

# **PUBLIC DISCLOSURE**

June 1, 2021

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Peoples Bank  
Certificate Number: 29523

9204 Columbia Avenue  
Munster, Indiana 46321

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

300 South Riverside Plaza, Suite 1700  
Chicago, Illinois 60606

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

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## INSTITUTION RATING

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

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

**The Lending Test is rated Satisfactory.**

- The loan-to-deposit ratio (LTD) is reasonable given the institution's size, financial condition, and assessment area credit needs.
- A majority of loans and other lending-related activities are in the institution's assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels and businesses of different sizes.
- The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

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

- The institution's community development performance demonstrates excellent responsiveness to community development needs in its assessment area through community development loans, qualified investments, and community development services, as appropriate, considering the institution's capacity and the need and availability of such opportunities for community development in the institution's assessment area.

## DESCRIPTION OF INSTITUTION

### **Background**

Peoples Bank is headquartered in Munster, Indiana (Lake County). The bank operates in northwestern Indiana and in Chicago, Illinois. The bank is wholly owned by Finward Bancorp, a one-bank holding company also located in Munster. The bank does not have any affiliates that offer credit products or services. The institution received a Satisfactory rating at its previous FDIC CRA Performance Evaluation, dated April 16, 2018, based on Intermediate Small Institution Examination Procedures.

Since the previous evaluation, Peoples Bank acquired two Chicago-area institutions. These acquisitions added six branch offices, all within Cook County, Illinois. Besides these acquired branches, Peoples Bank did not open or close any other offices during the evaluation period. The following table provides relevant information regarding the two acquired institutions.

<b>Acquired Bank Name (Headquarters Location)</b>	<b>FDIC Certificate Number</b>	<b>Acquisition Date</b>	<b>Total Assets as of Acquisition Date</b>	<b>Number of Offices as of Acquisition Date</b>
<b>First Personal Bank (Orland Park IL)</b>	35067	7/26/2018	\$143 million (6/30/2018)	3
<b>A.J. Smith Federal Savings Bank (Midlothian IL)</b>	27831	1/24/2019	\$182 million (12/31/2018)	3

Also since the previous evaluation, Peoples Bank converted its charter from a stock savings bank to a commercial bank and changed its official name from “Peoples Bank SB” to “Peoples Bank.” This change reflects the bank’s transition from a historically residential-focused lender to a more full-service commercial bank.

### **Operations**

Peoples Bank operates 22 offices. Fifteen banking locations, including the main office, are in Lake County, Indiana; one branch is in neighboring Porter County, Indiana; and the remaining six branches are in Cook County, Illinois.

Peoples Bank offers traditional loan products including home mortgage, commercial, and consumer loans, primarily focusing on home mortgage and commercial lending. The bank provides a variety of deposit services including checking, savings, money market deposit accounts, and certificates of deposit. Additionally, the bank offers trust, investment, and insurance services. Alternative banking services include mobile and internet banking, automated teller machines, and drive-up facilities. The bank maintains a website at [www.ibankpeoples.com](http://www.ibankpeoples.com).

### **Ability and Capacity**

As of March 31, 2021, bank assets totaled \$1.6 billion and included total loans of \$978.3 million, total deposits of \$1.4 billion, and total securities of \$422.5 million.

The following table details the bank’s loan portfolio distribution. The major categories of loans by dollar volume are commercial loans (including commercial/industrial loans and commercial real estate) and home mortgage loans (including 1-4 family and multifamily lending). Commercial loans and home mortgage loans represent 47.8 percent and 37.8 percent of the total loan portfolio, respectively. The bank also originates and sells a substantial number of home mortgage loans on the secondary market, and the loan portfolio does not fully reflect this activity. Nonetheless, the loan portfolio distribution is representative of the bank’s business strategy and lending focus. Examiners did not identify any financial, legal, or other impediments that affect the bank’s ability to meet assessment area credit needs.

<b>Loan Portfolio Distribution as of 3/31/2021</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction and Land Development	97,400	10.0
Secured by Farmland	315	<0.1
1-4 Family Residential	317,993	32.5
Multi-family (5 or more) Residential	51,933	5.3
Commercial Real Estate	304,851	31.2
<b>Total Real Estate Loans</b>	<b>772,492</b>	<b>79.0</b>
Commercial and Industrial	162,375	16.6
Agricultural	0	0.0
Consumer	33,988	3.5
Other	9,455	1.0
Less: Unearned Income	(0)	(0.0)
<b>Total Loans</b>	<b>978,310</b>	<b>100.0</b>
<i>Source: Reports of Condition and Income</i>		

## **DESCRIPTION OF ASSESSMENT AREA**

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance is evaluated. Peoples Bank delineated a single assessment area including three contiguous full counties: Lake and Porter counties in Indiana and Cook County, Illinois. All three counties are part of the Chicago-Naperville-Elgin, IL-IN-WI (Chicago) multistate metropolitan statistical area (MSA); therefore, examiners analyzed the bank's collective performance within this single assessment area and did not analyze performance separately by state.

This assessment area does not arbitrarily exclude any low- or moderate-income census tracts, includes all geographies where the bank's offices are located, does not reflect illegal discrimination, and otherwise meets the requirements of the CRA regulations.

### **Economic and Demographic Data**

The assessment area includes 1,470 census tracts. According to 2015 American Community Survey data, these tracts reflect the following income designations:

- 278 low-income tracts
- 411 moderate-income tracts
- 368 middle-income tracts
- 396 upper-income tracts
- 17 tracts with no income designation

Of the 689 low- and moderate-income census tracts in the assessment area, over 90 percent are located in Cook County, Illinois. In contrast, only 6 of 22 (27 percent) of the bank's offices are located in Cook County, and all of these offices are new since the previous evaluation.

