

PUBLIC DISCLOSURE

April 4, 2022

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Cornerstone Bank
Certificate Number: 13198

2280 45th Street South
Fargo, North Dakota 58104

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

1100 Walnut Street, Suite 2100
Kansas City, Missouri 64106

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

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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 is reasonable given the institution's size, financial condition, and credit needs of the assessment areas.
- The bank originated a majority of its small business, small farm, and home mortgage loans in its assessment areas.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- The distribution of borrowers reflects reasonable penetration of loans among businesses and farms of different revenue sizes and individuals of different income levels.
- The bank did not receive any Community Reinvestment Act (CRA)-related complaints since the previous evaluation; therefore, this factor 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 areas 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 areas.

Discriminatory or Other Illegal Credit Practices

- Examiners identified a discriminatory violation of the Equal Credit Opportunity Act during the concurrent consumer compliance examination, but it did not result in the downgrade of the bank's overall CRA rating.

DESCRIPTION OF INSTITUTION

Cornerstone Bank is owned by Cornerstone Holding Company, Inc. a one-bank holding company located in Fargo, North Dakota. The institution received a Satisfactory rating at its previous FDIC Performance Evaluation dated February 4, 2019, based on Interagency Intermediate Small Institution Examination Procedures.

Cornerstone Bank operates 10 offices and 18 ATMs throughout North Dakota and South Dakota. Since the prior evaluation, the bank closed two branches in Bismarck, North Dakota, and consolidated them into one office in Bismarck. In addition, the bank closed its loan production offices that operated in Minot and Grand Forks, North Dakota. Further details are described under the applicable State sections of this evaluation. Finally, no merger or acquisition activities occurred since the previous evaluation.

The institution focuses on traditional commercial, agricultural, and home mortgage loan products; however, it offers consumer loan products, as well. In addition to traditional loan products, the bank began offering a national buy now, pay later product primarily through retailers on the internet. These loans are sold to a third party within a few days of origination. The bank also offers various government-sponsored loan programs such as those through the Small Business Administration (SBA), and Bank of North Dakota. In 2020 and 2021, the bank originated 1,407 loans totaling \$146.6 million through the SBA's Paycheck Protection Program (PPP), which assisted small business and farm operators struggling with the impact of the Coronavirus Disease 2019 (COVID-19) pandemic.

The institution also provides a variety of deposit services, including checking, savings, and certificates of deposit. Alternative banking services include internet and mobile banking, electronic bill payment, person-to-person payments, mobile deposit, electronic statements, and cash-dispensing ATMs. Moreover, the bank participates in the MoneyPass network, which allows customers access to thousands of ATMs nationwide to avoid fees associated with using a non-bank owned ATM.

As of December 31, 2021, Cornerstone Bank reported total assets of \$1.3 billion, total loans of \$759.9 million, and total deposits of \$1.2 billion. The following table illustrates the loan portfolio distribution.

Loan Portfolio Distribution as of 12/31/2021		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	68,059	8.9
Secured by Farmland	55,211	7.3
Secured by 1-4 Family Residential Properties	101,383	13.3
Secured by Multifamily (5 or more) Residential Properties	81,997	10.8
Secured by Nonfarm Nonresidential Properties	256,718	33.8
Total Real Estate Loans	563,368	74.1
Commercial and Industrial Loans	127,685	16.8
Agricultural Production and Other Loans to Farmers	39,424	5.2
Consumer Loans	23,178	3.1
Obligations of State and Political Subdivisions in the U.S.	4,021	0.5
Other Loans	54	0.0
Lease Financing Receivable (net of unearned income)	2,198	0.3
Less: Unearned Income	0	0.0
Total Loans	759,928	100.0
<i>Source: Reports of Condition and Income</i>		

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

DESCRIPTION OF ASSESSMENT AREAS

The CRA requires financial institutions to define one or more assessment areas within which its CRA performance will be evaluated. The bank has designated five assessment areas. Four of the assessment areas are in North Dakota, while the fifth assessment area is in South Dakota. The characteristics of each assessment area are discussed in further detail under the State sections of this evaluation.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated February 4, 2019, to the current evaluation dated April 4, 2022. Examiners used Interagency Intermediate Small Institution Examination Procedures to evaluate the CRA performance. These procedures include the Lending Test and the Community Development Test. Banks must achieve at least a Satisfactory rating under each test to obtain an overall Satisfactory rating. Refer to the Appendices for information on each test.

Examiners used full-scope examination procedures to assess the bank’s performance in all of the assessment areas. Examiners considered the loan, deposit, and branch distribution to determine the amount of weight placed on the performance in each assessment area to create a conclusion on the bank’s overall rating. The following table provides a breakdown of loans, deposits, and branches in each of the assessment areas and by state. As reflected in the following table, the bank’s lending activity primarily occurs in the Fargo-Moorhead Metropolitan Statistical Area (MSA) Assessment Area, followed by the Bismarck MSA and Northwest North Dakota Assessment Areas. However, the Northwest North Dakota Assessment Area contains the largest deposit share and number of

branches. As a result, performance within North Dakota received greater weight than South Dakota when determining the bank’s overall rating.

Assessment Area Breakdown of Loans, Deposits, and Branches						
Assessment Area	Loans		Deposits		Branches	
	\$(000s)	%	\$(000s)	%	#	%
Fargo-Moorhead MSA	503,632	61.1	147,463	14.1	2	20.0
Bismarck MSA	111,216	13.5	129,647	12.4	1	10.0
Dickinson	49,022	6.0	67,345	6.4	1	10.0
Northwest ND	96,731	11.7	667,686	63.9	5	50.0
North Dakota Subtotal	760,601	92.3	1,012,141	96.8	9	90.0
Sioux Falls MSA	63,721	7.7	33,224	3.2	1	10.0
South Dakota Subtotal	63,721	7.7	33,224	3.2	1	10.0
Total	824,322	100.0	1,045,365	100.0	10	100.0

Source: Bank Data; FDIC Summary of Deposits (6/30/2021)

Activities Reviewed

The bank’s primary and secondary lending focus in all assessment areas, with the exception of the Northwest North Dakota Assessment Area, is commercial loans followed by home mortgage loans. The primary lending focus in the Northwest North Dakota Assessment Area is agricultural lending followed by commercial lending, and then home mortgage lending. This conclusion considered management discussions; bank records of loans originated, renewed, extended, or purchased during the evaluation period; and a review of the Consolidated Reports of Condition and Income. As such, for the Lending Test, examiners evaluated small business and home mortgage loans in all of the assessment areas, as both products represent significant credit needs within the assessment areas. However, since agricultural loans are a major credit need only in the Northwest North Dakota Assessment Area, review of small farm loans was limited to that particular area. The bank’s record of originating small business loans contributed the greatest weight to the overall conclusions due to the lending focus and large number of loans originated, renewed, extended, or purchased. Similarly, greater emphasis was given to home mortgage loans than small farm loans.

In addition to the major product lines described above, the institution originates other loan products, such as construction and land development loans, and consumer loans. However, since these loans do not represent major product lines and would provide no material support for conclusions or ratings, they were not reviewed as part of this evaluation.

Bank records indicate that the lending focus and product mix remained generally consistent throughout the evaluation period, with the exception of additional loans originated in conjunction with the SBA’s PPP. The bank also purchased a portfolio of 86 home mortgage loans totaling \$17.3 million from another bank in 2020.

Examiners analyzed all small business and small farm loans originated, extended, renewed, or purchased in 2021 for the Assessment Area Concentration criterion. All loans inside the assessment areas were further reviewed to evaluate the Geographic Distribution criterion. Examiners reviewed a sample of small business and small farm loans originated within the bank’s assessment areas for the Borrower Profile criterion, as revenue information was not readily available. The sample of small farm loans included only those that were originated, extended, renewed, or purchased in the Northwest North Dakota Assessment Area. The review did not include small business or small

farm loans that management requested to have considered under the Community Development Test. It also did not include small business or small farm loans originated, extended, renewed, or purchased and subsequently paid off in 2021, since this data was not readily available. Finally, the review did not include PPP loans originated in 2021 since the majority of those were subsequently forgiven and closed. Bank management concurred that the sample selected was representative of the bank's performance during the entire evaluation period. D&B data for 2021 provided a standard of comparison for the bank's small business and small farm lending performance. Examiners also considered aggregate data; however, there is distortion in comparing a non-reporter, like Cornerstone Bank, to data from reporting institutions. Therefore, this information is only used as a general indicator of loan demand.

This evaluation also considered all home mortgage loans reported as originated or purchased on the bank's 2019, 2020, and 2021 Home Mortgage Disclosure Act (HMDA) Loan Application Registers. The 2019 and 2020 aggregate lending data, and 2015 American Community Survey (ACS) data were used as a standard of comparison for the bank's home mortgage lending performance. However, examiners focused on the comparisons to aggregate lending data since this data is typically a better indicator of market conditions and loan demand in the assessment areas. Examiners reviewed the entire universe of loans to evaluate the Assessment Area Concentration criterion. All loans inside the assessment area were further reviewed to evaluate the Geographic Distribution and Borrower Profile criteria. While HMDA data for 2019 and 2021 was reviewed and is included in the Assessment Area Concentration table, only data from 2020 is presented throughout the remainder of this evaluation since this is the most recent year in which aggregate data is available. The review of 2019 and 2021 data did not identify any trends that are significantly different from 2020, or that would materially affect conclusions, unless specifically noted. The following table details the universe of loans and samples selected for review.

