

# **PUBLIC DISCLOSURE**

September 16, 2019

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Grand Marais State Bank  
RSSD #945950

211 East Highway 61  
Grand Marais, MN 55604

Federal Reserve Bank of Minneapolis  
90 Hennepin Avenue, P.O. Box 291  
Minneapolis, MN 55480-0291

**NOTE:** This document is an evaluation of this bank'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 bank. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this bank. The rating assigned to this bank does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial bank.

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## INSTITUTION'S CRA RATING

Grand Marais State Bank (the bank) is rated Satisfactory. This rating is based on the following conclusions with respect to the performance criteria:

- The bank's net loan-to-deposit ratio (NLTD) is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- A substantial majority of the bank's loans are originated inside the AA.
- A reasonable dispersion of loans occurs throughout the bank's AA.
- Overall, lending reflects excellent penetration among individuals of different income levels, including low- and moderate-income (LMI), and businesses of different sizes.
- Neither the bank nor this Reserve Bank received any CRA-related complaints since the previous evaluation.

## SCOPE OF EXAMINATION

The Federal Financial Institutions Examination Council's (FFIEC) Interagency Examination Procedures for Small Institutions were used to evaluate the bank's CRA performance. The evaluation considered the CRA performance context, including the bank's asset size, financial condition, business strategy, and market competition, as well as AA demographic and economic characteristics and credit needs. Lending performance was assessed within the bank's AA. The following data was reviewed:

- The bank's 16-quarter average NLTD ratio.
- Statistical samples of 63 small business loans and 62 consumer loans originated between July 1, 2018, and December 31, 2018, and 79 residential real estate (RRE) loans originated between January 1, 2015, and December 31, 2018. Examiners weighted small business and consumer loans equally and greater than RRE loans, based on lending activity that the bank provided and given the bank's commercial lending focus. While RRE loans represent the largest percentage of the bank's portfolio by a slight margin, as shown in Table 1, the bank's small business and consumer loans represent a large majority of the bank's loan originations by number.<sup>1</sup>

Of the five core criteria, examiners placed the greatest weight on borrower distribution, followed by the NLTD and lending inside the AA, which were weighted equally. The geographic distribution of loans received the least weight.

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<sup>1</sup> Based on 2018 lending data that the bank provided, 87.6% of the bank's loan originations by number were consumer and small business loans.

## DESCRIPTION OF INSTITUTION

Grand Marais State Bank is a community bank headquartered in Grand Marais, Minnesota. The bank's characteristics include the following:

- The bank is a wholly owned subsidiary of VH Bancorporation, Inc.
- Central Bank and Trust (Lander, Wyoming) and CenBank (Buffalo Lake, Minnesota) are affiliated banks through common bank holding company ownership.<sup>2</sup>
- The bank has total assets of \$89.7 million as of June 30, 2019.
- In addition to its main office in Grand Marais, the bank has a branch located in Tofte, Minnesota.
- The bank operates cash-dispensing ATMs at both offices and two additional cash-dispensing ATMs at local businesses.
- The bank's primary business focus is commercial lending, but bank management considers RRE lending to be a key business line. The bank actively originates consumer loans as well, based on lending activity data that the bank provided.

<b>Table 1</b>		
<b>Composition of Loan Portfolio as of June 30, 2019</b>		
<b>Loan Type</b>	<b>\$(000)</b>	<b>%</b>
Residential Real Estate	26,437	47.7
Commercial	25,076	45.3
Agricultural	2,221	4.0
Consumer	1,672	3.0
Gross Loans	55,406	100.0
Note: Percentages may not total 100.0 due to rounding.		

The bank was rated Satisfactory under the CRA at its July 27, 2015, performance evaluation. There are no known legal, financial, or other factors impeding the bank's ability to help meet the credit needs in its communities.

## DESCRIPTION OF ASSESSMENT AREA

The bank's AA consists of most of Cook County (see Appendix A for an AA map).<sup>3</sup> The AA includes the Grand Portage Indian Reservation, which is located in the northeastern portion of the county.

- The AA consists of two middle-income census tracts. Both tracts were designated as underserved during the evaluation period.