The following table provides a summary of demographic, housing, and business information for the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	1,470	18.9	28.0	25.0	26.9	1.2
Population by Geography	5,894,559	13.7	28.5	28.2	29.2	0.3
Housing Units by Geography	2,453,203	13.9	26.8	27.6	31.2	0.5
Owner-Occupied Units by Geography	1,281,522	6.6	22.7	32.8	37.7	0.2
Occupied Rental Units by Geography	906,854	20.5	31.5	22.6	24.6	0.8
Vacant Units by Geography	264,827	27.2	30.4	20.1	21.7	0.5
Businesses by Geography	438,380	6.8	19.3	26.6	46.6	0.7
Farms by Geography	4,957	5.5	18.7	31.8	43.9	0.1
Family Distribution by Income Level	1,352,447	27.3	16.9	18.1	37.7	0.0
Household Distribution by Income Level	2,188,376	28.7	15.8	16.8	38.7	0.0
Median Family Income MSA - 16984 Chicago-Naperville-Evanston, IL		\$75,024	Median Housing Value			\$233,303
Median Family Income MSA - 23844 Gary, IN		\$64,075	Median Gross Rent			\$1,020
			Families Below Poverty Level			13.2%
<i>Source: 2015 ACS and 2020 D&amp;B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

The assessment area's economy was relatively stable until the onset of the COVID-19 pandemic in early 2020. Unemployment rates have stabilized since the dramatic spike at the beginning of the pandemic, but rates remain above pre-pandemic levels. As of March 2021, unemployment rates in Cook, Lake, and Porter counties were 8.4 percent, 7.6 percent, and 5.3 percent, respectively. Current unemployment rates in each of these counties remain above the respective statewide rates of 7.1 percent for Illinois and 4.7 percent for Indiana. According to Moody's Analytics, the Chicago MSA economy is recovering from the effects of the pandemic, but at a rate slightly below the national average. Manufacturing employment in particular has struggled to return to pre-pandemic levels. Despite challenges the pandemic has created, the Chicago area maintains a well-diversified economy. Major employers in the assessment area include Chicago Public Schools, Advocate Health Care System, JPMorgan Chase, and ArcelorMittal.

The assessment area economy relies heavily upon small businesses. According to 2020 D&B data, 438,380 non-farm businesses are located in the assessment area. Of these, 58.8 percent have four or fewer employees, and 90.0 percent operate from a single location. Under the Borrower Profile criterion, examiners compare the distribution of the bank's small business borrowers to the distribution of all assessment area businesses by revenue category. According to 2020 D&B data, gross annual revenues for assessment area businesses are as follows:

- 85.7 percent reported revenues of \$1 million or less.
- 5.6 percent reported revenues over \$1 million.
- 8.7 percent have unknown revenues.

Similarly, examiners analyzed the bank’s home mortgage lending performance through comparisons to the distribution of assessment area families by income category. Examiners used the FFIEC-updated median family income ranges, as detailed in the following table, to analyze home mortgage loans under the Borrower Profile criterion.

<b>Median Family Income Ranges</b>				
<b>Median Family Incomes</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
<b>Chicago-Naperville-Arlington Heights, IL (16974)</b>				
2018 (\$82,400)	<\$41,200	\$41,200 to <\$65,920	\$65,920 to <\$98,880	≥\$98,880
<b>Chicago-Naperville-Evanston, IL (16984)</b>				
2019 (\$82,000)	<\$41,000	\$41,000 to <\$65,600	\$65,600 to <\$98,400	≥\$98,400
2020 (\$84,800)	<\$42,400	\$42,400 to <\$67,840	\$67,840 to <\$101,760	≥\$101,760
<b>Gary, IN (23844)</b>				
2018 (\$69,400)	<\$34,700	\$34,700 to <\$55,520	\$55,520 to <\$83,280	≥\$83,280
<b>Gary, IN (23844)</b>				
2019 (\$72,700)	<\$36,350	\$36,350 to <\$58,160	\$58,160 to <\$87,240	≥\$87,240
2020 (\$74,600)	<\$37,300	\$37,300 to <\$59,680	\$59,680 to <\$89,520	≥\$89,520
<i>Source: FFIEC</i>				

Although analyzed as one single multistate assessment area, the assessment area includes portions of two separate metropolitan divisions: Chicago-Naperville-Evanston, Illinois, and Gary, Indiana. The FFIEC separately estimates median family income levels for each of these metropolitan divisions; therefore, for each loan analyzed under the Borrower Profile criterion, examiners used the applicable median family income level depending on where the loan was located. For example, loans in Cook County were compared to the median family income level for the Chicago-Naperville-Evanston, Illinois, metropolitan division. Additionally, metropolitan division delineations were updated and renamed during the evaluation period, which is why the previous table includes different names for the metropolitan divisions in 2018 compared to 2019 and 2020.

**Competition**

The assessment area is a highly competitive market for financial services. According to FDIC Deposit Market Share data as of June 30, 2020, 109 financial institutions operated 1,480 full-service offices within the assessment area. Peoples Bank ranked 27<sup>th</sup> in market share, holding 0.3 percent of all deposits. Furthermore, there is a high level of competition for home mortgage loans within the assessment area. In 2019, 817 lenders reported 181,580 home mortgage loans originated or purchased. Peoples Bank ranked 66<sup>th</sup> in this group of lenders with a 0.3 percent market share. The level of competition is high considering the size and population of the assessment area, the number of financial institution offices for banking services, and the number of lenders providing reportable home mortgage loans.