Loan Products Reviewed				
Loan Category	Universe		Sampled	
	#	\$(000s)	#	\$(000s)
Small Business (2021) – all assessment areas	390	89,120	162	36,650
Home Mortgage (2019) – all assessment areas	217	79,452	190	66,820
Home Mortgage (2020) – all assessment areas	259	122,041	147	72,914
Home Mortgage (2021) – all assessment areas	181	104,815	161	100,713
Small Farm (2021) – Northwest North Dakota assessment area	112	18,124	41	7,963
<i>Source: Bank Data</i>				

For the Lending Test, examiners reviewed the number and dollar volume of small business, home mortgage, and small farm loans. While the number and dollar volume of loans are presented, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of businesses, individuals, and farms served.

For the Community Development Test, bank management provided data on community development loans, qualified investments, and community development services since the prior evaluation. Examiners also considered prior period qualified investments that were still outstanding at the start of the evaluation.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Cornerstone Bank demonstrated satisfactory performance under the Lending Test. The bank's Loan-to-Deposit Ratio, Assessment Area Concentration, Geographic Distribution, and Borrower Profile performance supports this conclusion. The bank's overall performance is consistent with the conclusions for both North Dakota and South Dakota.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and credit needs of the assessment areas. As shown in the following table, the institution's net loan-to-deposit ratio averaged 75.2 percent over the past 12 calendar quarters, which is commensurate with comparable institutions that were selected based on their asset size, branching structure, geographic location, and lending focus.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 12/31/2021 (\$000s)	Average Net Loan-to-Deposit Ratio (%)
Starion Bank, Bismarck, North Dakota	1,755,068	74.5
Border Bank, Fargo, North Dakota	875,918	89.7
Cornerstone Bank, Fargo, North Dakota	1,310,231	75.2

Source: Reports of Condition and Income 3/31/2019 – 12/31/2021; listed alphabetically by city

Assessment Area Concentration

As detailed in the following table, Cornerstone Bank made a majority of its home mortgage, small business, and small farm loans by number and dollar volume in its assessment areas. As reflected in the table, the volume of home mortgage loans originated in 2020 is higher than 2019 and 2021. Similarly, the percentage of those home mortgage loans originated within the assessment areas varies from other years. This is due to the 86 home mortgage loans purchased from another institution in 2020, all of which were outside the assessment areas.

Lending Inside and Outside of the Assessment Areas										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2019	190	87.6	27	12.4	217	66,820	84.1	12,632	15.9	79,452
2020	147	56.8	112	43.2	259	72,914	59.7	49,127	40.3	122,041
2021	161	89.0	20	11.1	181	100,713	96.1	4,102	3.9	104,815
Subtotal	498	75.8	159	24.2	657	240,447	78.5	65,861	21.5	306,308
Small Business 2021	340	87.2	50	12.8	390	75,602	84.8	13,518	15.2	89,120
Small Farm 2021	98	87.5	14	12.5	112	15,841	87.4	2,283	12.6	18,124
Total	936	80.8	223	19.2	1,159	331,890	80.3	81,662	19.7	413,552

Source: Bank Data; Due to rounding, totals may not equal 100.0%

Geographic Distribution

The geographic distribution of loans reflects reasonable penetration throughout the rated areas. This conclusion is supported by consistent performance in both North Dakota and South Dakota. Examiners focused on the percentage of loans in the low- and moderate-income census tracts, as applicable. Detailed discussion of the bank's performance under this criterion is included in the rated areas and individual assessment area sections of this evaluation.

Borrower Profile

Overall, the distribution of borrowers reflects reasonable penetration among businesses and farms of different sizes and individuals of different income levels. The bank's reasonable performance in North Dakota supports this conclusion. While performance in South Dakota was poor, less weight was given to this area when determining overall conclusions. Examiners focused on the percentage of loans to businesses and farms with gross annual revenues of \$1 million or less, and home mortgage loans to low- and moderate-income borrowers. Detailed discussion of the bank's performance under this criterion is included in the rated areas and individual assessment area sections of this evaluation.

Response to Complaints

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

COMMUNITY DEVELOPMENT TEST

Cornerstone Bank's overall performance under the Community Development Test is Outstanding. The institution demonstrated excellent responsiveness to the community development needs in its assessment areas through community development loans, qualified investments, and community development services. Since the bank was responsive to the community development needs of its assessment areas, community development activities benefiting the broader statewide or regional areas were also considered in the analysis; however, these activities received less weight. The bank's overall performance is consistent with the conclusions for both North Dakota and South Dakota.

Community Development Loans

The bank originated 122 community development loans totaling \$154.3 million during the evaluation period. This includes 48 loans totaling \$65.9 million originated under the SBA's PPP related to the COVID-19 pandemic. As of December 31, 2021, the volume of community development loans represented 11.8 percent of total assets, and 20.7 percent of net loans. When examiners excluded the SBA PPP loans from the analysis, the bank's performance represented 6.8 percent of total assets, and 11.8 percent of net loans. Community development loans to total assets and net loans increased significantly since the prior evaluation, at which time they reflected 2.3 and 3.2 percent, respectively.

Examiners compared the bank's level of community development lending to six similarly situated institutions. Three of the similarly situated institutions' community development lending did not include SBA PPP loans due to the timing of the data. These three institutions' community development loans ranged from 2.9 to 3.2 percent of total assets, and 3.6 to 4.3 percent of net loans. The other similarly situated institution's community development lending, which included PPP loans, ranged from 6.3 to 9.9 percent of total assets, and 7.5 to 13.1 percent of net loans.

The following tables illustrate community development loans by assessment area and by year. The first table includes community development loans made in the statewide or regional, or broader statewide or regional area (BSRA). The statewide or regional loans represent those that benefited a broader area that included one or more of the bank’s assessment areas. The BSRA loans represented community development loans that did not include or directly impact the assessment areas, but that are included since the institution was responsive to the community development needs within its assessment areas.

Community Development Lending by Assessment Area										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Fargo-Moorhead MSA	5	5,671	0	0	22	30,630	16	17,786	43	54,087
Bismarck MSA	7	2,326	0	0	5	3,939	3	677	15	6,942
Northwest North Dakota	0	0	0	0	3	2,435	16	16,845	19	19,280
Dickinson	1	574	0	0	8	55,104	0	0	9	55,678
Sioux Falls MSA	6	3,026	0	0	18	5,300	5	3,811	29	12,137
Statewide/Regional	1	94	0	0	2	2,823	0	0	3	2,917
BSRA	0	0	0	0	2	2,968	2	270	4	3,238
Total	20	11,691	0	0	60	103,199	42	39,389	122	154,279

Source: Bank Data

Community Development Lending by Year										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2019	5	5,926	0	0	5	3,864	4	386	14	10,176
2020	2	1,194	0	0	33	47,570	19	25,023	54	73,787
2021	12	4,526	0	0	19	49,256	19	13,980	50	67,762
YTD 2022	1	45	0	0	3	2,509	0	0	4	2,554
Total	20	11,691	0	0	60	103,199	42	39,389	122	154,279

Source: Bank Data

Qualified Investments

Cornerstone Bank purchased, retained, or donated 34 qualified community development investments totaling \$27.9 million during the evaluation period. As of December 31, 2021, this level of activity represented 2.1 percent of total assets, and 12.4 percent of total securities. The ratios increased since the previous evaluation when they were 0.3 and 1.8 percent, respectively. The increase is primarily due to the purchase of mortgage-backed securities. Further, there was a 47.5 percent increase in assets, and 35.0 percent increase in securities since the previous evaluation. Examiners compared the bank’s level of qualified investments to six similarly situated institutions whose qualified investments ranged from 0.5 to 0.8 percent of total assets, and 3.1 to 12.4 percent of total securities. However, while the qualified investments to total securities ratio is included as a measurement, this comparison can vary between institutions based on their investment strategies. As such, examiners focused more on the ratio of qualified investments to total assets.

Of the 34 qualified investments, 5 investments totaling \$1.4 million reflected prior period investments that remain outstanding. Four of these were included in the prior evaluation; however, management presented 1 investment that was not presented during previous evaluations, but still considered during the current evaluation. Qualified investment activity was concentrated in affordable housing initiatives targeted to low- and moderate-income individuals, but also included some investments that revitalized or stabilized low- or moderate-income or underserved geographies. The bank also made a reasonable number of donations to entities that provide community services targeted to low- and moderate-income individuals. One organization recognized Cornerstone Bank as the Leader of the Year for having the most engaged workplace in 2020. It was also recognized as one of the top 50 most generous workplaces.

The following tables illustrate qualified investments by assessment area and by year. The statewide or regional investments represented those that benefited more than one assessment area in one or both states in which the bank operates. Rather than allocating the activity to multiple assessment areas, which would skew the number of investments made, examiners slotted the activity as statewide or regional. The BSRA investment included one qualified investment in a broader area that did not include or directly impact the bank’s assessment areas.

Qualified Investments by Assessment Area										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Fargo-Moorhead MSA	0	0	4	29	0	0	0	0	4	29
Bismarck MSA	0	0	3	18	0	0	1	1,200	4	1,218
Northwest North Dakota	0	0	4	15	0	0	4	1,105	8	1,120
Dickinson	0	0	3	7	0	0	0	0	3	7
Sioux Falls MSA	2	4,393	3	5	0	0	0	0	5	4,398
Statewide/Regional	9	20,826	0	0	0	0	0	0	9	20,826
BSRA	0	0	0	0	0	0	1	266	1	266
Total	11	25,219	17	74	0	0	6	2,571	34	27,864

Source: Bank Data

Qualified Investments by Year										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	0	0	0	0	0	0	5	1,371	5	1,371
2019	4	9,316	0	0	0	0	0	0	4	9,316
2020	2	2,995	0	0	0	0	1	1,200	3	4,195
2021	5	12,908	0	0	0	0	0	0	5	12,908
YTD 2022	0	0	0	0	0	0	0	0	0	0
Subtotal	11	25,219	0	0	0	0	6	2,571	17	27,790
Qualified Grants & Donations	0	0	17	74	0	0	0	0	17	74
Total	11	25,219	17	74	0	0	6	2,571	34	27,864

Source: Bank Data

Community Development Services

During the evaluation period, bank representatives provided 39 instances of financial expertise or technical assistance to 15 different organizations that provide community development services. This represented an increase from the previous evaluation, at which time the bank provided 20 instances of community development services to 11 different organizations. The bank’s involvement is on the low end of similarly situated institutions that operate in similar areas; however, the performance was still reasonable when compared to the number of branches operating within each assessment area. Specifically, similarly situated institutions provided between 16 and 102 community development services. The following tables illustrate the bank’s community development services by assessment area and year.

