North Dakota. In 2022, the bank originated or purchased 460 small business, small farm, and home mortgage loans totaling \$122.8 million in this rated area. This accounts for 58.8 percent of the loans reviewed, by number, in 2022. In comparison, 59.4 percent of the bank's deposits were from the rated area, while 30.0 percent of the offices operate in North Dakota.

Geographic Distribution

The geographic distribution of loans reflects good penetration throughout the assessment areas, which is consistent with the bank's performance in both of the North Dakota assessment areas.

Borrower Profile

The distribution of borrowers reflects adequate penetration among retail customers of different income levels and business customers of different sizes, which is consistent with the bank's performance in both of the North Dakota assessment areas.

Community Development Loans

Western State Bank has made a relatively high level of community development loans in North Dakota, which is consistent with its performance in the Fargo, ND-MN MSA. The Devils Lake Assessment Area performance, which lesser weight in North Dakota, was adequate. The bank originated 14 community development loans totaling \$14.1 million during the evaluation period, most of which promoted economic development. The level of community development lending decreased since the prior evaluation when the bank made 265 loans totaling \$87.4 million; however, most of these were COVID-related loans. The table below illustrates the bank’s community development lending activity by assessment area.

Community Development Lending by Assessment Area										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Devils Lake	1	212	0	0	0	0	1	2,000	2	2,212
Fargo, ND-MN MSA	4	7,021	0	0	8	34,894	0	0	12	41,915
Total	5	7,233	0	0	8	34,894	1	2,000	14	44,127

Source: Bank Data

INVESTMENT TEST

Western State Bank demonstrated adequate performance under the Investment Test in North Dakota, which is consistent with its performance in the Fargo, ND-MN MSA. While the bank’s performance in the Devils Lake Assessment Area was good, it received the less weight in the analysis.

Investment and Grant Activity

Western State Bank has an adequate level of qualified community development investments and grants in North Dakota, the majority of which benefited the Fargo, ND-MN MSA. Specifically, the bank made 166 qualified investments totaling \$1.6 million. The level of qualified investments increased from the prior evaluation, which included 128 qualified investments totaling \$1.2 million. The table below illustrates the bank’s qualified investment activity by assessment area.

Qualified Investments by Assessment Area										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Devils Lake	1	1	25	26	3	3	27	1,492	56	1,522
Fargo, ND-MN MSA	7	6	99	91	0	0	3	3	109	100
Statewide Activities	0	0	0	0	1	1	0	0	1	1
Total	8	7	124	117	4	4	30	1,495	166	1,623

Source: Bank Data

Responsiveness to Credit and Community Development Needs

Western State Bank exhibits adequate responsiveness to credit and community economic development needs in North Dakota.

Community Development Initiatives

Western State Bank rarely uses innovative and/or complex investments to support community development initiatives in North Dakota.

SERVICE TEST

Western State Bank demonstrated good performance under the Service Test in North Dakota, which is consistent with its performance in both of the North Dakota assessment areas.

Accessibility of Delivery Systems

Western State Bank’s delivery systems are accessible to essentially all portions of the assessment areas in North Dakota, which is consistent with its overall performance. Furthermore, alternative delivery systems are consistent with those discussed in the bank’s overall performance.

Changes in Branch Locations

Western State Bank’s opening and closing of branches has not adversely affected the accessibility of its delivery systems within the state of North Dakota, particularly in low- and moderate-income geographies and/or to low- and moderate-income individuals. Refer to the Fargo, ND-MN MSA portion of the evaluation for additional information.

Reasonableness of Business Hours and Services

Services and business hours do not vary in a way that inconveniences certain portions of the North Dakota assessment areas, particularly low- and moderate-income geographies and/or individuals. This performance is consistent with the bank’s overall performance.

Community Development Services

Western State Bank provides a relatively high level of community development services in North Dakota. Specifically, bank employees provided 73 instances of financial expertise or technical assistance to community development organizations, which increased from 44 community development services at the prior evaluation. The table below illustrates the institution’s community development services by assessment area.

Community Development Services by Assessment Area					
Assessment Area	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
Devils Lake	3	4	4	13	24
Fargo, ND-MN MSA	16	25	6	2	49
Total	19	29	10	15	73
<i>Source: Bank Data</i>					

DEVILS LAKE ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN DEVILS LAKE ASSESSMENT AREA

The Devils Lake Assessment Area includes all of Benson and Ramsey counties in North Dakota. The assessment area boundaries are unchanged since the previous evaluation; however, census tract income levels have changed between the two census years. According to 2015 ACS data, the assessment area consists of one low-, one moderate-, and five middle-income census tracts. Per 2020 U.S. Census data, the assessment area consists of three moderate- and three middle-income census tracts. Further, all of the middle-income census tracts were designated as underserved and/or distressed throughout the evaluation period. Finally, the bank operates its Devils Lake office in this assessment area.

Economic and Demographic Data

The table below illustrates select demographic characteristics of the assessment area.