<sup>2</sup> Central Trust Company owns the affiliated banks and VH Bancorporation, Inc.

<sup>3</sup> Cook County includes three census tracts, one of which is unknown income tract 9900.00, which covers a small portion of Lake Superior. The bank's AA does not include this tract.

- According to the June 30, 2019, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, the bank ranked first out of two FDIC-insured institutions with offices in Cook County, with 83.9% of deposits in the county.
- Examiners conducted two community contact interviews during the evaluation. One contact was a representative from an organization that promotes economic development in the area. The second contact was a local government official familiar with the economic and demographic characteristics of the area.

Table 2 Population Change			
Area	2010 Population	2015 Population	% Change
Cook County, MN	5,176	5,194	0.3
State of Minnesota	5,303,925	5,419,171	2.2
Source: 2010 U.S. Census Bureau Decennial Census 2011–2015 U.S. Census Bureau: American Community Survey			

- The population of Cook County has remained stable since the 2010 census, and its modest growth is below that of the state of Minnesota.
- Bank management and community contacts described the population as aging. Younger individuals and families are moving away due to the high cost of housing, while wealthier retirement-age individuals are moving into the area.
- In Cook County, 5.4% of the population is 18 to 24 years old and 23.6% of the population is at least 65 years old. By comparison, in the state of Minnesota, 9.3% of the population is 18 to 24 years old and 13.9% of the population is at least 65 years old.

Table 3 Median Family Income Change			
Area	2010 Median Family Income	2015 Median Family Income	% Change
Cook County	\$56,146	\$64,120	14.2
State of Minnesota	\$71,307	\$77,055	8.1
Source: 2006–2010 U.S. Census Bureau: American Community Survey 2011–2015 U.S. Census Bureau: American Community Survey			

- The median family income increased significantly from 2010 but remains lower than the state figure.

Table 4 Housing Costs Change						
Area	Median Housing Value		% Change	Median Gross Rent		% Change
	2010	2015		2010	2015	
Cook County	\$247,100	\$242,400	(1.9)	\$582	\$655	12.5
State of Minnesota	\$206,200	\$186,200	(9.7)	\$759	\$848	11.7
Source: 2006–2010 U.S. Census Bureau: American Community Survey 2011–2015 U.S. Census Bureau: American Community Survey						

- Median housing values have decreased slightly in Cook County, but the median housing value greatly exceeds the state median housing value. The median housing value for the state decreased at a much higher rate than in Cook County.
- The cost of housing is not affordable for most LMI families in the area. A community contact and bank management mentioned that the cost of housing has increased over the last several years. Wealthier retirement-age individuals moving to the area are building expensive single-family homes or significantly renovating existing homes as permanent or seasonal dwellings. In Cook County, 77.8% of homes have a value of \$150,000 or more, based on 2018 FFIEC adjusted census data. Additionally, 53.2% of homes are classified as vacant because they are likely seasonal homes.
- Gross rent has increased at a rate comparable to the increase in the state median gross rent but is still lower than the state median.
- Community contacts and bank management indicated that workforce housing is a major need for this area.
- Community contacts and bank management mentioned a shortage of available rental units. One local developer renovated a dilapidated building and a smaller abandoned resort into apartments in order to provide additional workforce housing. Additionally, larger resorts often provide workforce housing as part of compensation packages as a way to attract and retain staff.

<b>Table 5</b>				
<b>Unemployment Rates</b>				
<b>Area</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Cook County	4.4	4.6	3.8	3.5
State of Minnesota	3.7	3.9	3.4	2.9
Source: Bureau of Labor Statistics: Local Area Unemployment Statistics				

- The unemployment rate for Cook County has shown a generally declining trend, as has the rate for the state of Minnesota. Tourism is a major industry in the area. A community contact and bank management mentioned that the area's tourism is now considered to be year-round instead of seasonal, which is attributed to a local organization's marketing campaigns to bring visitors in year round. The main issue facing employers is attracting and retaining staff due to a shortage of workforce housing. Generally, wages for tourism-related jobs vary from \$12 to \$15 per hour, and the jobs do not include traditional benefit packages. Some larger resort owners offer reduced or free workforce housing and meals, and provide transportation services to attract and retain staff. A few businesses recruit internationally to fill positions.
- Other major employers include the local government, tribal government and casino, federal government, local hospital, local school district, and a logging company. One community contact mentioned the need to recruit outside of the area for skilled-labor positions.
- Overall, local economic conditions have been good and the economy has been growing in recent years.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Net Loan-to-Deposit Ratio