Additionally, the bank was not required to report small business loan data during the evaluation period, and the analysis of small business lending does not include direct comparisons to aggregate data. However, the aggregate data reflects the level of demand and competition and is therefore

included here. In 2019, 208 lenders reported 154,014 small business loans originated or purchased in the assessment area. This volume reflects a high degree of competition for this product.

### **Community Contact**

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit and community development needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit and community development opportunities are available. Examiners completed one new community contact with an economic development entity in Lake County.

The contact noted that the Lake County local economy is strengthening but has not fully recovered from the effects of the pandemic. Unemployment remains elevated at around 7 to 8 percent, with unemployment generally higher in the northern portions of the county (Gary, Hammond, East Chicago, and Lake Station). Several economic development and transportation initiatives are underway in the county. These include enhancements to the existing South Shore Line commuter railway and a proposed new north-south branch of the South Shore Line. Affordable housing remains a significant need in the county, with recent increases in housing prices making homes unaffordable for many residents, particularly low- and moderate-income families. With respect to commercial customers, loans and financial education for small businesses remain needed. Finally, the contact noted the need for bank branches and other access to banking services in low- and moderate-income areas, particularly given the trend of branch closures in recent years.

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

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that home mortgage and small business loans represent primary credit needs in the assessment area. Affordable housing in particular is a significant community development need. Given the assessment area's large number of low and moderate-income census tracts, many opportunities for revitalization exist in these areas. Finally, given that over 42 percent, or nearly 2.5 million assessment area residents, are low- or moderate-income, community services for these individuals remain a critical and enduring need.

## **SCOPE OF EVALUATION**

### **General Information**

This evaluation covers the period from the prior evaluation dated April 16, 2018, to the current evaluation dated June 1, 2021. Examiners used the Intermediate Small Institution Examination Procedures to evaluate Peoples Bank's CRA performance. These procedures include the Small Bank Lending Test and the Community Development Test. Banks must achieve at least a Satisfactory rating under each test to obtain an overall Satisfactory rating. This evaluation does not include any activities performed by affiliates.

### **Activities Reviewed**

For the Lending Test, examiners reviewed home mortgage and small business loans as these represent the bank's primary lending categories. Small farm and consumer lending are not primary focuses of the bank and therefore were not included in this evaluation. This evaluation includes

2018 to 2020 small business loans and 2018 to 2020 home mortgage loans reported under the Home Mortgage Disclosure Act (HMDA) data collection requirements. Examiners reviewed all 2018, 2019, and 2020 small business loan origination data as this information was readily available in bank records.

Under the Geographic Distribution and Borrower Profile criteria, examiners evaluated the bank’s home mortgage lending performance through comparisons to HMDA aggregate data. As of the date of this evaluation, aggregate data was available through 2019. This aggregate data represents the home mortgage lending activity of all HMDA reporters that originated loans in the assessment area. Examiners also compared the bank’s home mortgage and small business lending performance to applicable demographic data. This demographic data includes 2015 ACS data for home mortgage lending and 2018-2020 D&B business demographic data for small business lending.

The following table presents the number and dollar volume of loan products included in this evaluation. Of the two products under review, home mortgage loans carried the greatest weight as it represents the major product by number and dollar volume.

<b>Home Mortgage and Small Business Lending</b>				
<b>Year</b>	<b>HMDA #</b>	<b>HMDA \$(000s)</b>	<b>Small Business #</b>	<b>Small Business \$(000s)</b>
2018	497	95,554	279	50,309
2019	777	135,889	309	57,645
2020	1,623	358,656	982	110,735
<i>Sources: Bank Data</i>				

The loan data reviewed for this evaluation is representative of the bank’s lending activity over the entire evaluation period. The significant increase in lending in 2020 is primarily due to the surge in home mortgage refinance applications as well as the introduction of Paycheck Protection Program (PPP) loans to small businesses. These increases as well as PPP lending are discussed further in the Lending Test and Community Development Test analyses. While this evaluation presents both number and dollar volume of loans, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of individuals and businesses served.

For the Community Development Test, examiners reviewed community development loans, qualified investments, and community development services for the period from April 17, 2018, through June 1, 2021. Examiners also considered prior-period qualified investments that remained outstanding as of the current evaluation date. Bank management provided data for all qualified community development activities.

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

### **LENDING TEST**

Peoples Bank demonstrated satisfactory performance under the Lending Test. The bank demonstrated satisfactory performance under each individual Lending Test criteria.

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

The LTD ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's LTD ratio, calculated from Call Report data, averaged 77.7 percent over the past 13 calendar quarters from March 31, 2018, to March 31, 2021. The ratio ranged from a high of 81.9 percent on December 31, 2018, to a low of 70.6 percent on March 31, 2021.

Examiners compared Peoples Bank's average net LTD ratio to four similarly situated banks (SSBs). These SSBs include institutions that operate in the assessment area, maintain the same lending focuses, and have similar asset sizes. The SSBs' average net LTD ratios ranged from 42.7 percent to 92.9 percent, as shown in the following table. Peoples Bank's LTD ratio is largely in line with the three SSBs with the higher net LTD ratios; the LTD ratio for SSB #2 significant trails Peoples Bank as well as the peer banks and was rated less-than-reasonable at its most recent performance evaluation. Finally, it is worth noting that the SSBs experienced a similar decline in average LTD ratios over the evaluation period, which is partially attributable to the influx of bank deposits during the COVID-19 pandemic.