Demographic Information of the Devils Lake Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	6	0.0	50.0	50.0	0.0	0.0
Population by Geography	17,569	0.0	47.5	52.5	0.0	0.0
Housing Units by Geography	8,941	0.0	48.8	51.2	0.0	0.0
Owner-Occupied Units by Geography	4,557	0.0	36.5	63.5	0.0	0.0
Occupied Rental Units by Geography	2,611	0.0	67.4	32.6	0.0	0.0
Vacant Units by Geography	1,773	0.0	53.2	46.8	0.0	0.0
Businesses by Geography	1,783	0.0	38.8	61.2	0.0	0.0
Farms by Geography	314	0.0	10.8	89.2	0.0	0.0
Family Distribution by Income Level	4,281	29.3	18.8	19.6	32.4	0.0
Household Distribution by Income Level	7,168	32.6	15.9	18.8	32.8	0.0
Median Family Income Non-MSAs - ND		\$82,366	Median Housing Value			\$125,949
			Median Gross Rent			\$567
			Families Below Poverty Level			16.6%

*Source: 2020 U.S. Census Data 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.*

The Federal Financial Institutions Examination Council (FFIEC)-updated median family income level is used to analyze home mortgage loans under the Borrower Profile criterion. The following table illustrates the 2022 median family income ranges for nonmetropolitan North Dakota.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2022 (\$93,100)	<\$46,550	\$46,550 to <\$74,480	\$74,480 to <\$111,720	≥\$111,720
<i>Source: FFIEC</i>				

Competition

The Devils Lake Assessment Area has a moderate level of competition for financial services. Per 2022 FDIC Deposit Market Share data, eight financial institutions operate nine offices within the assessment area. Of these institutions, Western State Bank ranked first with 53.3 percent of the deposit market share. Further, there is a moderate level of demand and competition for home mortgage loans as 38 lenders reported 227 home mortgage loans in the assessment area in 2022, with Western State Bank ranking second with 11.9 percent of the market share by number. While the 2022 CRA aggregate data was not available, the 2021 aggregate data is included in some instances to demonstrate the level of demand for these loans. The 2021 aggregate data revealed that 35 lenders reported 600 small business loans in the assessment area.

Credit and Community Development Needs and Opportunities

Considering information from bank management and demographic and economic data, examiners determined that commercial and agricultural lending represent the primary credit needs in the assessment area. The assessment area's community development needs primarily relate to economic development, community services, and revitalization or stabilization; however, there is a high level of competition for the limited available opportunities.

CONCLUSIONS ON PERFORMANCE CRITERIA IN DEVILS LAKE ASSESSMENT AREA

LENDING TEST

Western State Bank demonstrated adequate performance under the Lending Test in the Devils Lake Assessment Area. The combined performance for Lending Activity, Geographic Distribution, Borrower Profile, and Community Development Loans supports this conclusion.

Lending Activity

Western State Bank's lending activity reflects adequate responsiveness to the credit needs of the assessment area. Specifically, the bank originated or purchased 152 small business, small farm, and home mortgage loans totaling \$21.8 million in 2022. This accounts for 8.5 percent of the loans reviewed, by number, in 2022. In comparison, 30.8 percent of the bank's deposits were from the assessment area. Although its 2022 lending activity was significantly lower than its deposits, Western State Bank ranked second in market share for home mortgage loans in the assessment area.

Geographic Distribution

The geographic distribution of loans reflects good penetration throughout the assessment area, which is consistent with the bank's small business lending performance. While the bank's home mortgage lending performance was excellent, it received less weight in the analysis.

Small Business Loans

As depicted in the table below, the geographic distribution of small business loans reflects good penetration throughout the assessment area when compared to D&B data.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	0.0	0	0.0	0	0.0
Moderate	38.8	28	40.6	1,972	23.2
Middle	61.2	41	59.4	6,533	76.8
Upper	0.0	0	0.0	0	0.0
Not Available	0.0	0	0.0	0	0.0
Totals	100.0	69	100.0	8,505	100.0

*Source: 2022 D&B Data; Bank Data
Due to rounding, totals may not equal 100.0%*

Home Mortgage Loans

As depicted in the table below, the geographic distribution of home mortgage loans reflects excellent penetration throughout the assessment area when compared to aggregate data.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low	0.0	0.0	0	0.0	0	0.0
Moderate	36.5	29.5	11	39.3	1,546	44.8
Middle	63.5	70.5	17	60.7	1,908	55.2
Upper	0.0	0.0	0	0.0	0	0.0
Not Available	0.0	0.0	0	0.0	0	0.0
Total	100.0	100.0	28	100.0	3,454	100.0

*Source: 2020 U.S. Census Data; Bank Data, 2022 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0%*

Borrower Profile

The distribution of borrowers reflects adequate penetration among retail customers of different income levels and business customers of different sizes, which is consistent with the bank's small business lending performance. While the bank's home mortgage lending performance was excellent, it received less weight in the analysis.