This performance criterion evaluates the bank's average NLTD ratio to determine the reasonableness of lending in light of the bank's performance context (such as its capacity to lend, the availability of lending opportunities, and the demographic and economic factors present in the AA). No similarly situated FDIC-insured institutions operate in the bank's AA for comparison purposes. The bank's NLTD ratio is reasonable.

The bank's average NLTD ratio for the past 16 quarters is 60.4%. At the previous evaluation, the bank's 17-quarter average NLTD ratio was 61.6%. Since then, the bank's quarterly NLTD ratio has ranged from 54.3% to 68.7% and has shown an increasing trend. Bank management noted that loan demand has been good in recent years. The bank's NLTD reflects some seasonal fluctuations because of the tourism industry.

As of June 30, 2019, the bank's NLTD ratio was 66.4%, which is below the peer group NLTD ratio of 70.3%. The bank's peer group includes insured commercial banks not located in a metropolitan statistical area that have assets between \$50 million and \$100 million, and two or fewer full-service banking offices. A community contact indicated that local financial institutions meet area credit needs.

### Assessment Area Concentration

This performance criterion evaluates the percentage of lending extended inside and outside of the AA. A substantial majority of the bank's loans, by number, are originated inside the AA.

<b>Table 6</b>								
<b>Lending Inside and Outside the AA</b>								
<b>Loan Type</b>	<b>Inside</b>				<b>Outside</b>			
	<b>#</b>	<b>#%</b>	<b>\$(000)</b>	<b>%</b>	<b>#</b>	<b>#%</b>	<b>\$(000)</b>	<b>%</b>
Consumer Loans	60	96.8	614	94.9	2	3.2	33	5.1
Residential Loans	73	92.4	10,433	93.2	6	7.6	757	6.8
Small Business Loans	57	90.5	3,414	70.6	6	9.5	1,419	29.4
Total Loans	190	93.1	14,461	86.7	14	6.9	2,209	13.3
Note: Percentages may not total 100.0% due to rounding.								

### Geographic Distribution of Loans

This performance criterion evaluates the bank's distribution of lending within its AA by income level of census tracts, with consideration given to the dispersion of loans throughout the AA. The bank's geographic distribution of loans is reasonable. Further analysis is not meaningful because the bank's AA consists only of middle-income tracts.

## Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes

This performance criterion evaluates the bank's lending to borrowers of different income levels and businesses of different revenue sizes. Overall, the bank's lending has an excellent penetration among individuals of different income levels and businesses of different sizes.

### Residential Real Estate Lending

The borrower distribution of RRE lending is excellent. The bank originated 12.3% of its RRE loans to low-income borrowers, which is below the percentage of low-income families (19.3%) in the AA but is explainable. The bank originated 26.0% of its RRE loans to moderate-income borrowers, which exceeds the percentage of moderate-income families (15.0%) in the AA. Overall, the bank extended 38.3% of its RRE loans to LMI borrowers, which exceeds the percentage (34.3%) of LMI families in the AA.

Affordable housing issues in the AA have persisted for many years. Community contacts indicated that affordable housing is in short supply and that the median cost of a home is about \$250,000, which is not affordable for most LMI residents. Only 12.8% of homes in the area have a value of less than \$100,000, which is considered affordable, especially for low-income individuals. As previously mentioned, the AA includes a significant number of vacation homes. Finally, bank management noted that homes costing less than \$200,000 are generally in need of substantial repairs, making the homes less affordable.