Community Development Services by Assessment Area					
Assessment Area	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
Fargo-Moorhead MSA	2	5	4	0	11
Bismarck MSA	0	1	0	0	1
Northwest North Dakota	0	0	16	0	16
Dickinson	1	0	1	0	2
North Dakota Subtotal	3	6	21	0	30
Sioux Falls MSA	4	1	4	0	9
South Dakota Subtotal	4	1	4	0	9
Total	7	7	25	0	39
<i>Source: Bank Data</i>					

Community Development Services by Year					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2019	3	1	8	0	12
2020	1	4	6	0	11
2021	2	1	6	0	9
YTD 2022	1	1	5	0	7
Total	7	7	25	0	39
<i>Source: Bank Data</i>					

In addition to community development services, the bank offers alternative banking services that were described earlier. These services are readily accessible throughout all of the bank’s assessment areas, including to low- and moderate-income individuals. Finally, the bank offers an account that is consistent with the Bank On movement, which is designed to expand access to affordable banking services and reduce the number of unbanked Americans. While several of these accounts have been opened, the bank has not received certification yet.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners identified a discriminatory violation of the Equal Credit Opportunity Act during the concurrent consumer compliance examination related to the buy now, pay later product. This product was not reviewed for the CRA evaluation. The violation did not affect the CRA rating due to the limited impact on the bank's overall business and lending operations, and the corrective measures taken by the institution, including management's commitment to enhance the compliance management system to prevent similar violations from occurring. While policies, procedures, training, and monitoring efforts are in place to help prevent discriminatory or other illegal credit practices, the violation resulted from a misunderstanding with regard to regulatory requirements.

NORTH DAKOTA

CRA RATING FOR NORTH DAKOTA: SATISFACTORY

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Outstanding

DESCRIPTION OF INSTITUTION'S OPERATIONS IN NORTH DAKOTA

Cornerstone Bank maintains its largest presence in North Dakota. Specifically, it operates 9 of its 10 offices, and 17 of its 18 ATMs in North Dakota. There following four assessment areas are located in North Dakota: Fargo-Moorhead MSA, Bismarck MSA, Northwest North Dakota, and Dickinson. In addition to the main office and branch in Fargo, the bank operates full-service branches in Bismarck, New Town, Parshall, Watford City, Plaza, Makoti, and Dickinson. Since the previous evaluation, the bank closed two branches in Bismarck and consolidated them into one office. Details of the closures are provided in the Bismarck MSA Assessment Area section. Finally, the institution closed the loan production offices in Grand Forks and Minot in May 2019 and July 2020, respectively.

SCOPE OF EVALUATION – NORTH DAKOTA

Examiners reviewed the bank's small business and home mortgage lending performance in all of the North Dakota assessment areas. Small farm loans were also reviewed in the Northwest North Dakota Assessment Area since it is the primary lending focus in that area. Small business lending received the greatest weight in all of the assessment areas, with the exception of the Northwest North Dakota Assessment Area, since these loans were a primary focus during the evaluation period. Small farm lending received the greatest weight in the Northwest North Dakota Assessment Area, followed by small business lending. Home mortgage lending received the least weight in all of the assessment areas since it is not a primary focus of the institution. The Fargo-Moorhead MSA Assessment Area received the greatest weight when arriving at the State rating. Refer to the overall Scope of Evaluation section for additional information.

CONCLUSIONS ON PERFORMANCE CRITERIA IN NORTH DAKOTA

LENDING TEST

Cornerstone Bank demonstrated reasonable performance under the Lending Test in North Dakota, which is supported by the bank's reasonable Geographic Distribution and Borrower Profile performance. The overall performance in North Dakota is consistent with the conclusions for all four North Dakota assessment areas. Detailed discussion of the bank's performance is included in the individual assessment area sections of this evaluation.

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the North Dakota assessment areas. Although the bank's performance was excellent in the Northwest North Dakota Assessment Area, the bank's reasonable performance in the Fargo-Moorhead MSA and Bismarck MSA Assessment Areas primarily supports this conclusion. The Dickinson Assessment Area does not include any low- and moderate-income geographies, and a review of the Geographic

Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated in the Dickinson Assessment Area.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among businesses and farms of different sizes and individuals of different income levels. While poor performance was noted in the most heavily weighted Fargo-Moorhead MSA Assessment Area, reasonable performance was noted in the other three North Dakota assessment areas, compensating for that poor performance. The combined total number of small business loans originated in those assessment areas is similar to the number originated within the Fargo-Moorhead MSA Assessment Area.

COMMUNITY DEVELOPMENT TEST

Cornerstone Bank demonstrated excellent responsiveness to the community development needs in the North Dakota assessment areas through community development loans, qualified investments, and community services considering the institution's capacity and the need and availability of such opportunities in the assessment areas. This is primarily supported by the bank's excellent performance in the Fargo-Moorhead MSA Assessment Area, which was given the greatest weight. Performance in the Bismarck MSA Assessment Area was also excellent, while performance in the remaining North Dakota assessment areas was adequate.

Community Development Loans

The institution originated 86 community development loans totaling \$136.0 million in the North Dakota assessment areas. This represented 88.1 percent of the bank's community development lending by dollar volume. The community development lending included 29 PPP loans totaling \$53.3 million; however, it did not include loans that benefited the statewide or regional area. The volume of community development loans reflected a significant increase from the prior evaluation, at which time the bank originated 19 community development loans totaling \$19.2 million in the North Dakota assessment areas. Details regarding the level of community development lending activity for each assessment area within North Dakota are provided under the individual assessment area sections.

Qualified Investments

The bank made 19 qualified investments totaling \$2.4 million in North Dakota. This activity did not include statewide or regional investments that benefited more than one assessment area in North Dakota, or those that impacted assessment areas in both North Dakota and South Dakota. The volume of qualified investments decreased since the previous evaluation, at which time the bank had 49 qualified investments totaling \$3.0 million in North Dakota. Details regarding the level of qualified investment activity for each assessment area in North Dakota are provided under the individual assessment area sections.

Community Development Services

Bank representatives provided 30 instances of financial expertise or technical assistance to 12 different community development organizations in the North Dakota assessment areas. Community development services have increased from the prior evaluation when 20 instances were noted. This reflected 76.9 percent of all community development services offered by the institution, by number of instances, during the evaluation period. Details regarding the level of community development services for each assessment area within North Dakota are provided under the individual assessment area sections.

FARGO-MOORHEAD MSA ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE FARGO-MOORHEAD MSA ASSESSMENT AREA

The Fargo-Moorhead MSA Assessment Area includes all of the Fargo, North Dakota-Minnesota (ND-MN) MSA. It includes Cass County in south eastern North Dakota, and Clay County in west central Minnesota. The assessment area has not changed since the prior evaluation. According to 2015 ACS data, the assessment area consists of 12 moderate-, 24 middle-, and 9 upper-income census tracts, as well as 1 census tract with no income designation. The bank maintains its main office, a full-service branch, and two ATMs in this assessment area, all of which are located in middle-income geographies.

Economic and Demographic Data

The following table illustrates select demographics of the assessment area.

Demographic Information of the Fargo-Moorhead MSA Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	46	0.0	26.1	52.2	19.6	2.2
Population by Geography	223,379	0.0	21.9	44.4	32.3	1.4
Housing Units by Geography	97,878	0.0	23.8	45.8	28.7	1.6
Owner-Occupied Units by Geography	51,774	0.0	14.8	50.9	33.7	0.6
Occupied Rental Units by Geography	39,676	0.0	36.1	38.3	23.0	2.6
Vacant Units by Geography	6,428	0.0	21.0	51.2	23.7	4.2
Businesses by Geography	23,376	0.0	29.1	35.0	35.4	0.5
Family Distribution by Income Level	52,742	18.8	19.0	23.0	39.3	0.0
Household Distribution by Income Level	91,450	23.5	17.3	17.2	42.0	0.0
Median Family Income Fargo, ND-MN MSA	\$75,010	Median Housing Value				\$165,470
		Median Gross Rent				\$709
		Families Below Poverty Level				6.7%
<i>Source: 2015 ACS and 2021 D&B Data; 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>						

According to bank management, the economy is very good; however, affordable housing remains one of the biggest challenges. The 2021 D&B data indicates that services represent the largest portion of business and farm operations at 33.7 percent; followed by non-classifiable establishments at 18.6 percent; and finance, insurance, and real estate at 13.8 percent. The same data indicates that area businesses and farms are predominantly small operations with 90.0 percent operating from a single location, and 61.9 percent employing less than five individuals.