Small Business Loans

As illustrated in the table below, the distribution of borrowers reflects adequate penetration among businesses with gross annual revenues of \$1 million or less. Although the bank’s performance lags D&B data, revenue information was not available for 36.2 percent of the institution’s small business loans, which significantly skews the data. As previously noted, Western Equipment Finance became a bank division in 2022, and it does not rely on revenues when making credit decisions except in certain instances. Further, the bank’s 2021 performance surpassed aggregate and D&B data. Specifically, examiners reviewed a sample of 10 small business loans originated in the assessment area in 2021, nine of which (90.0 percent) were to businesses with gross annual revenues of \$1 million or less. The 2021 aggregate data revealed that 52.2 percent of small business loans were to businesses with gross annual revenues of \$1 million or less, whereas D&B data indicated that 76.3 percent of area businesses have gross annual revenues of \$1 million or less.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	79.0	32	46.4	4,653	54.7
>\$1,000,000	4.2	12	17.4	2,579	30.3
Revenue Not Available	16.8	25	36.2	1,273	15.0
Total	100.0	69	100.0	8,505	100.0

*Source: 2022 D&B Data, Bank Data.
Due to rounding, totals may not equal 100.0%*

Home Mortgage Loans

As depicted in the table below, the distribution of borrowers reflects excellent penetration among individuals of different income levels, including low- and moderate-income borrowers, when compared to aggregate data.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	29.3	17.2	8	28.6	568	16.4
Moderate	18.8	20.3	6	21.4	992	28.7
Middle	19.6	22.9	2	7.1	324	9.4
Upper	32.4	25.1	6	21.4	629	18.2
Not Available	0.0	14.5	6	21.4	943	27.3
Total	100.0	100.0	28	100.0	3,454	100.0

*Source: 2020 U.S. Census Data; Bank Data, 2022 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0%*

Community Development Loans

Western State Bank has made an adequate level of community development loans in the assessment area. Specifically, the bank originated two community development loans totaling \$2.2 million during the evaluation period that promoted affordable housing and revitalization or stabilization. The level of community development lending decreased in number and dollar volume since the prior evaluation, which reported 89 loans totaling \$18.0 million that were primarily COVID-related loans.

INVESTMENT TEST

Western State Bank demonstrated good performance under the Investment Test in the Devils Lake Assessment Area, which is primarily supported by its Investment and Grant Activity performance.

Investment and Grant Activity

Western State Bank has a significant level of qualified community development investments and grants in the assessment area, especially when considering the limited available opportunities. Specifically, the bank made 56 qualified investments totaling \$1.5 million, of which three were prior period investments totaling \$556,000, five were newly purchased investments totaling \$905,000, and 48 were donations totaling \$61,000. Most of the qualified investments promoted revitalization or stabilization. Finally, the level of qualified investments increased from the prior evaluation, which included 27 qualified investments totaling \$1.2 million.

Responsiveness to Credit and Community Development Needs

Western State Bank exhibits good responsiveness to credit and community economic development needs in the assessment area, which is reflected through its investments that support revitalization or stabilization, community services, and economic development.

Community Development Initiatives

Western State Bank rarely uses innovative and/or complex investments to support community development initiatives in the assessment area.

SERVICE TEST

Western State Bank demonstrated good performance under the Service Test in the Devils Lake Assessment Area. Performance under the criterion described below collectively supports this conclusion.

Accessibility of Delivery Systems

The bank's delivery systems are accessible to essentially all portions of the Devils Lake Assessment Area and are consistent with its overall performance. The sole branch and ATM are located in a moderate-income census tract per 2020 Census data; this census tract was previously considered an underserved middle-income census tract per 2015 ACS data. Alternative delivery systems provide further access to banking services and are consistent with those discussed in the bank's overall performance.

Changes in Branch Locations

No changes were made with regard to opening and/or closing branches during the evaluation period. Therefore, the bank’s record of opening and closing branches has not adversely affected the accessibility of its delivery systems, particularly low- and moderate-income geographies and/or individuals.

Reasonableness of Business Hours and Services

Services and business hours do not vary in a way that inconveniences certain portions of the assessment area, particularly low- and moderate-income geographies and/or individuals. This performance is consistent with the bank’s overall performance.

Community Development Services

Western State Bank provides a relatively high level of community development services in the assessment area. Specifically, bank employees provided 24 instances of financial expertise or technical assistance to community development organizations, a majority of which promoted revitalization or stabilization. The number of community development services is similar to the prior evaluation, which included 22 community development services.

FARGO, ND-MN MSA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN FARGO, ND-MN MSA

This assessment area includes all of Cass County in North Dakota and Clay County in Minnesota, which comprise the Fargo, ND-MN MSA. The assessment area boundaries are unchanged since the previous evaluation; however, census tract income levels have changed between the two census years. According to 2015 ACS data, the MSA consists of 12 moderate-, 24 middle-, and 9 upper-income census tracts, as well as 1 census tract with no income designation. Per 2020 U.S. Census data, the MSA consists of 5 low-, 12 moderate-, 28 middle-, and 15 upper-income census tracts. Finally, the bank operates its Fargo and West Fargo offices in the MSA.