<b>Loan-to-Deposit Ratio Comparison</b>		
<b>Bank</b>	<b>Total Assets as of 3/31/2021 (\$000s)</b>	<b>Average Net LTD Ratio (%)</b>
<b>Peoples Bank</b>	<b>1,555,590</b>	<b>77.7</b>
Similarly-Situated Bank #1	1,745,008	92.9
Similarly-Situated Bank #2	1,490,708	42.7
Similarly-Situated Bank #3	1,915,315	84.4
Similarly-Situated Bank #4	1,352,691	85.6

*Source: Reports of Condition and Income 3/30/2018 through 3/31/2021*

### **Assessment Area Concentration**

A majority of loans and other lending-related activities are within the assessment area. For both products reviewed, a majority by both number and dollar volume were inside the assessment area. The following table provides details on lending inside and outside of the assessment area.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2018	432	86.9	65	13.1	497	81,804	85.6	13,750	14.4	95,554
2019	479	61.6	298	38.4	777	105,717	77.8	30,172	22.2	135,889
2020	1,170	72.1	453	27.9	1,623	292,055	81.4	66,601	18.6	358,656
<b>Subtotal</b>	<b>2,081</b>	<b>71.8</b>	<b>816</b>	<b>28.2</b>	<b>2,897</b>	<b>479,576</b>	<b>81.3</b>	<b>110,523</b>	<b>18.7</b>	<b>590,099</b>
Small Business										
2018	242	86.7	37	13.3	279	41,959	83.4	8,350	16.6	50,309
2019	277	89.6	32	10.4	309	48,118	83.5	9,527	16.5	57,645
2020	892	90.8	90	9.2	982	96,998	87.6	13,737	12.4	110,735
<b>Subtotal</b>	<b>1,411</b>	<b>89.9</b>	<b>159</b>	<b>10.1</b>	<b>1,570</b>	<b>187,075</b>	<b>85.5</b>	<b>31,614</b>	<b>14.5</b>	<b>218,689</b>
<b>Total</b>	<b>3,492</b>	<b>78.2</b>	<b>975</b>	<b>21.8</b>	<b>4,467</b>	<b>666,651</b>	<b>82.4</b>	<b>142,137</b>	<b>17.6</b>	<b>808,788</b>
<i>Source: Bank Data            Due to rounding, totals may not equal 100.0%</i>										

### **Geographic Distribution**

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. As detailed in the following sections, the bank’s home mortgage lending performance was reasonable, but small business lending performance was poor. Given that home mortgage lending carried greater weight in this evaluation, the bank’s overall performance under this criterion was reasonable.

The acquisition of two banks and the resulting addition of Cook County to the assessment area since the previous evaluation significantly impacted the bank’s performance under this criterion given the large number of low- and moderate-income tracts in that county. Further, the six new branches acquired are a substantial distance from the majority of low- and moderate-income census tracts within Cook County. In analyzing the bank’s performance, examiners considered the bank’s recent entrance into this market, the location of the bank’s branches in relation to low- and moderate-income tracts, and the significant level of competition for financial services throughout Cook County.

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

The geographic distribution of home mortgage loans is reasonable. As shown in the following table, lending in both low- and moderate-income income census tracts was below the aggregate level in 2018 and 2019. Lending in low- and moderate-income tracts was also below the owner-occupied housing levels for all years reviewed. In 2020, the bank’s lending overall increased substantially, in part due to the nationwide surge in refinances. An increase was noted in loans to borrowers in moderate-income tracts; however, the vast majority of loans remained extended to borrowers in middle- and upper-income census tracts.

As noted previously, Cook County is a recent addition to the bank's assessment area, and a significant number of low- and moderate-income census tracts within the assessment area are located within Cook County. It is also worth noting that of the bank's total home mortgage lending in the table, a substantial majority in all three years was in Lake County, Indiana, where the bank's operations are concentrated. Specifically, in Lake County, the bank originated 346 home mortgage loans (80.1 percent) in 2018, 363 loans (75.8 percent) in 2019, and 852 loans (72.8 percent) in 2020.

When analyzing home mortgage lending in Lake County alone, the bank's performance exceeded aggregate levels in both low- and moderate-income tracts in 2018 and 2019. For example, 3.2 percent of the bank's 2018 lending in Lake County was in low-income tracts, compared to an aggregate level of 1.2 percent. Similarly, the bank's 2018 lending in moderate-income tracts was 16.2 percent, compared to an aggregate level of 10.4 percent. In 2019, the bank's lending exceeded aggregate levels by 0.4 percent in low-income tracts and 1.1 percent in moderate-income tracts. Although Lake County contains a smaller number of low- and moderate-income tracts than Cook County, Gary and other communities in northern Lake County represent one of the most distressed areas in Indiana. As such, the bank's strong record of home mortgage lending throughout these low- and moderate-income areas, combined with its recent entrance into the Cook County market, distance from Cook County low- and moderate-income tracts, and competition faced to lend to borrowers in these tracts, supports reasonable performance under this criterion.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2018	6.6	5.3	14	3.2	1,714	2.1
2019	6.6	4.9	9	1.9	1,130	1.1
2020	6.6	--	14	1.2	2,204	0.8
Moderate						
2018	22.7	19.4	68	15.7	10,191	12.5
2019	22.7	18.0	53	11.1	6,822	6.5
2020	22.7	--	85	7.3	12,648	4.3
Middle						
2018	33.1	32.4	142	32.9	19,112	23.4
2019	32.8	31.1	141	29.4	23,941	22.6
2020	32.8	--	358	30.6	68,598	23.5
Upper						
2018	37.4	42.8	208	48.1	50,787	62.1
2019	37.7	45.7	276	57.6	73,824	69.8
2020	37.7	--	713	60.9	208,605	71.4
Not Available						
2018	0.2	0.2	0	0.0	0	0.0
2019	0.2	0.2	0	0.0	0	0.0
2020	0.2	--	0	0.0	0	0.0
<b>Totals</b>						
<b>2018</b>	<b>100.0</b>	<b>100.0</b>	<b>432</b>	<b>100.0</b>	<b>81,804</b>	<b>100.0</b>
<b>2019</b>	<b>100.0</b>	<b>100.0</b>	<b>479</b>	<b>100.0</b>	<b>105,717</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>--</b>	<b>1,170</b>	<b>100.0</b>	<b>292,055</b>	<b>100.0</b>
<i>Source: 2015 ACS; Bank Data, 2018 &amp; 2019 HMDA Aggregate Data, "--" data not available.            Due to rounding, totals may not equal 100.0%</i>						