<b>Table 7</b> <b>Distribution of RRE Lending</b> <b>By Borrower Income Level</b>					
Borrower Income Level	Bank Loans				% of Families by Family Income
	#	#%	\$(000)	%	
Low	9	12.3	813	7.8	19.3
Moderate	19	26.0	2,020	19.4	15.0
Middle	16	21.9	1,927	18.5	25.1
Upper	27	37.0	5,320	51.0	40.5
Unknown	2	2.7	355	3.4	NA
Total	73	100.0	10,435	100.0	100.0
Source: 2018 FFIEC census data 2011–2015 U.S. Census Bureau: American Community Survey					

### Small Business Lending

The borrower distribution of small business lending is reasonable. The bank extended 91.2% of its small business loans to businesses with gross annual revenues of \$1 million or less. According to 2018 Dun & Bradstreet data, 88.6% of businesses in the AA have gross annual revenues of \$1 million or less. Of the bank's small business loans to businesses with revenues of \$1 million or less, 88.5% were in amounts of \$100,000 or less, which indicates a willingness to serve the credit needs of smaller entities.



Table 8 Distribution of Small Business Lending By Revenue Size of Businesses					
	Bank Loans				Total Businesses
	#	#%	\$(000)	%	%
By Revenue					
\$1 Million or Less	52	91.2	2,665	78.1	88.6
Over \$1 Million	5	8.8	749	21.9	6.7
Not Known	0	0.0	0	0.0	4.7
Total	57	100.0	3,413	100.0	100.0
By Loan Size					
\$100,000 or less	49	86.0	1,514	44.4	
\$100,001 – \$250,000	5	8.8	922	27.0	
\$250,001 – \$1 Million	3	5.3	977	28.6	
Total	57	100.0	3,413	100.0	
By Loan Size and Revenue of \$1 Million or Less					
\$100,000 or less	46	88.5	1,378	51.7	
\$100,001 – \$250,000	4	7.7	722	27.1	
\$250,001 – \$1 Million	2	3.8	565	21.2	
Total	52	100.0	2,665	100.0	
Source: 2018 FFIEC census data 2018 Dun & Bradstreet data 2011–2015 U.S. Census Bureau: American Community Survey					

### Consumer Lending

The borrower distribution of consumer lending is excellent. The bank originated 46.7% of its consumer loans to low-income borrowers and 31.7% to moderate-income borrowers; both figures exceed the percentages of low- and moderate-income households in the AA. Overall, the bank extended 78.4% of its consumer loans to LMI borrowers, which greatly exceeds the percentage (38.1%) of LMI households in the AA. Bank management indicated that many LMI borrowers seek credit to cover unexpected bills, such as car repairs, and day-to-day expenses, such as rent.