Economic and Demographic Data

The following table illustrates select demographic characteristics of the MSA.

Demographic Information of the Fargo, ND-MN MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	60	8.3	20.0	46.7	25.0	0.0
Population by Geography	249,843	7.0	18.3	48.7	26.0	0.0
Housing Units by Geography	110,404	8.6	22.7	48.7	20.0	0.0
Owner-Occupied Units by Geography	56,879	2.2	14.5	55.2	28.1	0.0
Occupied Rental Units by Geography	44,843	14.8	32.0	41.4	11.9	0.0
Vacant Units by Geography	8,682	18.3	28.1	44.1	9.5	0.0
Businesses by Geography	28,115	10.5	24.1	42.2	23.2	0.0
Farms by Geography	1,143	2.4	8.7	69.6	19.2	0.0
Family Distribution by Income Level	58,291	18.8	18.4	23.4	39.4	0.0
Household Distribution by Income Level	101,722	23.6	15.9	18.9	41.6	0.0
Median Family Income MSA - 2020 Fargo, ND-MN MSA		\$90,450	Median Housing Value			\$224,364
			Median Gross Rent			\$838
			Families Below Poverty Level			6.2%

Source: 2020 U.S. Census Data 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.

The table below illustrates the 2022 FFIEC-estimated median family income levels for the Fargo, ND-MN MSA.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2022 (\$100,500)	<\$50,250	\$50,250 to <\$80,400	\$80,400 to <\$120,600	≥\$120,600

Source: FFIEC

Competition

The Fargo, ND-MN MSA is highly competitive for financial services. Per 2022 FDIC Deposit Market Share data, 32 financial institutions operate 97 offices within the MSA. Of these institutions, Western State Bank ranked eighth with 3.7 percent of the deposit market share. Further, there is a high level of demand and competition for home mortgage loans as 206 lenders reported 7,380 home mortgage loans in the MSA in 2022, with Western State Bank ranking 12th with 2.3 percent of the market share by number. Finally, there is a high level of demand and competition for small business loans in the MSA as evidenced by the 2021 aggregate data, which revealed that 85 lenders reported 8,246 small business loans.

Community Contact(s)

Examiners reviewed a community contact previously conducted with a representative of an organization that promotes economic development in the MSA. The contact stated that the area's

economy is very strong and growing, but the workforce shortage is affecting businesses. Per the contact, the MSA will need 16,000 housing units within the next five years based on its current growth rate. The MSA's housing costs are higher than the national average due to special assessments, but the contact noted that this has not affected the housing demand. The contact stated that regional financial institutions continue to expand their presence in the MSA, whereas the largest banks (e.g. Wells Fargo and U.S. Bank) are much less active than they previously were. The contact added that there is a lot of competition between financial institutions, which limits opportunities for banks but is beneficial for customers. Lastly, the contact is not aware of any discriminatory practices by area financial institutions.

Credit and Community Development Needs and Opportunities

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that commercial and home mortgage lending represent the primary credit needs in the MSA. The MSA's community development needs primarily relate to economic development, affordable housing, and community services, however, there is a high level of competition for the available opportunities.

CONCLUSIONS ON PERFORMANCE CRITERIA IN FARGO, ND-MN MSA

LENDING TEST

Western State Bank demonstrated good performance under the Lending Test in the Fargo, ND-MN MSA. The combined performance of Lending Activity, Geographic Distribution, Borrower Profile, and Community Development Loans supports this conclusion.

Lending Activity

Western State Bank's lending activity reflects excellent responsiveness to the credit needs of the MSA. Specifically, the bank originated or purchased 308 small business, small farm, and home mortgage loans totaling \$101.0 million in 2022. This accounts for 39.4 percent of the loans reviewed, by number, in 2022. In comparison, 28.6 percent of the bank's deposits were from the MSA. Further, Western State Bank ranked 12th in market share for home mortgage loans in the MSA.

Geographic Distribution

The geographic distribution of loans reflects good penetration throughout the MSA, which is consistent with the bank's small business and home mortgage lending performance.

Small Business Loans

As depicted in the following table, the geographic distribution of small business loans reflects good penetration throughout the MSA when compared to D&B data.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	10.5	8	6.2	2,108	7.8
Moderate	24.1	31	24.0	6,466	24.0
Middle	42.2	50	38.8	8,512	31.5
Upper	23.2	40	31.0	9,899	36.7
Not Available	0.0	0	0.0	0	0.0
Totals	100.0	129	100.0	26,985	100.0

*Source: 2022 D&B Data; Bank Data
Due to rounding, totals may not equal 100.0%*

Home Mortgage Loans

As depicted in the table below, the geographic distribution of home mortgage loans reflects good penetration throughout the MSA when compared to aggregate data.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low	2.2	3.4	4	2.3	24,725	33.7
Moderate	14.5	12.0	25	14.5	4,049	5.5
Middle	55.2	45.9	85	49.1	24,672	33.6
Upper	28.1	38.6	59	34.1	19,963	27.2
Not Available	0.0	0.0	0	0.0	0	0.0
Total	100.0	100.0	173	100.0	73,409	100.0

*Source: 2020 U.S. Census Data; Bank Data, 2022 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0%*

Borrower Profile

The distribution of borrowers reflects adequate penetration among retail customers of different income levels and business customers of different sizes, which is consistent with its small business lending performance. While the bank's home mortgage lending performance was excellent, it received less weight in the analysis.

