

PUBLIC DISCLOSURE

December 13, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Lowry State Bank
Certificate Number: 10202

400 Florence Avenue
Lowry, Minnesota 56349

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 more than reasonable given the institution's size, financial condition, and assessment area credit needs.
- A substantial majority of loans were originated within the bank's assessment area.
- 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.
- The distribution of borrowers reflects reasonable penetration among individuals of different income levels and farms and businesses of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

DESCRIPTION OF INSTITUTION

Lowry State Bank's sole office is located in Lowry, Minnesota. The institution is located in northern Pope County, which is located in the west-central portion of the state. Lowry State Bank is owned by Financial Services of Lowry, Inc., a multi-bank holding company also located in Lowry. The First National Bank of Osakis, Osakis, Minnesota, was purchased by the holding company since the prior evaluation. Additionally, the bank continues to be affiliated with Glenwood State Bank, Glenwood, Minnesota, through common ownership. The institution received a Satisfactory rating at its previous FDIC Performance Evaluation, dated January 11, 2016, based on Interagency Small Institution Examination Procedures.

Lowry State Bank offers a variety of loan products, including home mortgage, agricultural, commercial, and consumer loans. Specifically, the bank offers 5-year balloon fixed-rate home mortgage loans. Lowry State Bank also originates and then sells conventional home mortgage loans to the secondary market as well as specialty loans through entities such as USDA Rural Development and Rural Housing Authority and the Farmers Home and Veterans Administrations. With regard to agricultural and commercial loans, the bank participates in various government, state, and locally sponsored loan programs through the Small Business Administration (SBA), Federal Agricultural Mortgage Corporation (Farmer Mac), and the USDA Farm Service Agency. To assist farm and business operators struggling with the impact of the Coronavirus pandemic in

2020 and 2021, the bank gathered documentation and referred 125 loan applications totaling \$2.9 million to an affiliate for origination through the SBA’s Paycheck Protection Program. The bank also finances or refinances vehicles, ATVs, boats, and campers, as well as offering debt consolidation assistance and other personal loans. Home mortgage, agricultural and commercial lending continue to share the bank’s business focus. Lowry State Bank also provides a variety of standard deposit services, including checking and savings accounts and certificates of deposit.

The bank makes available a broad array of alternative banking services, which include internet and mobile banking, (with mobile deposit and person-to-person payments), electronic bill pay, and two bank-owned ATMs. A cash-dispensing ATM is located at the bank’s office in Lowry, while a deposit-taking ATM is available in the nearby town of Starbuck, Minnesota. Additionally, the bank continues to share some services with the affiliated Glenwood State Bank. For customer convenience, deposits, withdrawals, and loan payments can be made at any Glenwood State Bank office, but will be directed to the customer’s deposit account or loan at Lowry State Bank. For further ease in access, loan applications can now be submitted through the bank’s website and the loan documents signed electronically.

As of September 30, 2021, the institution reported total assets of \$63.0 million, total deposits of \$49.2 million, and net loans of \$52.4 million. Since the previous evaluation, deposits have increased by 26.3 percent, while net loans have increased by 27.8 percent. Management attributed these changes to organic growth stemming from a strong local economy throughout the review period. The following table reflects the loan portfolio as of September 30, 2021; however, home mortgage loans originated by the bank and sold on the secondary market are not reflected here.

Loan Portfolio Distribution as of 9/30/2021		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	3,241	6.1
Secured by Farmland	7,256	13.7
Secured by 1-4 Family Residential Properties	17,669	33.3
Secured by Multifamily (5 or more) Residential Properties	589	1.1
Secured by Nonfarm Nonresidential Properties	3,851	7.3
Total Real Estate Loans	32,606	61.5
Commercial and Industrial Loans	8,861	16.7
Agricultural Production and Other Loans to Farmers	5,783	10.9
Consumer Loans	4,219	8.0
Obligations of State and Political Subdivisions in the U.S.	1,550	2.9
Other Loans	12	0
Lease Financing Receivable (net of unearned income)	0	0
Less: Unearned Income	(0)	0.0
Total Loans	53,031	100.0
<i>Source: Reports of Condition and Income</i>		

Other than the bank’s legal lending limit, examiners did not identify any financial, legal, or other impediments that affect the bank’s ability to meet assessment area credit needs.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires financial institutions to define one or more assessment areas within which its CRA performance will be evaluated. State Bank of Lowry has designated Pope and Douglas counties, which are located in a nonmetropolitan area in west-central Minnesota, as its assessment area. Pope County consists of four middle-income geographies, while Douglas County is comprised of eight middle- and one upper-income geography.