The Federal Financial Institutions Examination Council (FFIEC)-updated median family income (MFI) level is used to analyze home mortgage loans under the Borrower Profile criterion as well as for community development activities. The low-, moderate-, middle-, and upper-income categories for the Fargo, ND-MN MSA are presented in the following table.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2020 (\$89,400)	<\$44,700	\$44,700 to <\$71,520	\$71,520 to <\$107,280	≥\$107,280
<i>Source: FFIEC</i>				

Competition

The Fargo, ND-MN MSA is highly competitive for financial services. According to June 30, 2021 FDIC Deposit Market Share data, 29 FDIC-insured financial institutions operate 92 offices within the MSA. Of these institutions, Cornerstone Bank ranked 13th with a deposit market share of 1.2 percent. This data does not include competition from credit unions and non-depository entities, such as mortgage lenders, as they are not included in the report.

To demonstrate the level of competition for small business loans in the assessment area, examiners reviewed aggregate CRA data for 2020, which is the most recent available data. While Cornerstone Bank is not required to report this information, aggregate data is presented as an indicator of the level of demand for small business loans in the assessment area. The data shows that 83 CRA data reporters collectively reported 7,619 small business loans within the assessment area indicating a high level of competition. These figures do not include loans originated by smaller institutions that are not required to report small business lending data but that operate within the assessment area, such as Cornerstone Bank.

The institution also faces significant competition for home mortgage loans from financial institutions and mortgage companies originating or purchasing loans within the assessment area. In 2020, 229 HMDA-reporting institutions originated or purchased 14,943 home mortgage loans in the MSA. Cornerstone Bank ranked 39th with a 0.4 percent market share by number. The top 7 lenders collectively accounted for over half (52.3 percent) of the total market share, by number.

Community Contacts

Examiners reviewed presentation materials and notes from a previously conducted meeting held with various individuals familiar with community development opportunities and needs within the Fargo-Moorhead MSA Assessment Area, as well as comments regarding the local economy. The individuals indicated that the COVID-19 pandemic had less of an impact on the community than many other parts of the country, and the region did very well in getting PPP loans. It was noted that the number of households looking for financial counseling and education has decreased. Nonprofits working in financial stability have noted that there is a need to build credit for families with limited or no credit history, which makes it difficult for them to obtain home mortgage financing. Overall, financial institutions are responsive to proposals for affordable housing projects, and typically seven or eight banks respond with financing proposals. Smaller banks may have challenges participating in financing affordable housing projects given the complexities of some projects. Furthermore, there is a need for a workforce development strategy in the region given the significant number of open jobs that are not filled due to a lack of qualified applicants.

Credit and Community Development Needs and Opportunities

Considering information from bank management and demographic and economic data, examiners determined that commercial and home mortgage loans represent primary credit needs for the assessment area. Community development needs primarily involve affordable housing and economic development.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE FARGO-MOORHEAD MSA ASSESSMENT AREA

LENDING TEST

Cornerstone Bank demonstrated reasonable performance under the Lending Test in the Fargo-Moorhead MSA Assessment Area. The bank's Geographic Distribution performance primarily supports this conclusion. Despite poor Borrower Profile performance, it did not impact the Lending Test conclusion in the Fargo-Moorhead MSA Assessment Area when considering other factors that are described in that section.

Geographic Distribution

Overall, the geographic distribution of loans reflects reasonable dispersion in the Fargo-Moorhead MSA Assessment Area. Although the bank's home mortgage lending performance is excellent, the bank's reasonable small business performance is the primary driver for this conclusion.

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area. As indicated in the following table, the bank's lending performance in moderate-income census tracts generally mirrors demographic data.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate	29.1	46	33.1	11,394	34.8
Middle	35.0	35	25.2	8,244	25.2
Upper	35.4	58	41.7	13,060	39.9
Not Available	0.5	0	0.0	0	0.0
Totals	100.0	139	100.0	32,698	100.0

Source: 2021 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects excellent dispersion. As indicated in the following table, the bank's lending performance in the moderate-income census tracts exceeds the corresponding demographic and aggregate data.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Moderate	14.8	10.2	8	15.1	19,337	37.2
Middle	50.9	38.2	23	43.4	10,896	21.0
Upper	33.7	51.2	20	37.7	21,349	41.1
Not Available	0.6	0.4	2	3.8	384	0.7
Totals	100.0	100.0	53	100.0	51,966	100.0

Source: 2015 ACS; Bank Data, 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%

Borrower Profile

Overall, the distribution of borrowers reflects poor penetration among businesses of different revenue sizes and individuals of different income levels. This conclusion is primarily supported by the bank's poor small business lending performance, which was given the greatest weight in the assessment area. However, the bank's home mortgage lending performance was reasonable.

Small Business Loans

The distribution of small business loans in the Fargo-Moorhead MSA Assessment Area reflects poor penetration to businesses with revenues of \$1 million or less. As reflected in the following table, the bank's performance of lending to businesses with revenues of \$1 million or less is significantly less than D&B data (demographic data). Since demographic data is from a voluntary survey request to businesses, it is only used as a general indicator of business demographics within the assessment area. Furthermore, management felt that D&B data is not entirely accurate since "store-front" type businesses are generally those with higher gross annual revenues. In addition, as indicated earlier, examiners considered aggregate data even though the bank is not a reporter, and while it is not a direct comparison, the bank's performance is more in line with aggregate data. Additionally, 10 of the 42 sampled loans to businesses with revenues greater than \$1 million were to 4 entities, resulting in data that is somewhat skewed. Finally, this area has a high level of competition, and the analysis is based on a sample of loans rather than the entire universe. Nonetheless, the bank's performance has declined since the previous evaluation at which time it reflected poor performance. Specifically, the previous evaluation indicated that 45.9 percent of the bank's lending was to businesses with gross annual revenues of \$1 million or less compared to demographic data of 78.5 percent in the same revenue category.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	84.5	23	35.4	4,261	26.3
>\$1,000,000	5.3	42	64.6	11,926	73.7
Revenue Not Available	10.3	0	0.0	0	0.0
Total	100.0	65	100.0	16,187	100.0

Source: 2021 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%

Home Mortgage Loans

The bank's performance of originating home mortgage loans to borrowers of different income levels is reasonable. Although the bank's performance is notably less than ACS and aggregate data, a significant portion of the bank's home mortgage lending is for commercial properties, such as rental properties. This skews the bank's lending performance to all borrower income levels, including low- and moderate-income borrowers. Furthermore, as previously mentioned, there is a high level of competition for loans in the assessment area, and home mortgage lending is not a primary focus of the bank. Given this information, along with the percent of households that live below the poverty level and may not qualify for home mortgage financing, the bank's performance is considered reasonable.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	18.8	6.0	0	0.0	0	0.0
Moderate	19.0	18.2	4	7.5	233	0.4
Middle	23.0	20.5	7	13.2	666	1.3
Upper	39.3	30.1	6	11.3	273	0.5
Not Available	0.0	25.2	36	67.9	50,794	97.7
Totals	100.0	100.0	53	100.0	51,966	100.0

Source: 2015 ACS; Bank Data, 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%

COMMUNITY DEVELOPMENT TEST

Cornerstone Bank demonstrated excellent responsiveness to the community development needs through community development loans, qualified investments, and community services.

Community Development Loans

The bank originated 43 community development loans totaling \$54.1 million in the Fargo-Moorhead MSA Assessment Area during the evaluation period. This lending included 9 SBA PPP loans totaling \$19.6 million that promoted economic development, and revitalization and stabilization to moderate-income geographies. The remaining 34 loans totaling \$34.4 million provided affordable housing, promoted economic development, or revitalized or stabilized moderate-income geographies. The 43 community development loans represented 35.1 percent of the overall community development loans by dollar volume, which is less than the prior evaluation. Specifically, at the prior evaluation, the bank's 8 community development loans totaled \$9.6 million, and represented 46.9 percent of the total community development loans. However, community development loans in the assessment area by dollar volume increased by over \$24 million since the prior evaluation, even when PPP loans and those in the statewide or regional area are not included.

Qualified Investments

The bank made 4 qualified investments totaling approximately \$29,000 in the assessment area since the previous evaluation, which were all donations to an entity that provides community services targeted to low- and moderate-income individuals. The dollar volume of qualified investments in the assessment area increased from the previous evaluation when 17 qualified investments totaling \$16,000 were noted. However, as a percentage of overall investments, the volume of qualified investments in this assessment area declined from 0.5 to 0.1 percent. However, this activity did not reflect investments made in the statewide or regional area that includes the assessment area.

Community Development Services

During the evaluation period, bank representatives provided 11 instances of financial expertise to 4 community development organizations in the assessment area. Two of the organizations provide community services targeted to low- or moderate-income individuals, 1 provides affordable housing initiatives for low- or moderate-income individuals, and 1 organization promotes economic development. Services provided during the current evaluation period are slightly more than at the previous examination in which bank employees provided 9 services to 5 organizations that promote community development.

BISMARCK MSA ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE BISMARCK MSA ASSESSMENT AREA

The Bismarck MSA Assessment Area includes all of the Bismarck, North Dakota MSA. It includes Burleigh, Morton, and Oliver counties in south central North Dakota. The geographic border of the assessment area has not changed since the prior evaluation. According to 2015 ACS data, the assessment area consists of 4 moderate-, 19 middle-, and 2 upper-income census tracts. The institution previously operated two branches in the assessment area; however, in 2020 the offices were consolidated into one full-service branch. One of the previous branches was located in a moderate-income census tract, while the other branch was located in a middle-income census tract. The new branch is located in the same middle-income census tract as the previous office, and is less than two miles from the other branch that was closed. The closure of the two branches had limited impact on the community due to the close proximity of the new branch. The bank also operates two ATMs in this assessment area, one in a middle-income census tract and one in an upper-income census tract.

Economic and Demographic Data

The following tables illustrate select demographic characteristics of the assessment area, along with MFI information for the Bismarck, North Dakota MSA.