Small Business Loans

As illustrated in the following table, the distribution of borrowers reflects adequate penetration among businesses with gross annual revenues of \$1 million or less. Although the bank's performance lags D&B data, revenue information was not available for 27.1 percent of the institution's small business loans, which significantly skews the data. Further, the bank's 2021 performance surpassed aggregate data. Specifically, examiners reviewed a sample of 17 small business loans originated in the MSA in 2021, 12 of which (70.6 percent) were to businesses with gross annual revenues of \$1 million or less. The 2021 aggregate data revealed that 43.9 percent of small business loans were to businesses with gross annual revenues of \$1 million or less.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	87.0	58	45.0	10,151	37.6
>\$1,000,000	4.2	36	27.9	11,777	43.6
Revenue Not Available	8.8	35	27.1	5,057	18.7
Total	100.0	129	100.0	26,985	100.0
<i>Source: 2022 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%</i>					

Home Mortgage Loans

As depicted in the table below, the distribution of borrowers reflects excellent penetration among individuals of different income levels, including low- and moderate-income borrowers, when compared to aggregate data.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	18.8	8.8	21	12.1	2,955	4.0
Moderate	18.4	21.7	53	30.6	10,423	14.2
Middle	23.5	22.2	40	23.1	8,854	12.1
Upper	39.4	29.2	38	22.0	14,593	19.9
Not Available	0.0	18.2	21	12.1	36,583	49.8
Total	100.0	100.0	173	100.0	73,409	100.0
<i>Source: 2020 U.S. Census Data; Bank Data, 2022 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

Community Development Loans

Western State Bank has made a relatively high level of community development loans in the MSA. Specifically, the bank originated 12 community development loans totaling \$41.9 million during the evaluation period, most of which promoted economic development. The level of community development lending decreased in number and dollar volume since the prior evaluation, which reported 169 loans totaling \$50.3 million, most of which were COVID-related loans.

INVESTMENT TEST

Western State Bank demonstrated adequate performance under the Investment Test in the Fargo, ND-MN MSA, which is primarily supported by its Investment and Grant Activity performance.

Investment and Grant Activity

Western State Bank has an adequate level of qualified community development investments and grants in the MSA. Specifically, the bank made 109 qualified investments totaling \$100,000, all of which were donations. Most of the qualified investments promoted community services. Finally,

the level of qualified investments is similar to the prior evaluation, which included 99 qualified investments totaling \$38,000.

Responsiveness to Credit and Community Development Needs

Western State Bank exhibits adequate responsiveness to credit and community economic development needs in the MSA, which is reflected through its investments that support affordable housing and community services.

Community Development Initiatives

Western State Bank rarely uses innovative and/or complex investments to support community development initiatives in the MSA.

SERVICE TEST

Western State Bank demonstrated good performance under the Service Test in the Fargo, ND-MN MSA. Performance under the criterion described below collectively supports this conclusion.

Accessibility of Delivery Systems

The bank's delivery systems are accessible to essentially all portions of the MSA and are consistent with its overall performance. The Fargo branch and ATM are located in a middle-income census tract per 2020 U.S. Census data, which was previously classified as an upper-income census tract per 2015 ACS data. The West Fargo branch and ATM are located in an upper-income census tract per 2015 ACS and 2020 U.S. Census data. Alternative delivery systems provide further access to banking services and are consistent with those discussed in the bank's overall performance.

Changes in Branch Locations

Western State Bank's opening and closing of branches has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and/or to low- and moderate income individuals. The bank relocated its Fargo branch in May 2021 from a moderate-income census tract to a middle-income census tract based on 2020 U.S. Census data. However, both of the branches in the MSA are located in close proximity to this census tract (between 1.6 miles and 3.6 miles), as well as other low- and/or moderate-income census tracts (between 0.6 and 1.5 miles). Finally, residents in the affected census tract continue to have access to the bank's services through electronic means, such as internet or mobile banking.

Reasonableness of Business Hours and Services

Services and business hours do not vary in a way that inconveniences certain portions of the MSA, particularly low- and moderate-income geographies and/or individuals. This performance is consistent with the bank's overall performance.

Community Development Services

Western State Bank provides a relatively high level of community development services in the MSA. Specifically, bank employees provided 49 instances of financial expertise or technical assistance to community development organizations, most of which promoted community services and affordable housing. The number of community development services increased from the prior evaluation, which included 22 community development services.