Economic and Demographic Data

The following table illustrates select demographic characteristics of the assessment area. Population demographics remain relatively unchanged since the prior evaluation.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	13	0.0	0.0	92.3	7.7	0.0
Population by Geography	47,568	0.0	0.0	92.9	7.1	0.0
Housing Units by Geography	26,891	0.0	0.0	92.6	7.4	0.0
Owner-Occupied Units by Geography	15,725	0.0	0.0	92.1	7.9	0.0
Occupied Rental Units by Geography	4,643	0.0	0.0	98.2	1.8	0.0
Vacant Units by Geography	6,523	0.0	0.0	89.8	10.2	0.0
Businesses by Geography	5,000	0.0	0.0	94.2	5.8	0.0
Farms by Geography	474	0.0	0.0	93.0	7.0	0.0
Family Distribution by Income Level	13,463	15.0	18.1	24.4	42.4	0.0
Household Distribution by Income Level	20,368	21.0	15.3	19.2	44.5	0.0
Median Family Income Non-MSAs - MN		\$63,045	Median Housing Value			\$182,327
			Median Gross Rent			\$712
			Families Below Poverty Level			5.1%

Source: 2015 ACS and 2020 D&B Data; Due to rounding, totals may not equal 100.0%
 (*) The NA category consists of geographies that have not been assigned an income classification.

The Federal Financial Institutions Examination Council (FFIEC)-updated median family income level, presented below, is used to analyze home mortgage loans under the Borrower Profile criterion.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Minnesota nonmetropolitan Median Family Income				
2020 (\$70,900)	<\$35,450	\$35,450 to <\$56,720	\$56,720 to <\$85,080	≥\$85,080

Source: FFIEC

According to 2020 D&B data, service industries represent the largest portion of business and farm operations at 32.3 percent followed by non-classifiable establishments at 15.2 percent and retail trade and construction at 11.0 and at 10.5 percent. Additionally, 66.8 percent of assessment area businesses and farms have 4 or fewer employees, and 90.5 percent operate from a single location. Bank management stated that unemployment has had minimal impact in the immediate area throughout the review period.

Competition

Lowry State Bank operates in a competitive banking market. According to June 30, 2021 FDIC Deposit Market Share data, 17 financial institutions operate 26 offices within the assessment area. Of these institutions, Lowry State Bank ranked eleventh with 2.4 percent of the deposit market share. Bank management stated that AgCounty Farm Credit Services is also a source of significant competition, due to lower rates, as well as direct financing options through automobile and implement dealerships.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit opportunities are available. For this evaluation, examiners utilized an existing community contact interview conducted with a representative of an agricultural-related organization in the assessment area.

The contact stated that the primary credit need in the assessment area is agricultural loans, followed by commercial and home mortgage loans. The contact indicated that the economy of the assessment area has remained generally stable during the past several years; however, lower commodity prices in 2020 took a toll on local farmers. The contact believed that declines in the agricultural industry impact other area businesses. However, the contact further stated that while the area is fairly dependent on agriculture and agriculturally-related businesses, the area is fortunate to have other industries such as healthcare, manufacturing, and education. The contact further indicated financial institutions have been responsive to the credit needs in the assessment area.

Credit Needs

Considering information from the community contact, bank management, and demographic and economic data, examiners concurred that home mortgage, agricultural, and commercial loans all represent credit needs in the assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated January 11, 2016, to the current evaluation dated December 13, 2021. Examiners used Interagency Small Institution Examination Procedures to evaluate Lowry State Bank's CRA performance. These procedures require examiners to evaluate the bank's performance under the Lending Test. Factors considered in the Lending Test are detailed in the Appendices. The evaluation did not include any lending activity performed by affiliates.

Activities Reviewed

Bank records indicated that the lending focus and product mix remained consistent throughout the evaluation period. Major product lines are home mortgage, agricultural, and commercial loans. This conclusion was based on the bank’s business strategy, loan portfolio distribution, and bank records regarding the number and dollar volume of loans originated or renewed during the evaluation period. For the Assessment Area Concentration analysis, examiners reviewed home mortgage, small farm and small business loans originated, renewed, extended, or purchased in 2020. This timeframe was stated by bank management to be representative of the bank’s performance during the entire evaluation period. Samples of loans that were located in the assessment area were randomly selected for the Borrower Profile analysis. The following table details the loan universes and samples selected for review.