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

The geographic distribution of small business loans is poor. As shown in the following table, the bank's small business lending by number was below demographic data in both low- and moderate-income tracts in 2018, 2019, and 2020. Lending by dollar volume in low-income tracts was somewhat stronger, slightly exceeding demographic data in 2018 and 2020. However, small business lending in moderate-income tracts was significantly weaker. The bank's performance by number of loans in moderate-income tracts was roughly half or less of the demographic data in each of the three years, and lending by dollar volume was even lower for all three years.

Unlike home mortgage lending, analyzing the bank's performance in Lake County alone did not reflect stronger performance. Similar to home mortgage lending, the bank originated a majority of

its total small business loans in Lake County for all three years: 160 loans (66.1 percent) in 2018, 200 loans (72.2 percent) in 2019, and 607 loans (68.0 percent) in 2020. However, lending performance in Lake County was below demographic data in low- and moderate-income tracts in all three years, with moderate-income tract performance roughly one-third to one-half of the demographic data in each year. Furthermore, although the bank did not report CRA small business data during the evaluation period and this evaluation therefore does not present aggregate small business data, the aggregate data is reflective of demand for small business loans. As with the demographic data, the bank’s performance consistently lagged aggregate lending levels, particularly in moderate-income tracts. As such, this analysis further supports poor performance under this criterion.

<b>Geographic Distribution of Small Business Loans</b>					
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>Low</b>					
2018	6.8	12	5.0	3,538	8.4
2019	6.8	8	2.9	1,044	2.2
2020	6.8	43	4.8	6,759	7.0
<b>Moderate</b>					
2018	19.4	21	8.7	3,360	8.0
2019	19.3	18	6.5	2,016	4.2
2020	19.3	86	9.6	7,185	7.4
<b>Middle</b>					
2018	27.8	77	31.8	17,829	42.5
2019	27.0	126	45.5	20,588	42.8
2020	26.6	361	40.5	41,743	43.0
<b>Upper</b>					
2018	45.2	132	54.5	17,232	41.1
2019	46.3	125	45.1	24,470	50.9
2020	46.6	402	45.1	41,311	42.6
<b>Not Available</b>					
2018	0.8	0	0.0	0	0.0
2019	0.7	0	0.0	0	0.0
2020	0.7	0	0.0	0	0.0
<b>Totals</b>					
<b>2018</b>	<b>100.0</b>	<b>242</b>	<b>100.0</b>	<b>41,959</b>	<b>100.0</b>
<b>2019</b>	<b>100.0</b>	<b>277</b>	<b>100.0</b>	<b>48,118</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>892</b>	<b>100.0</b>	<b>96,998</b>	<b>100.0</b>
<i>Source: 2018, 2019 &amp; 2020 D&amp;B Data; Bank Data. Due to rounding, totals may not equal 100.0%</i>					

### **Borrower Profile**

The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels and businesses of different sizes. Both home mortgage and small business lending performance was reasonable under this criterion.

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

The distribution of home mortgage borrowers is reasonable. As shown in the following table, in 2018 and 2019, the bank's lending to both low- and moderate-income borrowers exceeded aggregate data. Lending to moderate-income borrowers was particularly strong, with the bank's lending also exceeding the percentage of assessment area residents in this income category by several percentage points. In contrast, lending to low-income borrowers was below the comparable demographic data; however, 13.2 percent of assessment area families reported income below the poverty line, and as such, many low-income individuals do not have the financial capacity to support a home mortgage. Therefore, comparisons to aggregate data provide a more meaningful representation of the bank's performance in lending to low-income borrowers and support reasonable performance under this criterion.

<b>Distribution of Home Mortgage Loans by Borrower Income Level</b>						
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>Low</b>						
2018	27.3	7.0	33	7.6	2,268	2.8
2019	27.3	5.3	30	6.3	2,624	2.5
2020	27.3	--	67	5.7	6,885	2.4
<b>Moderate</b>						
2018	16.9	17.0	91	21.1	11,985	14.7
2019	16.9	15.8	96	20.0	11,623	11.0
2020	16.9	--	184	15.7	25,537	8.7
<b>Middle</b>						
2018	18.1	20.7	99	22.9	14,485	17.7
2019	18.1	20.7	93	19.4	16,145	15.3
2020	18.1	--	273	23.3	50,197	17.2
<b>Upper</b>						
2018	37.7	37.7	166	38.4	44,405	54.3
2019	37.7	41.9	227	47.4	67,663	64.0
2020	37.7	--	587	50.2	178,954	61.3
<b>Not Available</b>						
2018	0.0	17.7	43	10.0	8,661	10.6
2019	0.0	16.4	33	6.9	7,662	7.2
2020	0.0	--	59	5.0	30,482	10.4
<b>Totals</b>						
<b>2018</b>	<b>100.0</b>	<b>100.0</b>	<b>432</b>	<b>100.0</b>	<b>81,804</b>	<b>100.0</b>
<b>2019</b>	<b>100.0</b>	<b>100.0</b>	<b>479</b>	<b>100.0</b>	<b>105,717</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>--</b>	<b>1,170</b>	<b>100.0</b>	<b>292,055</b>	<b>100.0</b>
<i>Source: 2015 ACS; Bank Data, 2018 &amp; 2019 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

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

The small business loan distribution by gross annual revenue category is reasonable. As shown in the following table, the bank's lending to businesses with revenues of \$1 million or less was below the comparable demographic data in all three years. However, the business population represents only the businesses in that revenue range and not necessarily actual demand. Given that smaller businesses tend to seek alternative forms of financing, such as home equity lines of credit or credit cards, it is reasonable that the bank's performance lags the demographic data.