ARIZONA

CRA RATING FOR ARIZONA: Satisfactory

The Lending Test is rated: High Satisfactory

The Investment Test is rated: Low Satisfactory

The Service Test is rated: High Satisfactory

DESCRIPTION OF INSTITUTION’S OPERATIONS IN ARIZONA

This assessment area includes all of Maricopa and Pinal counties in Arizona, which comprise the Phoenix-Mesa-Chandler, AZ MSA. The assessment area boundaries are unchanged since the previous evaluation; however, census tract income levels have changed between the two census years. According to 2015 ACS data, the MSA consists of 110 low-, 231 moderate-, 326 middle-, and 311 upper-income census tracts, as well as 13 census tracts with no income designation. Per 2020 U.S. Census data, the MSA consists of 68 low-, 294 moderate-, 362 middle-, and 354 upper-income census tracts, as well as 26 census tracts with no income designation. Finally, the bank operates its Casa Grande, Chandler, Mesa, Phoenix, Scottsdale, Sun City, and Sun City West offices in the MSA.

Economic and Demographic Data

The table below illustrates select demographic characteristics of the MSA.

Demographic Information of the Phoenix-Mesa-Chandler, AZ MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	1,104	6.2	26.6	32.8	32.1	2.4
Population by Geography	4,845,832	5.7	25.9	34.5	33.2	0.7
Housing Units by Geography	1,943,813	5.2	27.2	35.2	32.1	0.4
Owner-Occupied Units by Geography	1,123,410	2.6	21.7	36.8	38.8	0.2
Occupied Rental Units by Geography	621,809	9.9	35.9	32.3	21.2	0.7
Vacant Units by Geography	198,594	5.1	31.1	34.9	28.2	0.6
Businesses by Geography	976,037	3.9	18.6	29.5	47.4	0.5
Farms by Geography	16,243	4.3	21.4	32.1	41.5	0.7
Family Distribution by Income Level	1,153,885	20.6	18.3	20.3	40.9	0.0
Household Distribution by Income Level	1,745,219	22.6	17.0	18.6	41.8	0.0
Median Family Income MSA - 38060 Phoenix-Mesa-Chandler, AZ MSA	\$78,930	Median Housing Value				\$282,615
		Median Gross Rent				\$1,210
		Families Below Poverty Level				9.1%

Source: 2020 U.S. Census Data 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.*

The table below illustrates the 2022 FFIEC-estimated median family income levels for the Phoenix-Mesa-Chandler, AZ MSA.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2022 (\$88,800)	<\$44,400	\$44,400 to <\$71,040	\$71,040 to <\$106,560	≥\$106,560
<i>Source: FFIEC</i>				

Competition

The Phoenix-Mesa-Chandler, AZ MSA is highly competitive for financial services. Per 2022 FDIC Deposit Market Share data, 58 financial institutions operate 680 offices within the MSA. Of these institutions, Western State Bank ranked 17th with 0.4 percent of the deposit market share. Further, there is a high level of demand and competition for home mortgage loans as 1,001 lenders reported 212,314 home mortgage loans in the MSA in 2022, with Western State Bank ranking 267th with less than 0.1 percent of the market share by number. Finally, there is a high level of demand and competition for small business loans in the MSA as evidenced by the 2021 aggregate data, which revealed that 308 lenders reported 141,007 small business loans.

Community Contact(s)

Examiners reviewed a community contact previously conducted with a representative of an organization that promotes economic development in the MSA. The contact stated that there has recently been a significant increase in start-up businesses in the MSA, as well as some business expansion (e.g. new product lines and/or locations). Per the contact, the workforce shortage has not significantly affected start-up businesses since they are often sole proprietors or have a small staff. The contact added that the MSA’s housing prices are starting to level out but residential rental prices are extremely high. The contact stated that many of the MSA’s financial institutions are conservative lenders, especially related to commercial lending, but they are overall meeting the area’s credit needs. Lastly, the contact noted that there is a lot of competition between financial institutions.

Credit and Community Development Needs and Opportunities

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that commercial and home mortgage lending represent the primary credit needs in the MSA. The MSA’s community development needs primarily relate to economic development, affordable housing, and community services, however, there is a high level of competition for the available opportunities.

SCOPE OF EVALUATION – ARIZONA

Refer to the overall Scope of Evaluation section for additional information.

CONCLUSIONS ON PERFORMANCE CRITERIA IN ARIZONA

LENDING TEST

Western State Bank demonstrated good performance under the Lending Test in Arizona. The combined performance of Lending Activity, Geographic Distribution, Borrower Profile, and Community Development Loans supports this conclusion.

Lending Activity

Western State Bank’s lending activity reflects good responsiveness to the credit needs of the Phoenix-Mesa-Chandler, AZ MSA. Specifically, the bank originated or purchased 322 small business, small farm, and home mortgage loans totaling \$134.9 million in 2022. This accounts for 41.2 percent of the loans reviewed, by number, in 2022. In comparison, 40.6 percent of the bank’s deposits were from the MSA, while 70.0 percent of the offices operate in the MSA.

Geographic Distribution

The geographic distribution of loans reflects excellent penetration throughout the MSA, which is consistent with its small business and home mortgage lending performance.