Demographic Information of the Bismarck MSA Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	25	0.0	16.0	76.0	8.0	0.0
Population by Geography	119,027	0.0	13.6	78.9	7.6	0.0
Housing Units by Geography	52,959	0.0	15.5	78.6	5.9	0.0
Owner-Occupied Units by Geography	35,846	0.0	12.0	79.7	8.3	0.0
Occupied Rental Units by Geography	14,315	0.0	23.3	76.0	0.7	0.0
Vacant Units by Geography	2,798	0.0	20.1	77.3	2.7	0.0
Businesses by Geography	13,887	0.0	18.8	72.0	9.2	0.0
Family Distribution by Income Level	31,651	18.0	18.9	25.0	38.2	0.0
Household Distribution by Income Level	50,161	22.0	17.6	19.2	41.2	0.0
MFI Bismarck, North Dakota MSA	\$80,768	Median Housing Value				\$189,166
		Median Gross Rent				\$735
		Families Below Poverty Level				5.0%
<i>Source: 2015 ACS and 2021 D&B Data; 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>						

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2020 (\$92,500)	<\$46,250	\$46,250 to <\$74,000	\$74,000 to <\$111,000	≥\$111,000
<i>Source: FFIEC</i>				

According to 2021 D&B data, service industries represent the largest portion of business and farm operations at 35.1 percent; followed by non-classifiable establishments at 16.3 percent; and finance, insurance, and real estate at 11.6 percent. Additionally, 65.6 percent of assessment area businesses and farms have four or fewer employees, and 89.5 percent operate from a single location.

Competition

The Bismarck MSA Assessment Area is highly competitive for financial services. Based on 2021 FDIC Deposit Market Share data, 18 financial institutions operate 58 offices within the MSA. Of these institutions, Cornerstone Bank ranked 13th with a deposit market share of 2.3 percent.

There is also a high level of demand and competition for small business and home mortgage loans. Specifically, the 2020 CRA data shows that 66 CRA data reporters collectively reported 3,185 small business loans within the assessment area. Additionally, 150 HMDA-reporting institutions originated or purchased 8,127 home mortgage loans in Burleigh, Morton and Oliver counties in 2020. Cornerstone Bank ranked 36th with a 0.4 percent market share by number. The top lender alone accounted for 17.7 percent of the total market share, by number.

Community Contact

Examiners reviewed a community contact interview with a representative of an organization that promotes economic development and affordable housing in the assessment area. The contact stated that the local economy has managed quite well despite the COVID-19 pandemic affecting the nation, and added that the hospitality industry, particularly hotels and restaurants, were the most affected. Per the contact, commercial and home mortgage loans are the predominant credit needs. The individual stated that the area is seeing an influx of families, and noted that the younger generation is coming for job opportunities while the older generation is moving to be closer to health care. Because of the growth, affordable housing is an issue, and banks are hungry for business and more than willing to help anyone with decent credit and income. The individual added that the market is very competitive, and banks have been extremely busy due to low interest rates. However, the contact added that banks are sometimes not aware of, or do not take the time to research various programs that may be available to aid in financing. Nonetheless, the individual believes that local financial institutions are meeting the needs of the community and was not aware of any discriminatory practices.

Credit and Community Development Needs and Opportunities

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that commercial and home mortgage lending represent the primary credit needs of the assessment area. Community development needs are primarily related to affordable housing.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE BISMARCK MSA ASSESSMENT AREA

LENDING TEST

Cornerstone Bank demonstrated reasonable performance in the Bismarck MSA Assessment Area. The bank's Geographic Distribution and Borrower Profile performance supports this conclusion.

Geographic Distribution

Overall, the geographic distribution of loans reflects reasonable dispersion in the assessment area. Although the bank's home mortgage lending performance was excellent, the bank's reasonable small business lending performance is the primary driver for this conclusion.

Small Business Loans

The following table reflects reasonable distribution to businesses in moderate-income geographies in the assessment area, as the bank's lending performance generally mirrors demographic data.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate	18.8	15	20.5	2,723	17.9
Middle	72.0	51	69.9	11,384	74.7
Upper	9.2	7	9.6	1,135	7.4
Not Available	0.0	0	0.0	0	0.0
Totals	100.0	73	100.0	15,242	100.0

Source: 2021 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%

Home Mortgage Loans

The following table reflects excellent dispersion of home mortgage loans in moderate-income geographies in the assessment area, as the bank's lending performance exceeds aggregate data.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Moderate	12.0	6.1	7	22.6	817	8.7
Middle	79.7	75.9	20	64.5	8,215	87.4
Upper	8.3	18.0	4	12.9	363	3.9
Not Available	0.0	0.0	0	0.0	0	0.0
Totals	100.0	100.0	31	100.0	9,395	100.0

Source: 2015 ACS; Bank Data, 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%

Borrower Profile

The distribution of borrowers reflects reasonable penetration among businesses of different revenue sizes and individuals of different income levels. This conclusion is supported by the bank's reasonable small business and home mortgage lending performance.

Small Business Loans

The distribution of small business loans in the Bismarck MSA Assessment Area reflects reasonable penetration to businesses with revenues of \$1 million or less. Although the bank’s performance is less than demographic data, D&B data includes all businesses in the assessment area that voluntarily respond to a survey request, including several very small entities that have limited or no credit needs. Therefore, examiners use D&B data simply as a general indicator of business demographics within the assessment area. In addition, 5 of the 14 loans to businesses with revenues greater than \$1 million were originated to 2 borrowers, which somewhat skews the data. Finally, as previously mentioned, there is a high level of competition for loans in the assessment area. See the following table for details.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	84.8	21	60.0	3,956	45.6
>\$1,000,000	4.2	14	40.0	4,723	54.4
Revenue Not Available	10.9	0	0.0	0	0.0
Total	100.0	35	100.0	8,679	100.0

Source: 2021 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%

Home Mortgage Loans

The bank’s performance of originating home mortgage loans to borrowers of different income levels is reasonable. The bank’s performance of lending to low-income borrowers is less than aggregate and demographic data, yet the bank’s performance generally mirrors aggregate and demographic data for moderate-income borrowers. Given the high level of competition in this assessment area and the percent of households that live below the poverty level, the bank’s performance is reasonable. Furthermore, the percentage of loans in which income information was not available (29.0 percent) likely skews the data in all borrower income levels, including low- and moderate-income borrowers. Finally, home mortgage lending is not a primary focus of the bank. See the following table for details.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	18.0	6.5	1	3.2	219	2.3
Moderate	18.9	17.8	5	16.1	484	5.2
Middle	25.0	22.6	4	12.9	251	2.7
Upper	38.2	35.0	12	38.7	1,190	12.7
Not Available	0.0	18.1	9	29.0	7,251	77.2
Totals	100.0	100.0	31	100.0	9,395	100.0

Source: 2015 ACS; Bank Data, 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%

COMMUNITY DEVELOPMENT TEST

Cornerstone Bank demonstrated an excellent responsiveness to the community development needs through community development loans, qualified investments, and community services.

Community Development Loans

The bank originated 15 community development loans totaling \$6.9 million in the Bismarck MSA Assessment Area during the evaluation period. This lending included 4 SBA PPP loans totaling \$2.6 million that promoted economic development. The remaining loans provided affordable housing, promoted economic development, or revitalized or stabilized moderate-income geographies. The 15 community development loans represented 4.5 percent of the overall community development loans by dollar volume, which is more than the prior evaluation. Specifically, at the prior evaluation, the bank's 3 community development loans totaled approximately \$335,000, and represented 1.6 percent of the total community development loans. When excluding PPP loans and those in the statewide or regional area in which a portion may have directly benefited this assessment area, community development loans represented 4.9 percent of the overall community development loans by dollar volume, which is still higher than the bank's performance at the prior evaluation.

Qualified Investments

The bank made 4 qualified investments totaling \$1.2 million in the assessment area since the previous evaluation. The investments consisted of 3 donations to one entity that provides community services targeted to low- and moderate-income borrowers, along with 1 bond that helped to revitalize and stabilize a moderate-income geography. The level of qualified investments in this assessment area represented 4.4 percent of all qualified investments by dollar volume; however, this did not reflect investments made in the statewide or regional area that may have included the assessment area. This is an increase by dollar volume from the previous evaluation at which time the bank made 8 qualified investments totaling \$12,000, which represented 0.4 percent of all qualified investments.

Community Development Services

During the evaluation period, bank representatives provided one instance of financial expertise to an organization that provides community services targeted to low- or moderate-income individuals in the assessment area. The level of involvement in this assessment area is generally the same as the prior evaluation, at which time bank employees provided two services to one organization.

NORTHWEST NORTH DAKOTA ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE NORTHWEST NORTH DAKOTA ASSESSMENT AREA

The Northwest North Dakota Assessment Area includes McKenzie, Mountrail, and Ward counties in northwest North Dakota. The assessment area has not changed since the prior evaluation. According to 2015 ACS data, it consists of 1 low-, 1 moderate-, 12 middle-, and 6 upper-income census tracts. The low-income census tract consists of the northwest portion of the Fort Berthold Indian Reservation, and the moderate-income census tract consists of the Minot Air Force Base. Furthermore, one census tract (9625) in McKenzie County and two census tracts (9403, 9404) in Mountrail County are considered underserved. The institution maintains full-service branches in New Town, Parshall, Watford City, Plaza, and Makoti. While lending staff are not employed at the Plaza and Makoti offices, all services are offered and would be serviced by staff at the nearby Parshall and New Town branches. The New Town, Parshall, and Makoti branches are located in middle-income geographies, while the Watford City and Plaza branches are located in upper-income geographies. In addition, the bank owns and operates 12 ATMs throughout the area. One

ATM is located in a low-income census tract, 6 are located in middle-income census tracts, and 5 are located in upper-income census tracts. The Parshall and New Town offices operate in the underserved geographies.