The COVID-19 pandemic significantly affected the bank's 2020 lending distribution. In early 2020, Congress created the PPP to assist businesses struggling during the pandemic. Many of the bank's 2020 originations were PPP loans, and the bank did not collect revenue information from

these borrowers. This resulted in a large number of 2020 loans classified as “revenue not available.” Excluding PPP loans, the percentage of loans to entities in the \$1 million or less revenue range is 48.6 percent, which is similar to the percentages in 2018 and 2019.

To analyze the bank’s performance further, examiners also compared the bank’s performance to that of four SSBs that operate in the assessment area; three of these SSBs are the same as those used for the net LTD ratio comparisons while the fourth is a different SSB with a more recent performance evaluation to ensure meaningful and valid comparisons. The bank’s level of lending to businesses with revenues of \$1 million or less exceeded three of the four SSBs reviewed, which supports reasonable performance. For the \$1 million or less revenue range, the results for the SSBs were as follows:

- **SSB 1** – 53.2 percent of 2019 lending assessed as reasonable (compared to 83.8 percent business population)
- **SSB 2** – 18.3 percent of 2018 lending assessed as poor (compared to 81.1 percent business population)
- **SSB 3** – 77.0 percent of 2018 lending assessed as excellent (compared to 88.3 percent business population)
- **SSB 4** – 32.4 percent of 2018 lending assessed as reasonable (compared to 91.8 percent business population).

Finally, CRA aggregate data showed 43.1 percent of loans in 2018 and 48.5 percent of loans in 2019 were to entities with revenues of \$1 million or less, which is similar to the bank’s performance. This analysis further supports reasonable performance under this criterion.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
≤\$1,000,000					
2018	81.2	135	55.8	22,454	53.5
2019	84.2	142	51.3	28,137	58.5
2020	85.7	94	10.5	21,013	21.7
>\$1,000,000					
2018	7.8	91	37.6	16,320	38.9
2019	6.3	127	45.8	18,991	39.5
2020	5.6	89	10.0	14,869	15.3
Revenue Not Available					
2018	11.0	16	6.6	3,185	7.6
2019	9.4	8	2.9	990	2.1
2020	8.7	709	79.5	61,116	63.0
<b>Totals</b>					
<b>2018</b>	<b>100.0</b>	<b>242</b>	<b>100.0</b>	<b>41,959</b>	<b>100.0</b>
<b>2019</b>	<b>100.0</b>	<b>277</b>	<b>100.0</b>	<b>48,118</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>892</b>	<b>100.0</b>	<b>96,998</b>	<b>100.0</b>
<i>Source: 2018, 2019 &amp; 2020 D&amp;B Data; Bank Data. Due to rounding, totals may not equal 100.0%</i>					

### **Response to Complaints**

The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

### **COMMUNITY DEVELOPMENT TEST**

Peoples Bank’s Community Development Test performance demonstrates excellent responsiveness to community development needs in its assessment area through community development loans, qualified investments, and community development services, as appropriate, considering the institution’s capacity and the need and availability of such opportunities for community development in the assessment area. While examiners identified strengths in all three categories of community development activities (loans, investments, and services), the bank’s community development service performance is particularly strong, demonstrating innovative and direct responsiveness to community needs, and primarily supports excellent performance under this test.

### **Community Development Lending**

Peoples Bank originated 31 community development loans totaling \$34.6 million during the evaluation period. In addition to PPP loans included as small business loans under the Lending Test, Peoples Bank originated 7 community development PPP loans in 2020 and 2021 totaling \$15.7 million. These loans include one \$4.5 million loan to a community development service organization and six loans that helped revitalize and stabilize low- and moderate-income tracts in

the assessment area. Examiners identified community services and revitalization/stabilization as significant community development needs in the assessment area. These seven loans are included in the community development loan totals in the following table. The bank’s performance represents an increase by number and dollar volume since the previous evaluation period, during which Peoples Bank made 22 community development loans totaling \$5.5 million.

Excluding the PPP loans, the bank originated 24 community development loans totaling \$18.9 million, representing 1.2 percent of total assets and 2.0 percent of net loans. These non-PPP loans supported affordable housing initiatives and services for low- and moderate-income persons in the assessment area, which examiners identified as significant local needs. Examiners compared Peoples Bank’s performance with five SSBs that operate in the Chicago MSA, three of which operate in Peoples Bank’s assessment area; while some of the SSBs are the same as those previously referenced, additional SSBs were included to ensure the most meaningful comparisons. The ratios of community development loans to total assets for the SSBs ranged from a low of 0.5 percent to a high of 5.7 percent. Peoples Bank’s ratio of 1.2 percent was greater than two of the SSBs, comparable to one SSB, and lower than two of the SSBs. The SSBs’ ratios of community development loans to net loans ranged from a low of 0.9 percent to a high of 7.8 percent. Peoples Bank’s ratio of 2.0 percent was greater than two SSBs, comparable to one SSB, and lower than two SSBs.