Small Business Loans

As depicted in the table below, the geographic distribution of small business loans reflects excellent penetration throughout the MSA when compared to D&B data.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	3.9	25	10.0	7,273	11.6
Moderate	18.6	60	23.9	14,134	22.5
Middle	29.5	87	34.7	20,329	32.4
Upper	47.4	78	31.1	20,201	32.2
Not Available	0.5	1	0.4	750	1.2
Totals	100.0	251	100.0	62,687	100.0
<small>Source: 2022 D&B Data; Bank Data Due to rounding, totals may not equal 100.0%</small>					

Home Mortgage Loans

As depicted in the following table, the geographic distribution of home mortgage loans reflects excellent penetration throughout the MSA when compared to aggregate data.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low	2.6	2.2	2	2.9	393	0.5
Moderate	21.7	18.6	18	25.7	7,114	9.9
Middle	36.8	39.9	22	31.4	9,213	12.8
Upper	38.8	39.3	28	40.0	55,235	76.8
Not Available	0.2	0.1	0	0.0	0	0.0
Total	100.0	100.0	70	100.0	71,955	100.0

*Source: 2020 U.S. Census Data; Bank Data, 2022 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0%*

Borrower Profile

The distribution of borrowers reflects adequate penetration among retail customers of different income levels and business customers of different sizes, which is consistent with its small business and home mortgage lending performance.

Small Business Loans

As illustrated in the table below, the distribution of borrowers reflects adequate penetration among businesses with gross annual revenues of \$1 million or less. Although the bank's performance lags D&B data, revenue information was not available for 33.5 percent of the institution's small business loans, which significantly skews the data. Further, the bank's 2021 performance was comparable to aggregate data. Specifically, examiners reviewed a sample of 22 small business loans originated in the MSA in 2021, 14 of which (63.6 percent) were to businesses with gross annual revenues of \$1 million or less. The 2021 aggregate data revealed that 48.2 percent of small business loans were to businesses with gross annual revenues of \$1 million or less.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	93.0	69	27.5	22,022	35.1
>\$1,000,000	1.5	98	39.0	26,446	42.2
Revenue Not Available	5.5	84	33.5	14,219	22.7
Total	100.0	251	100.0	62,687	100.0

*Source: 2022 D&B Data, Bank Data.
Due to rounding, totals may not equal 100.0%*

Home Mortgage Loans

As depicted in the following table, the distribution of borrowers reflects adequate penetration among individuals of different income levels, including low- and moderate-income borrowers. While the bank's lending performance to moderate-income borrowers lags aggregate data, income information was not available for 54.3 percent of the institution's home mortgage loans, which significantly skews the data. Further, the bank's 2021 performance was comparable to aggregate

data. Specifically, Western State Bank made 217 home mortgage loans in the MSA in 2021, 14 of which (6.5 percent) were to low-income borrowers and 39 (18.0 percent) were to moderate-income borrowers. The 2021 aggregate data revealed that 5.3 and 16.6 percent of home mortgage loans were to low- and moderate-income borrowers, respectively.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	20.6	6.9	3	4.3	316	0.4
Moderate	18.3	16.3	2	2.9	371	0.5
Middle	20.3	21.2	10	14.3	2,795	3.9
Upper	40.9	38.6	17	24.3	11,656	16.2
Not Available	0.0	17.0	38	54.3	56,818	79.0
Total	100.0	100.0	70	100.0	71,955	100.0
<i>Source: 2020 U.S. Census Data; Bank Data, 2022 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

Community Development Loans

Western State Bank is a leader in making community development loans in the Phoenix-Mesa-Chandler, AZ MSA. Specifically, the bank originated 40 community development loans totaling \$146.4 million during the evaluation period, most of which promoted economic development. The level of community development lending decreased in number but increased in dollar volume since the prior evaluation, which reported 690 loans totaling \$129.0 million.

INVESTMENT TEST

Western State Bank demonstrated adequate performance under the Investment Test in Arizona, which is primarily supported by its Investment and Grant Activity performance.

Investment and Grant Activity

Western State Bank has an adequate level of qualified community development investments and grants in the Phoenix-Mesa-Chandler, AZ MSA. Specifically, the bank made 67 qualified investments totaling \$1.4 million, of which one was a prior period investment totaling \$250,000 and 66 were donations totaling \$1.2 million. Most of the qualified investments promoted community services. Finally, the level of qualified investments increased from the prior evaluation, which included 42 qualified investments totaling \$497,000.

Responsiveness to Credit and Community Development Needs

Western State Bank exhibits adequate responsiveness to credit and community economic development needs in the Phoenix-Mesa-Chandler, AZ MSA, which is reflected through its investments that support community services and economic development.

Community Development Initiatives

Western State Bank rarely uses innovative and/or complex investments to support community development initiatives in Arizona.

SERVICE TEST

Western State Bank demonstrated good performance under the Service Test in Arizona. While the level of community development services is adequate, the other factors offset this performance.