Economic and Demographic Data

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

Demographic Information of the Northwest North Dakota Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	20	5.0	5.0	60.0	30.0	0.0
Population by Geography	86,604	2.1	6.8	62.6	28.5	0.0
Housing Units by Geography	38,730	1.4	4.5	66.8	27.3	0.0
Owner-Occupied Units by Geography	20,230	0.6	0.2	64.8	34.4	0.0
Occupied Rental Units by Geography	12,321	2.5	12.9	66.5	18.1	0.0
Vacant Units by Geography	6,179	1.9	1.5	74.0	22.6	0.0
Businesses by Geography	9,420	0.8	1.2	62.8	35.2	0.0
Farms by Geography	660	0.3	0.0	54.2	45.5	0.0
Family Distribution by Income Level	20,316	17.5	17.8	22.2	42.4	0.0
Household Distribution by Income Level	32,551	20.1	16.9	17.6	45.3	0.0
MFI Nonmetropolitan North Dakota	\$72,414	Median Housing Value				\$183,698
		Median Gross Rent				\$935
		Families Below Poverty Level				6.2%

Source: 2015 ACS and 2021 D&B Data; Due to rounding, totals may not equal 100.0%
 (*) The NA category consists of geographies that have not been assigned an income classification.

The following table reflects MFI for the nonmetropolitan area of North Dakota. This data was used to analyze home mortgage loans under the Borrower Profile criterion for this assessment area as well as the Dickinson Assessment Area.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2020 (\$82,200)	<\$41,100	\$41,100 to <\$65,760	\$65,760 to <\$98,640	≥\$98,640

Source: FFIEC

According to bank management, the area economy is heavily impacted by the oil and agricultural industry; however, small dollar consumer loans are a credit need, particularly near the Fort Berthold Indian Reservation. The 2021 D&B data indicates service industries represent the largest portion of business and farm operations at 32.5 percent, followed by non-classifiable establishments at 16.4 percent, and retail trade at 11.1 percent. Additionally, 65.0 percent of assessment area businesses and farms have four or fewer employees, and 89.5 percent operate from a single location.

Competition

The assessment area has moderate competition for financial services. Based on 2021 FDIC Deposit Market Share data, 13 financial institutions operate 33 offices within the assessment area. Of these institutions, Cornerstone Bank ranked 3rd with a deposit market share of 13.7 percent.

The bank also has a competition for small business and home mortgage loans, primarily from large national banks that operate offices throughout the assessment area. The 2020 CRA data shows that 73 CRA data reporters collectively reported 2,192 small business loans within the assessment area. Furthermore, ACS data for 2020 shows that 148 HMDA-reporting institutions originated or purchased 3,403 home mortgage loans in McKenzie, Mountrail, and Ward counties. Cornerstone Bank ranked 20th with a 1.4 percent market share by number. The top 4 lenders, all national banks, accounted for 36.1 percent of the total market share, by number. Since this is a nonmetropolitan area, not all lenders are required to report home mortgage loans under the HMDA. As such, not all home mortgage loans originated or purchased are captured in these market share totals.

Credit and Community Development Needs and Opportunities

Considering the rural nature of the assessment area, along with information from bank management and demographic and economic data, examiners determined that agricultural lending represents the primary credit need in the assessment area, followed by commercial lending. Community development needs are primarily related to affordable housing.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE NORTHWEST NORTH DAKOTA ASSESSMENT AREA

LENDING TEST

Cornerstone Bank demonstrated reasonable performance under the Lending Test in the Northwest North Dakota Assessment Area. The bank's excellent geographic distribution and reasonable borrower profile performance supports this conclusion.

Geographic Distribution

Overall, the geographic distribution of loans reflects excellent dispersion in the Northwest North Dakota Assessment Area. This is supported by the bank's excellent small farm and small business lending performance, and reasonable home mortgage lending performance.

Small Farm Loans

The geographic distribution of small farm loans reflects excellent dispersion. In 2021, the bank's small farm lending performance in the low-income census tract exceeds demographic data. While the bank did not originate any loans in the moderate-income census tract, there are no farms located in this area, which consists of the Minot Air Force Base. It should be noted that the following table reflects 97 loans originated, renewed, or extended in 2021 whereas the Assessment Area Concentration table shows 98 loans. This is because one small farm loan was originated in the Bismarck MSA Assessment Area. See the following table for details.

Geographic Distribution of Small Farm Loans					
Tract Income Level	% of Farms	#	%	\$(000s)	%
Low	0.3	5	5.2	660	4.2
Moderate	0.0	0	0.0	0	0.0
Middle	54.2	33	34.0	4,423	28.0
Upper	45.5	59	60.8	10,717	67.8
Not Available	0.0	0	0.0	0	0.0
Totals	100.0	97	100.0	15,800	100.0

Source: 2021 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%

Small Business Loans

The geographic distribution of small business loans reflects excellent dispersion. The bank’s small business lending performance in the low-income census tract exceeds D&B data. While no small business loans were originated in the moderate-income census tract in 2021, this area is more than 40 air miles from the bank’s closest office, and would likely be served by numerous other financial institutions in Minot that are in closer proximity. Furthermore, the moderate-income census tract consists entirely of the Minot Air Force Base in which small business loans would not be expected. See the following table for details.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	0.8	3	6.5	595	7.2
Moderate	1.2	0	0.0	0	0.0
Middle	62.8	15	32.6	3,233	38.9
Upper	35.2	28	60.9	4,476	53.9
Not Available	0.0	0	0.0	0	0.0
Totals	100.0	46	100.0	8,304	100.0

Source: 2021 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%

Home Mortgage Loans

The distribution of home mortgage loans throughout this assessment area is reasonable. While the bank did not originate or purchase any loans in the low- or moderate-income census tracts in 2020, performance is generally in line with ACS data. The ACS data indicates that these geographies contain less than 1 percent of the area’s housing units, and consist of the Minot Air Force Base and a portion of the Fort Berthold Indian Reservation. The limited number of owner-occupied housing units indicates a limited opportunity to originate home mortgage loans in the low- and moderate-income census tracts. See the following table for details.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low	0.6	0.0	0	0.0	0	0.0
Moderate	0.2	0.0	0	0.0	0	0.0
Middle	64.8	60.8	20	43.5	3,911	52.9
Upper	34.4	39.1	26	56.5	3,485	47.1
Not Available	0.0	0.0	0	0.0	0	0.0
Totals	100.0	100.0	46	100.0	7,396	100.0

Source: 2015 ACS; Bank Data, 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%

Borrower Profile

The distribution of borrowers reflects reasonable penetration among farms and businesses of different revenue sizes and individuals of different income levels. This is supported by the bank's reasonable small farm, small business, and home mortgage lending performance.

Small Farm Loans

The distribution of borrowers reflects reasonable penetration among farms with revenues of \$1 million or less. As shown in the following table, the bank's small farm lending performance is less than demographic data; however, many small farms may not require credit to fund their operations. This is supported by data from the 2017 Census of Agriculture, which indicates that 51.6 percent of farms in the assessment area did not report interest expenses related to their operations. In addition, census data indicates that there are many large farming operations in the assessment area. More specifically, the number of operations with 2,000 or more acres increased from 23.3 percent in 2012, to 32.3 percent in 2017. Finally, 40.0 percent of the assessment area's farmers list their primary occupation as non-farm related. Given this information, the bank's distribution of lending to small farm operators is reasonable.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	98.8	32	78.0	5,335	67.0
>\$1,000,000	0.6	8	19.5	2,178	27.4
Revenue Not Available	0.6	1	2.4	450	5.7
Total	100.0	41	100.0	7,963	100.0

Source: 2021 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%

Small Business Loans

The distribution of borrowers reflects reasonable penetration among businesses with revenues of \$1 million or less. The bank's performance is less than D&B data; however, management indicated that many businesses in the assessment area have revenues greater than \$1 million due to the oil and gas industries, including those businesses not directly related to these activities. Furthermore, the demographic data includes all businesses in the assessment area that voluntarily respond to a survey request, including a large number of very small entities that have limited or no credit needs. As a result, the survey data regularly indicates that the vast majority of businesses in a given area are smaller businesses. Because of this, examiners use D&B data simply as a general indicator of

business demographics within the assessment area. Furthermore, Cornerstone Bank’s lending performance to businesses with revenues of \$1 million or less improved since the prior evaluation, at which time the bank’s lending was at 56.5 percent compared to D&B data of 78.7 percent for the same revenue category. See the following table for details.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	83.9	16	69.6	1,875	53.6
>\$1,000,000	4.2	7	30.4	1,620	46.4
Revenue Not Available	11.9	0	0.0	0	0.0
Total	100.0	23	100.0	3,495	100.0

Source: 2021 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%

Home Mortgage Loans

As depicted in the following table, the distribution of borrowers reflects reasonable penetration among individuals of different income levels. The bank’s lending performance to low-income borrowers is less than ACS data, but generally in line with aggregate data. Additionally, the bank’s lending performance to moderate-income borrowers is less than ACS and aggregate data; however, 6.2 percent of families in the assessment area are below the poverty level and likely would not qualify for a home mortgage loan. Furthermore, home mortgage lending is not the bank’s primary business focus, but provided as an accommodation to existing customers.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	17.5	3.7	2	4.3	57	0.8
Moderate	17.8	13.9	2	4.3	93	1.3
Middle	22.2	20.3	11	23.9	821	11.1
Upper	42.4	30.5	23	50.0	3,479	47.0
Not Available	0.0	31.6	8	17.4	2,946	39.8
Totals	100.0	100.0	46	100.0	7,396	100.0

Source: 2015 ACS; Bank Data, 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%

COMMUNITY DEVELOPMENT TEST

Cornerstone Bank demonstrated an adequate level of responsiveness to the community development needs of the Northwest North Dakota Assessment Area through community development loans, qualified investments, and community development services.