As shown in the following table, community development loans facilitated affordable housing, community services, and revitalization/stabilization efforts in low- and moderate-income areas. These loans demonstrate the bank’s responsiveness to local community development needs, including those needs identified by the community contact.

<b>Community Development Lending</b>										
<b>Activity Year</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
2018	2	559	3	8,222	0	0	0	0	5	8,781
2019	5	1,119	3	3,405	0	0	0	0	8	4,524
2020	10	3,580	2	6,496	0	0	3	6,378	15	16,454
YTD 2021	0	0	0	0	0	0	3	4,855	3	4,855
<b>Total</b>	<b>17</b>	<b>5,258</b>	<b>8</b>	<b>18,123</b>	<b>0</b>	<b>0</b>	<b>6</b>	<b>11,233</b>	<b>31</b>	<b>34,614</b>

*Source: Bank Data*

The following are examples of the bank’s community development loans during the evaluation period:

- A \$4.4 million loan was used to construct and provide permanent financing for a 50,000 square foot Federally Qualified Health Center, which provides healthcare to uninsured and underinsured individuals in the assessment area.
- A \$585,000 loan was used to refinance and make improvements to a 6-unit affordable-housing apartment complex in a low-income area in the assessment area.

- A \$425,000 loan was used to provide financing for affordable housing units located in low- and moderate-income areas in the assessment area. The bank originated an additional \$160,000 line of credit to be used for renovations to these properties.
- A \$450,000 loan was made to a local community service organization that provides essential services to youths of low- and moderate-income families residing in the assessment area.

### **Qualified Investments**

Peoples Bank’s qualified investments, grants, and donations during this evaluation period totaled \$15.7 million, all of which were located within the assessment area. This figure includes 9 prior period investments with total outstanding balances of \$7.6 million. The prior period investments support affordable housing, community services, and revitalization efforts in the assessment area. Three of the previous investments were located in Cook County, Illinois, and did not receive credit at the previous evaluation as they were outside the assessment area at that time. Expanding into Cook County provided the bank with greater opportunities to serve low- and moderate-income individuals. The bank also made 7 new investments totaling \$7.5 million and 274 qualified grants and donations totaling \$589,000. The qualified investments and donations promoted affordable housing, economic development, and community services for low- and moderate-income individuals.

The dollar amount of qualified investments represents 1.0 percent of the bank’s total assets and 3.7 percent of the bank’s total securities as of March 31, 2021. Examiners compared the bank’s investment activity to that of five SSBs. The SSBs had total qualified investments-to-total asset ratios ranging from a low of 0.2 percent to a high of 1.4 percent. People’s Bank’s ratio of 1.0 percent was greater than two SSBs, comparable to two SSBs, and lower than one SSB. The SSBs had ratios of qualified investments to total securities ranging from a low of 1.1 percent to a high of 6.7 percent. Peoples Bank’s ratio of 3.7 percent exceeded the ratios of four SSBs and was lower than the ratio of one SSB.

The bank’s investments and donations are illustrated in the following table.

<b>Qualified Investments</b>										
<b>Activity Year</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Prior Period	4	1,250	4	2,917	0	0	1	3,445	9	7,612
2018	0	0	0	0	0	0	0	0	0	0
2019	0	0	0	0	2	2,276	0	0	2	2,276
2020	0	0	4	3,860	0	0	0	0	4	3,860
2021 YTD	0	0	1	1,400	0	0	0	0	1	1,400
<b>Subtotal</b>	<b>4</b>	<b>1,250</b>	<b>9</b>	<b>8,177</b>	<b>2</b>	<b>2,276</b>	<b>1</b>	<b>3,445</b>	<b>16</b>	<b>15,148</b>
Qualified Grants & Donations	7	14	213	518	54	57	0	0	274	589
<b>Total</b>	<b>11</b>	<b>1,264</b>	<b>222</b>	<b>8,695</b>	<b>56</b>	<b>2,333</b>	<b>1</b>	<b>3,445</b>	<b>290</b>	<b>15,737</b>

*Source: Bank Data*

The following are examples of investments in the bank’s assessment area:

- A new \$2.0 million bond funded several school building projects in a school district where a majority of students qualify for free or reduced-price meals.
- The bank provided \$3.2 million in new funding for a major Illinois employer to acquire and improve a large facility in Gary, Indiana. The project qualifies for New Market Tax Credits as the area is designated as low-income.
- A prior period investment (\$3.4 million outstanding balance) financed a new municipal public works building in a low- and moderate-income area. The city is in a redevelopment district and the building is part of the redevelopment plan approved by the city government. Project plans also include infrastructure improvements to make the area better suited for future economic development.

**Community Development Services**

During the evaluation period, bank staff provided 426 community development services within the assessment area. This level exceeded the 273 services provided at the previous evaluation. Among the three categories of community development activities, the bank’s record of community development services most clearly demonstrates the bank’s excellent performance in serving the needs of its assessment area. Most of the bank’s community development services supported the provision of various community services to low- and moderate-income individuals.

Examiners compared the bank’s level of services to SSBs and found that Peoples Bank far exceeded the performance of each of the SSBs. Peoples Bank provided an average of 135 services per year, while the second-highest SSB provided approximately 36 services per year. Although services are more difficult to quantify than loans and investments, the qualitative strength and responsiveness of Peoples Bank’s services, combined with its community development loans and qualified investments throughout the review period, support excellent Community Development Test performance overall. The following table details the bank’s community development services by year and community development category.