Loan Products Reviewed				
Loan Category	Universe		Reviewed	
	#	\$(000s)	#	\$(000s)
Home Mortgage	73	9,718	36	4,959
Small Farm	128	8,206	47	3,040
Small Business	129	11,062	47	4,437

Source: Bank Data

Each of the products reviewed received equal weight when drawing overall conclusions. Home mortgage lending was compared to 2015 American Community Survey (ACS) data while 2020 D&B data provided a standard of comparison for the small farm and small business loans. In addition to publicly available information, D&B data includes information from farms and businesses in the assessment area that voluntarily respond to a survey request, including small entities that have limited or no credit needs. Therefore, examiners use D&B data simply as a general indicator of demographics within the assessment area. While both the number and dollar volume of loans are presented, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of individuals, farms, and businesses served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Lowry State Bank demonstrated satisfactory performance under the Lending Test. Loan-to-Deposit Ratio, Assessment Area Concentration, and Borrower Profile performance all support this conclusion.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is more than reasonable given the institution’s size, financial condition, and assessment area credit needs. The institution’s net loan-to-deposit ratio, calculated from Reports of Condition and Income, averaged 109.8 percent over the past 23 calendar quarters from March 31, 2016, to September 30, 2021. The ratio fluctuated between 86.2 and 124.8 percent during this period. Management attributed the fluctuations to seasonal lending and borrowers being

more conservative at the height of pandemic concerns. Bank management stated their business model is a strong commitment to make loans and this is reflected in the loan-to-deposit ratio. Although there is a high level of competition, the bank historically maintains a higher loan-to-deposit ratio than comparable banks. Comparable institutions, shown below, were selected based on their asset size, branching structure, geographic location, and lending focus. Additionally, as of September 30, 2021, Lowry State Bank’s loan-to-deposit ratio ranked fourth out of 264 reporting banks in the State of Minnesota.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 9/30/2021 (\$000s)	Average Net LTD Ratio (%)
Hometown Community Bank Cyrus, Minnesota	75,363	89.2
Lowry State Bank Lowry, Minnesota	63,044	109.8
The First National Bank of Osakis Osakis, Minnesota	90,751	73.4

Source: Reports of Condition and Income 3/31/2016 – 9/30/2021; listed in alphabetical order by city

It should also be noted that in an effort to assist borrowers requesting funds over the bank’s legal ending limit, the bank actively buys and sells participated loans with affiliates also located in the assessment area. Since the prior evaluation, there have been 79 loans totaling \$18.3 million sold and 51 loans totaling \$18.1 million purchased.

Assessment Area Concentration

Lowry State Bank originated a substantial majority of its home mortgage, small farm, and small business loans within the assessment area.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage	55	75.3	18	24.7	73	7,362	75.8	2,356	24.2	9,718
Small Farm	119	93.0	9	7.0	128	8,031	97.9	175	2.1	8,206
Small Business	112	86.8	17	13.2	129	9,676	87.5	1,386	12.5	11,062

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

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, examiners did not evaluate this criterion.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among individuals of different income levels, and farms and businesses of different sizes. Examiners focused on the percentage of loans to low- and moderate-income borrowers and farm and business operations with gross annual revenues of \$1 million or less.

Home Mortgage

The distribution of home mortgage loans reflects excellent penetration of loans to individuals of different income levels. The bank's lending to both low- and moderate-income borrowers exceeds the comparable data.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	15.0	7	19.4	349	7.0
Moderate	18.1	9	25.0	755	15.2
Middle	24.4	7	19.4	1,367	27.6
Upper	42.4	13	36.1	2,488	50.2
Total	100.0	36	99.9	4,959	100.0

Source: 2015 ACS; Bank Data; Due to rounding, totals may not equal 100.0%

Small Farm

The distribution of borrowers reflects reasonable penetration among farms with gross annual revenues of \$1 million or less. As shown in the following table, the bank's small farm lending performance lags demographic data; however, many small farms may not require credit to fund their operations. As indicated earlier, D&B data is used merely as general indicator of demographics within the assessment area. The high level of competition for this loan type from AgCounty Farm Credit Services as well as other financial institutions is also considered.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	97.7	43	91.5	2,289	75.3
>\$1,000,000	1.9	4	8.5	751	24.7
Revenue Not Available	0.4	0	0.0	0	0.0
Total	100.0	47	100.0	3,040	100.0

Source: 2020 D&B Data, Bank Data; Due to rounding, totals may not equal 100.0%

Small Business

The distribution of borrowers reflects reasonable penetration among businesses with gross annual revenues of \$1 million or less when compared to D&B data. The bank's performance closely mirrors 2020 D&B demographic data for businesses with gross annual revenues of \$1 million or less.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	85.6	40	85.1	2,978	67.1
>\$1,000,000	4.8	7	14.9	1,459	32.9
Revenue Not Available	9.6	0	0.0	0	0.0
Total	100.0	47	100.0	4,437	100.0
<i>Source: 2020 D&B Data, Bank Data; Due to rounding, totals may not equal 100.0%</i>					

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.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

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

APPENDICES

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).

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.

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.

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.

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.

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 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.

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.