Community Development Loans

The bank originated 19 community development loans totaling \$19.3 million in the assessment area, all of which promoted economic development or revitalized or stabilized low-income or underserved geographies. The majority of this lending was SBA PPP loans, which included 12 loans totaling \$16.9 million; however, 7 loans totaling \$2.4 million were non-PPP loans. The 19 loans represented 12.5 percent of the overall community development loans by dollar volume, which is less than the prior evaluation. Specifically, the bank’s community development lending in

this assessment area accounted for 45.5 percent of the overall community development loans at the prior evaluation. However, the overall volume of community development loans at this evaluation reflects an increase from the 8 loans totaling \$9.3 million noted at the previous evaluation. In addition, this did not include statewide or regional community development loans.

Qualified Investments

The bank made 8 qualified investments totaling \$1.1 million in the assessment area. The majority, by dollar volume, consisted of prior period investments that revitalized or stabilized underserved geographies. However, the bank made \$15,000 in donations to one entity that provides community services targeted to low- and moderate-income individuals. The bank's performance was significantly less than the previous evaluation. At the previous evaluation, the bank had 19 qualified investments in this assessment area totaling \$3.0 million, which represented 98.8 percent of all qualified investments. However, the current performance did not reflect investments that were made in the statewide or regional area, some of which benefited this assessment area.

Community Development Services

During the evaluation period, bank employees provided 16 instances of financial expertise or technical assistance to 5 community development organizations within the assessment area. All of these were to organizations that promote economic development. This is an increase from the prior evaluation at which time bank employees provided 3 services to 2 organizations that promoted community development. The bank also operates 1 ATM in a low-income area geography, as well as 2 branches and 6 ATMs in underserved census tracts within the assessment area.

DICKINSON ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE DICKINSON ASSESSMENT AREA

The Dickinson Assessment Area includes all eight census tracts that comprise Stark County in south western North Dakota. The assessment area has not changed since the prior evaluation. According to 2015 ACS data, the area includes three middle-, and five upper-income census tracts. The institution maintains one full-service branch and one ATM in an upper-income census tract.

Economic and Demographic Data

The following table illustrates select demographic characteristics of the assessment area. The MFI information for the nonmetropolitan area of North Dakota was provided within the Northwest North Dakota Assessment Area section.

Demographic Information of the Dickinson Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	8	0.0	0.0	37.5	62.5	0.0
Population by Geography	28,628	0.0	0.0	30.7	69.3	0.0
Housing Units by Geography	12,741	0.0	0.0	31.5	68.5	0.0
Owner-Occupied Units by Geography	7,819	0.0	0.0	28.8	71.2	0.0
Occupied Rental Units by Geography	3,560	0.0	0.0	41.0	59.0	0.0
Vacant Units by Geography	1,362	0.0	0.0	22.3	77.7	0.0
Businesses by Geography	3,865	0.0	0.0	27.5	72.5	0.0
Family Distribution by Income Level	7,191	12.8	14.2	23.6	49.4	0.0
Household Distribution by Income Level	11,379	18.8	13.2	16.2	51.9	0.0
MFI Nonmetropolitan North Dakota	\$72,414	Median Housing Value				\$204,379
		Median Gross Rent				\$836
		Families Below Poverty Level				3.4%
Source: 2015 ACS and 2021 D&B Data; Due to rounding, totals may not equal 100.0%						
(*) The NA category consists of geographies that have not been assigned an income classification.						

According to 2021 D&B data, service industries represent the largest portion of business and farm operations at 33.1 percent, followed by non-classifiable establishments at 16.6 percent, and retail trade at 11.5 percent. Additionally, 65.8 percent of assessment area businesses and farms have four or fewer employees, and 89.7 percent operate from a single location.

Competition

The assessment area is moderately competitive for financial services. Based on 2021 FDIC Deposit Market Share data, 10 financial institutions operate 15 offices within the assessment area. Of these institutions, Cornerstone Bank ranked 7th with a deposit market share of 4.3 percent.

The 2020 aggregate CRA data, which is presented as an indicator of the level of demand for small business loans, shows that 48 CRA data reporters collectively reported 1,010 small business loans within the assessment area. The institution also faces competition for home mortgage loans from financial institutions and mortgage companies originating or purchasing loans within the assessment area. In 2020, 105 HMDA-reporting institutions originated or purchased 1,942 home mortgage loans in Stark County. Cornerstone Bank ranked 35th with a 0.4 percent market share by number. The top 5 lenders accounted for 47.2 percent of the total market share by number. Not all lenders are required to report home mortgage loans under the HMDA since this is a nonmetropolitan area. As such, all home mortgage loans originated or purchased are not captured in these market share totals.

Credit and Community Development Needs and Opportunities

Considering information from bank management and demographic and economic data, examiners determined that commercial and home mortgage loans represent the primary credit needs in the assessment area. Additionally, affordable housing is a community development need within the assessment area.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE DICKINSON ASSESSMENT AREA

LENDING TEST

Cornerstone Bank demonstrated reasonable performance under the Lending Test in the Dickinson Assessment Area. The bank’s borrower profile performance supports this conclusion.

Geographic Distribution

The assessment area does not include any low- and moderate-income geographies, and a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated for this assessment area.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among businesses of different revenue sizes and individuals of different income levels. This conclusion is supported by the bank’s reasonable small business and home mortgage lending performance.

Small Business Loans

As depicted in the following table, the distribution of small business loans reflects reasonable penetration of loans to businesses with revenues of \$1 million or less as the bank’s lending performance is comparable to demographic data.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	85.5	13	86.7	2,079	80.8
>\$1,000,000	4.0	2	13.3	495	19.2
Revenue Not Available	10.5	0	0.0	0	0.0
Total	100.0	15	100.0	2,574	100.0
<i>Source: 2021 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%</i>					

Home Mortgage Loans

The bank’s performance of originating home mortgage loans to borrowers of different income levels is reasonable. Although the bank did not originate any loans to low- or moderate-income borrowers, a significant portion of the bank’s home mortgage lending is for commercial properties, such as rental properties, which skews all borrower income levels, including low- and moderate-income borrowers. Furthermore, home mortgage lending is not a primary focus of the bank. Given this information, along with the percent of households that live below the poverty level and may not qualify for home mortgage financing, the bank’s performance is considered reasonable. See the following table for details.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	12.8	3.1	0	0.0	0	0.0
Moderate	14.2	14.6	0	0.0	0	0.0
Middle	23.6	22.6	1	14.3	120	17.1
Upper	49.4	39.2	1	14.3	70	10.0
Not Available	0.0	20.4	5	71.4	513	73.0
Totals	100.0	100.0	7	100.0	703	100.0

Source: 2015 ACS; Bank Data, 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%

COMMUNITY DEVELOPMENT TEST

Cornerstone Bank demonstrated adequate responsiveness to the community development needs of the Dickinson Assessment Area through community development loans, qualified investments, and community development services.

Community Development Loans

The bank originated 9 community development loans totaling \$55.7 million in the assessment area. This did not include community development loans that are in the broader statewide or regional area. The bank's performance represented 36.1 percent of all community development lending by dollar volume, which is considerably better than the prior evaluation when the bank did not originate any community development loans in this assessment area. Of the 9 loans, 4 were SBA PPP loans, and 4 were non-PPP loans that promoted economic development. One loan totaling approximately \$574,000 provided affordable housing.

Qualified Investments

The bank made 3 qualified investments totaling approximately \$7,000 in the assessment area since the previous evaluation. The investments consisted of donations to one entity that provides community services targeted to low- and moderate-income individuals. The level of qualified investments in this assessment area represented 0.03 percent of qualified investments by dollar volume. This is a decline from the previous evaluation at which time the bank made 5 qualified investments totaling \$6,000 that represented 0.2 percent of all qualified investments. However, the current performance did not reflect investments made in the regional or statewide area.

Community Development Services

During the evaluation period, bank employees provided two instances of financial expertise or technical assistance to two community development organizations within the assessment area. One organization provides affordable housing initiatives for low- or moderate-income individuals, while the other organization promotes economic development. This is generally the same as the prior examination at which time bank employees provided five services to two organizations that promoted community development.

SOUTH DAKOTA

CRA RATING FOR SOUTH DAKOTA: SATISFACTORY

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Outstanding

DESCRIPTION OF INSTITUTION'S OPERATIONS IN SOUTH DAKOTA

Cornerstone Bank designated one assessment area in South Dakota. The Sioux Falls MSA Assessment Area includes all of the Sioux Falls, South Dakota MSA. More specifically, it consists of Lincoln, McCook, Minnehaha, and Turner counties in southeast South Dakota. The assessment area has not changed since the prior evaluation. According to 2015 ACS data, it consists of 17 moderate-, 28 middle-, and 12 upper-income census tracts. The bank maintains one full-service branch and one ATM in an upper-income census tract in the assessment area.

Economic and Demographic Data

The following tables illustrate select demographic characteristics of the assessment area, along with MFI for the Sioux Falls, South Dakota MSA.