<b>Community Development Services</b>					
<b>Activity Year</b>	<b>Affordable Housing</b>	<b>Community Services</b>	<b>Economic Development</b>	<b>Revitalize or Stabilize</b>	<b>Totals</b>
	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>
2018	14	63	20	0	<b>97</b>
2019	20	106	36	0	<b>162</b>
2020	15	57	13	0	<b>85</b>
YTD 2021	0	45	37	0	<b>82</b>
<b>Total</b>	<b>49</b>	<b>271</b>	<b>106</b>	<b>0</b>	<b>426</b>
<i>Source: Bank Data</i>					

Examples of the bank's community development services reflected in the previous table include the following:

- Numerous employees provided financial literacy training through various organizations that primarily serve low- and moderate-income individuals. These organizations include low- and moderate-income housing residents and senior citizen groups as well as schools in which a majority of students qualifies for free or reduced-price meals.
- Bank personnel provide services to the Volunteer Income Tax Assistance program, which offers free tax help to low- and moderate-income individuals requiring assistance in the preparation of tax returns. Bank personnel provide direct assistance to low- and moderate-income persons through the free tax preparation sessions. Bank employees also provide general financial literacy information to low- and moderate-income individuals attending the events.
- Several employees provide technical expertise to the ECIER Foundation, a non-profit organization that provides services and facilitates scholarships to students from low- and moderate-income families.

In addition to the examples previously mentioned, the bank also provided the following services. While these services are not quantified in the previous table, they are innovative, directly responsive to community needs, and provide strong qualitative support for the overall Outstanding Community Development Test rating.

- The bank offers Individual Development Accounts (IDAs). These accounts provide low- and moderate-income customers the opportunity to receive matching funds in the account and save for a down payment on a home. Peoples Bank opened 32 IDAs during the evaluation period.
- Peoples Bank participates in the Bank On Northwest Indiana program. The Bank On program is a local effort comprised of governmental agencies, financial institutions, and community organizations to strengthen the financial future of unbanked and underbanked persons. The Bank On Program strives to reach low- and moderate-income persons and create an improved financial future. Since the last evaluation, 272 accounts were opened through this program.
- Peoples Bank offers loan programs that assist low- and moderate-income borrowers in the assessment area. Participation in down payment assistance programs for East Chicago, Hammond, Gary, Lake County, and the Federal Home Loan Bank of Indianapolis assisted 52 low- and moderate-income homebuyers and provided approximately \$325,000 in grants. The bank facilitated a \$450,000 grant through the Federal Home Loan Bank of Indianapolis' Affordable Housing Program. The grant was used to construct a new 28-unit apartment, affordable-housing complex in a low-income area. The bank assisted nine borrowers obtain funds through the Hardest Hit Program, with grants totaling nearly \$38,000.
- The bank offers self-developed loan programs to assist low- and moderate-income

borrowers, with origination volumes as follows: Credit Builder Loans – 28 loans totaling \$51,000; and First Step Mortgage Loans – 51 loans totaling \$4.8 million. The Credit Builder Loan program allows borrowers to repay a loan to rebuild credit, and the funds are maintained in a deposit account that belongs to the borrower. The First Step Mortgage offers a 30-year fixed-rate, as little as 3 percent down, reduced fees, and no mortgage insurance. The community contact noted that homes are increasingly unaffordable for many low- and moderate-income individuals, and this bank program provides direct assistance to these individuals.

Finally, Peoples Bank maintains office locations in low- and moderate-income census tracts. Two of the bank's offices are located in low-income census tracts and one office is located in a moderate-income census tract. All three of these offices are located in northern Lake County. The community contact noted that access to banking services is a significant need in low- and moderate-income portions of Lake County, and these branches represent the bank's performance in meeting that need, providing access to banking services for both individuals and business owners.

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

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

## APPENDICES

### INTERMEDIATE SMALL BANK PERFORMANCE CRITERIA

#### **Lending Test**

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

#### **Community Development Test**

The Community Development Test considers the following criteria:

- 1) The number and amount of community development loans;
- 2) The number and amount of qualified investments;
- 3) The extent to which the bank provides community development services; and
- 4) The bank's responsiveness through such activities to community development lending, investment, and service needs.

## GLOSSARY

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**American Community Survey (ACS):** A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

**Area Median Income:** The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

**Assessment Area:** A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

**Census Tract:** A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

**Combined Statistical Area (CSA):** A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

**Community Development:** For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms; or
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

**Community Development Corporation (CDC):** A CDC allows banks and holding companies to make equity type of investments in community development projects. Institution CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Institution CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

**Community Development Financial Institutions (CDFIs):** CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

**Community Development Loan:** A loan that:

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose institution:
  - (i) Has not been reported or collected by the institution or an affiliate for consideration in the institution's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
  - (ii) Benefits the institution's assessment area(s) or a broader statewide or regional area including the institution's assessment area(s).

**Community Development Service:** A service that:

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the institution's retail banking services under § 345.24(d).

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Core Based Statistical Area (CBSA):** The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

**Distressed Middle-Income Nonmetropolitan Geographies:** A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

**FFIEC-Estimated Income Data:** The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

**Full-Scope Review:** A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g. geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g. innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

**Home Mortgage Loans:** Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

**Limited-Scope Review:** A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area.

Performance under applicable tests is often analyzed using only quantitative factors (e.g, geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

**Low Income Housing Tax Credit:** The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

**Metropolitan Division (MD):** A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area (MSA):** CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

**Multi-family:** Refers to a residential structure that contains five or more units.

**Nonmetropolitan Area** (also known as **non-MSA**): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

**Rural Area:** Territories, populations, and housing units that are not classified as urban.

**Small Business Investment Company (SBIC):** SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

**Small Business Loan:** A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

**Underserved Middle-Income Nonmetropolitan Geographies:** A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

**Upper-Income:** Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

**Urban Area:** All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

"Urban" excludes the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.