Accessibility of Delivery Systems

The bank's delivery systems are accessible to essentially all portions of the Phoenix-Mesa-Chandler, AZ MSA and are consistent with its overall performance. Per 2020 U.S. Census data, the Chandler branch and ATM, Phoenix branch, and Sun City branch are located in moderate-income census tracts; the Casa Grande branch and ATM, Sun City West branch and ATM, and Mesa branch are located in middle-income census tracts; and the Scottsdale branch is located in an upper-income census tract. The census tract containing the Sun City branch was previously classified as a middle-income census tract per 2015 ACS data. Finally, alternative delivery systems provide further access to banking services and are consistent with those discussed in the bank's overall performance.

Changes in Branch Locations

Western State Bank's opening and closing of branches has not adversely affected the accessibility of its delivery systems, particularly in low-and moderate-income geographies and/or to low- and moderate income individuals. The bank opened its Phoenix branch in August 2021, which is located in a moderate-income census tract per 2020 U.S. Census data. As such, the bank's record of opening and closing branches has had a positive impact on the accessibility of its delivery systems.

Reasonableness of Business Hours and Services

Services and business hours do not vary in a way that inconveniences certain portions of the Phoenix-Mesa-Chandler, AZ MSA, particularly low- and moderate-income geographies and/or individuals. This performance is consistent with the bank's overall performance.

Community Development Services

Western State Bank provides an adequate level of community development services in the Phoenix-Mesa-Chandler, AZ MSA. Specifically, bank employees provided 25 instances of financial expertise or technical assistance to community development organizations, most of which promoted community services. The number of community development services is similar to the prior evaluation, which included 24 community development services.

APPENDICES

LARGE 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) through its lending activities by considering a bank's home mortgage, small business, small farm, and community development lending. If consumer lending constitutes a substantial majority of a bank's business, the FDIC will evaluate the bank's consumer lending in one or more of the following categories: motor vehicle, credit card, other secured, and other unsecured. The bank's lending performance is evaluated pursuant to the following criteria:

- 1) The number and amount of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, in the bank's assessment area;
- 2) The geographic distribution of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, based on the loan location, including:
 - i. The proportion of the bank's lending in the bank's assessment area(s);
 - ii. The dispersion of lending in the bank's assessment areas(s); and
 - iii. The number and amount of loans in low-, moderate-, middle- and upper-income geographies in the bank's assessment area(s);
- 3) The distribution, particularly in the bank's assessment area(s), of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, based on borrower characteristics, including the number and amount of:
 - i. Home mortgage loans low-, moderate-, middle- and upper-income individuals
 - ii. Small business and small farm loans to businesses and farms with gross annual revenues of \$1 million or less;
 - iii. Small business and small farm loans by loan amount at origination; and
 - iv. Consumer loans, if applicable, to low-, moderate-, middle- and upper-income individuals;
- 4) The bank's community development lending, including the number and amount of community development loans, and their complexity and innovativeness; and
- 5) The bank's use of innovative or flexible lending practices in a safe and sound manner to address the credit needs of low- and moderate-income individuals or geographies.

Investment Test

The Investment Test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through qualified investments that benefit its assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s). Activities considered under the Lending or Service Test may not be considered under the investment test. The bank's investment performance is evaluated pursuant to the following criteria:

- 1) The dollar amount of qualified investments;
- 2) The innovativeness or complexity of qualified investments;
- 3) The responsiveness of qualified investments to available opportunities; and
- 4) The degree to which qualified investments are not routinely provided by private investors.

Service Test

The Service Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the bank's systems for delivering retail banking services and the extent and innovativeness of its community development services.

The bank's retail banking services are evaluated pursuant to the following criteria:

- 1) The current distribution of the bank's branches among low-, moderate-, middle-, and upper-income geographies;
- 2) In the context of its current distribution of the bank's branches, the bank's record of opening and closing branches, particularly branches located in low- or moderate-income geographies or primarily serving low- or moderate-income individuals;
- 3) The availability and effectiveness of alternative systems for delivering retail banking services (*e.g.*, RSFs, RSFs not owned or operated by or exclusively for the bank, banking by telephone or computer, loan production offices, and bank-at-work or bank-by-mail programs) in low- and moderate-income geographies and to low- and moderate-income individuals; and
- 4) The range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

The bank's community development services are evaluated pursuant to the following criteria:

- 1) The extent to which the bank provides community development services; and
- 2) The innovativeness and responsiveness of community development services.

SUMMARY OF RATINGS FOR RATED AREAS

Rated Area	Lending Test	Investment Test	Service Test	Rating
NORTH DAKOTA	High Satisfactory	Low Satisfactory	High Satisfactory	Satisfactory
ARIZONA	High Satisfactory	Low Satisfactory	High Satisfactory	Satisfactory

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. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Bank 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 bank:
 - (i) Has not been reported or collected by the bank or an affiliate for consideration in the bank'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 bank's assessment area(s) or a broader statewide or regional area including the bank'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 bank'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 (for example, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (for example, 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 (for example, 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.

Micropolitan Statistical Area: CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

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.