Demographic Information of the Sioux Falls MSA Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	57	0.0	29.8	49.1	21.1	0.0
Population by Geography	242,731	0.0	27.8	50.7	21.5	0.0
Housing Units by Geography	100,015	0.0	30.6	48.9	20.5	0.0
Owner-Occupied Units by Geography	63,268	0.0	20.0	55.3	24.8	0.0
Occupied Rental Units by Geography	30,682	0.0	51.0	36.5	12.5	0.0
Vacant Units by Geography	6,065	0.0	38.6	45.7	15.7	0.0
Businesses by Geography	29,601	0.0	35.1	38.1	26.7	0.0
Family Distribution by Income Level	61,621	19.0	18.1	24.4	38.5	0.0
Household Distribution by Income Level	93,950	22.0	18.1	18.9	41.0	0.0
MFI Sioux Falls, South Dakota MSA	\$72,948	Median Housing Value				\$157,049
		Median Gross Rent				\$720
		Families Below Poverty Level				7.1%

Source: 2015 ACS and 2021 D&B Data; Due to rounding, totals may not equal 100.0%
 (*) The NA category consists of geographies that have not been assigned an income classification.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2020 (\$86,200)	<\$43,100	\$43,100 to <\$68,960	\$68,960 to <\$103,440	≥\$103,440

Source: FFIEC

Bank management stated that characteristics of the Sioux Falls MSA are very similar to the Fargo-Moorhead MSA, particularly in regards to competition. Management added that the assessment area's greatest need is centered on affordable housing. According to 2021 D&B data, service industries represent the largest portion of business and farm operations at 33.0 percent; followed by non-classifiable establishments at 22.2 percent; and finance, insurance, and real estate at 12.6 percent. Additionally, 62.0 percent of assessment area businesses and farms have four or fewer employees, and 91.7 percent operate from a single location.

Competition

The Sioux Falls MSA Assessment Area is highly competitive for financial services. Based on 2021 FDIC Deposit Market Share data, 38 financial institutions operate 131 offices within the assessment area. Of these institutions, Cornerstone Bank ranked 32nd with a deposit market share of 0.01 percent.

There is also a high level of demand and competition for small business and home mortgage loans. The 2020 CRA data shows that 106 CRA data reporters collectively reported 7,734 small business loans within the assessment area. These figures do not include a high number of loans originated by smaller institutions that are not required to report small business lending data but that operate within the assessment area, such as Cornerstone Bank. The institution also faces significant competition for home mortgage loans from financial institutions and mortgage companies within the assessment area. In 2020, 216 HMDA-reporting institutions originated or purchased 23,224 home mortgage loans in the MSA. Cornerstone Bank ranked 82nd with a 0.04 percent market share by number. The top five lenders accounted for 40.3 percent of the total market share by number.

Community Contact

Examiners reviewed a community contact interview with a representative of an organization that promotes economic development in the assessment area. The contact stated that the local economic conditions have returned to a strong position after a decline caused by mandated business shutdowns prompted because of the COVID-19 pandemic. The individual indicated that commercial and home mortgage lending are the primary credit needs in the community, and added that the housing supply for all types of homes, including affordable housing, is at historically low levels. Overall, the contact indicated that local financial institutions have been responsive to the credit needs of the community.

Credit and Community Development Needs and Opportunities

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that commercial and home mortgage loans represent the primary credit needs in the assessment area. Additionally, bank management and the contact identified affordable housing as a community development need within the assessment area.

SCOPE OF EVALUATION – SOUTH DAKOTA

Examiners reviewed the bank's small business and home mortgage loans in the Sioux Falls MSA Assessment Area. The bank's small business lending performance contributed greater weight when drawing overall conclusions as commercial lending is the bank's primary lending focus in this assessment area, followed by home mortgage loans.

CONCLUSIONS ON PERFORMANCE CRITERIA IN SOUTH DAKOTA

LENDING TEST

Cornerstone Bank demonstrated reasonable performance under the Lending Test in the Sioux Falls MSA Assessment Area. The bank’s reasonable Geographic Distribution performance supports this conclusion. While the bank’s Borrower Profile performance is poor, it did not adversely affect the Lending Test rating since it is limited to one loan product, and there are mitigating factors related to that product, which are described below.

Geographic Distribution

Overall, the geographic distribution of loans reflects reasonable dispersion throughout the assessment area. Although the bank’s home mortgage lending performance is excellent, the bank’s reasonable small business lending performance is the primary driver for this conclusion.

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion. As indicated in the following table, the bank’s small business lending performance in the moderate-income census tracts generally mirrors D&B data.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate	35.1	18	37.5	6,390	55.9
Middle	38.1	16	33.3	2,818	24.6
Upper	26.7	14	29.2	2,225	19.5
Not Available	0.0	0	0.0	0	0.0
Totals	100.0	48	100.0	11,433	100.0

Source: 2021 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%

Home Mortgage Loans

As depicted in the following table, the geographic distribution of home mortgage loans reflects excellent dispersion throughout the assessment area, as the bank’s lending performance in the moderate-income census tracts exceeds ACS and aggregate data.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Moderate	20.0	11.6	3	30.0	691	20.0
Middle	55.3	51.1	5	50.0	1,063	30.8
Upper	24.8	37.4	2	20.0	1,700	49.2
Not Available	0.0	0.0	0	0.0	0	0.0
Totals	100.0	100.0	10	100.0	3,454	100.0

Source: 2015 ACS; Bank Data, 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%

Borrower Profile

Overall, the distribution of borrowers reflects poor penetration among businesses of different revenue sizes and individuals of different income levels. This conclusion is primarily supported by the bank's poor small business lending performance, which was given the greatest weight in the assessment area. However, the bank's home mortgage lending performance was reasonable.

Small Business Loans

The distribution of small business loans in the assessment area reflects poor penetration to businesses with revenues of \$1 million or less. As reflected in the following table, the bank's performance of lending to businesses with revenues of \$1 million or less is significantly less than demographic data. Since demographic data is from a voluntary survey request to businesses, it is only used as a general indicator of business demographics within the assessment area. Additionally, 6 of the 15 sampled loans to businesses with revenues greater than \$1 million were to 3 entities, resulting in data that is somewhat skewed. Nonetheless, the bank's performance has declined since the previous evaluation at which time it reflected poor performance. At the previous evaluation, 69.2 percent of the bank's lending was to businesses with revenues of \$1 million or less compared to demographic data of 80.4 percent for the same revenue category.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	87.0	9	37.5	974	17.0
>\$1,000,000	4.1	15	62.5	4,741	83.0
Revenue Not Available	8.9	0	0.0	0	0.0
Total	100.0	24	100.0	5,715	100.0

Source: 2021 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%

Home Mortgage Loans

The bank's performance of originating home mortgage loans to borrowers of different income levels is reasonable. A significant portion of the bank's home mortgage lending is for commercial properties, such as rental properties, which skews all borrower income levels, including low- and moderate-income borrowers. Furthermore, home mortgage lending is not a primary focus of the bank. Given this information, along with the percent of households that live below the poverty level and may not qualify for home mortgage financing, the bank's performance is considered reasonable. The following table provides details.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	19.0	7.7	0	0.0	0	0.0
Moderate	18.1	19.5	1	10.0	28	0.8
Middle	24.4	22.9	0	0.0	0	0.0
Upper	38.5	34.7	2	20.0	1,639	47.5
Not Available	0.0	15.2	7	70.0	1,787	51.7
Totals	100.0	100.0	10	100.0	3,454	100.0

*Source: 2015 ACS; Bank Data, 2020 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0%*

COMMUNITY DEVELOPMENT TEST

Cornerstone Bank demonstrated excellent responsiveness to the community development needs in the Sioux Falls MSA Assessment Area through community development loans, qualified investments, and community services considering the institution’s capacity and the need and availability of such opportunities in the assessment area.

Community Development Loans

The institution originated 29 community development loans totaling \$12.1 million in the Sioux Falls MSA Assessment Area. The activity included 15 PPP loans totaling \$6.8 million, which provided revitalization and stabilization or economic development in the assessment area. It also includes 8 loans totaling \$2.3 million that promoted economic development, and 6 loans totaling \$3.0 million that supported affordable housing initiatives. This activity did not include community development loans in the statewide or regional area that indirectly benefited the assessment area. The community development lending activity in this assessment area represented 7.9 percent of the bank’s overall community development lending by dollar volume, which is an improvement from the previous evaluation. Specifically, at the prior evaluation, the bank’s two community development loans totaled \$1.2 million. Even by excluding PPP loans and loans in the statewide or regional area, the volume of community development loans in this assessment area increased by almost \$4.1 million since the prior evaluation.

Qualified Investments

The bank made 5 qualified investments totaling \$4.4 million that specifically benefited the Sioux Falls MSA Assessment Area. This consisted of 2 investments that provided affordable housing targeted to low- and moderate-income individuals, which is an identified need in the assessment area. It also includes 3 donations that supported community services targeted to low- and moderate-income individuals. However, this did not include qualified investments that impacted assessment areas in the statewide or regional area. The level of qualified investments in this assessment area alone represented 15.8 percent of the total qualified investments by dollar volume, which is a significant improvement from the previous evaluation. Specifically, at the previous evaluation, the bank made 3 qualified investments totaling \$1,000 that accounted for 0.03 percent of the total qualified investments.

Community Development Services

During the evaluation period, bank representatives provided 9 instances of financial expertise or technical assistance to 3 community development organizations within the assessment area. This reflected 23.1 percent of all community development services offered by the institution during the evaluation period. The services provided affordable housing initiatives for low- or moderate-income individuals, community services targeted to low- or moderate-income individuals, and services to organizations that promote economic development. The level of services at the current evaluation increased from the previous evaluation, at which time bank employees provided 1 service to an organization that promoted community development.

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.

SUMMARY OF RATINGS FOR RATED AREAS

Rated Area	Lending Test	Community Development Test	Rating
North Dakota	Satisfactory	Outstanding	Satisfactory
South Dakota	Satisfactory	Outstanding	Satisfactory

GLOSSARY

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

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

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

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

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

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

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

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

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

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals

who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

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

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

Community Development Loan: A loan that:

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

Community Development Service: A service that:

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

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

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

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

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or

- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

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

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

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (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.