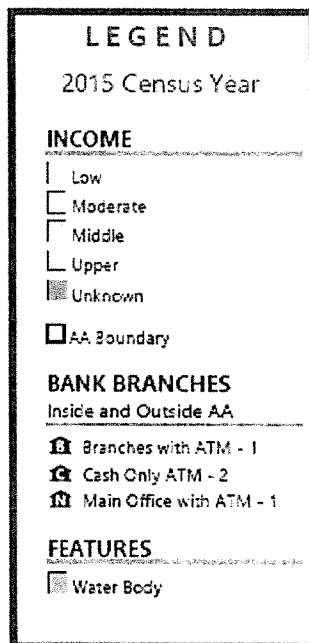
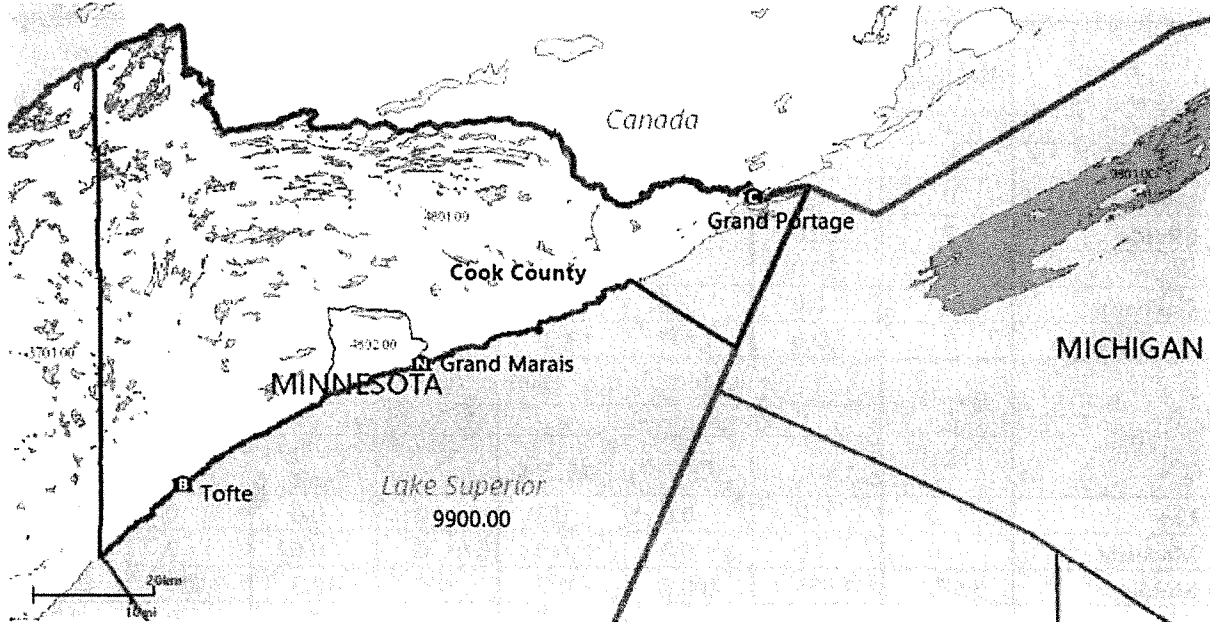
<b>Table 9</b> <b>Distribution of Consumer Lending</b> <b>By Borrower Income Level</b>					
Borrower Income Level	Bank Loans				% of Households
	#	#%	\$(000)	%	
Low	28	46.7	199	32.5	26.1
Moderate	19	31.7	209	34.1	12.0
Middle	12	20.0	189	30.8	19.8
Upper	1	1.7	16	2.6	42.0
<b>Total</b>	<b>60</b>	<b>100.0</b>	<b>613</b>	<b>100.0</b>	<b>100.0</b>
Source: 2018 FFIEC census data 2011–2015 U.S. Census Bureau: American Community Survey					

## **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

An evaluation of the bank's fair lending activities was conducted during the examination to determine compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

## APPENDIX A – MAP OF THE ASSESSMENT AREA

Grand Marais State Bank



APPENDIX B – DEMOGRAPHIC INFORMATION

TABLE B-1 2018 GRAND MARAIS STATE BANK AA DEMOGRAPHICS								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	328	19.3
Moderate	0	0.0	0	0.0	0	0.0	255	15.0
Middle	2	100.0	1,697	100.0	95	5.6	426	25.1
Upper	0	0.0	0	0.0	0	0.0	688	40.5
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	2	100.0	1,697	100.0	95	5.6	1,697	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	0	0	0.0	0.0	0	0.0	0	0.0
Middle	5,671	1,955	100.0	34.5	697	12.3	3,019	53.2
Upper	0	0	0.0	0.0	0	0.0	0	0.0
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	5,671	1,955	100.0	34.5	697	12.3	3,019	53.2
	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	449	100.0	398	100.0	30	100.0	21	100.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	449	100.0	398	100.0	30	100.0	21	100.0
Percentage of Total Businesses:				88.6		6.7		4.7
	Total Farms by Tract		Farms by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	13	100.0	13	100.0	0	0.0	0	0.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	13	100.0	13	100.0	0	0.0	0	0.0
Percentage of Total Farms:				100.0		0.0		0.0
Source: 2018 FFIEC census data 2018 Dun & Bradstreet data 2011 – 2015 U.S. Census Bureau: American Community Survey								

## APPENDIX C – 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.

**Census tract:** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies, designated disaster areas; or designated distressed or underserved nonmetropolitan middle-income geographies.

**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.

**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 nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which 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).

**Full-scope review:** Performance is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, 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 applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

**Home mortgage loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited-scope review:** Performance is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, 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.

**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.

**Metropolitan area (MA):** A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. An MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. An MD is a division of an MSA based on specific criteria including commuting patterns. Only an MSA that has a population of at least 2.5 million may be divided into MDs.

**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 percent 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 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**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 qualified investment is defined as any 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.

**Small loan(s) to business(es):** A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

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

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