

PUBLIC DISCLOSURE

September 27, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Minnesota Lakes Bank
RSSD# 157650

710 Babcock Boulevard East
Delano, MN 55328

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

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

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Definitions for many of the terms used in this performance evaluation can be found in section 228.12 of Regulation BB. For additional convenience, a Glossary of Common CRA Terms is attached as Appendix C at the end of this performance evaluation.

INSTITUTION'S CRA RATING

Minnesota Lakes Bank (the bank) is rated **Satisfactory**. This rating is based on the following conclusions with respect to the performance criteria:

- The bank's net loan-to-deposit (NLTD) ratio is reasonable given the bank's size and financial condition, and credit needs of the assessment area (AA).
- A majority of the bank's loans, by number, are originated inside the AA.
- A reasonable distribution of loans occurs throughout the bank's AA.
- Lending reflects an excellent penetration among businesses of different sizes.
- Neither the bank nor this Reserve Bank received any CRA-related complaints since the previous evaluation.

SCOPE OF EXAMINATION

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

- The bank's 17-quarter average NLTD ratio.
- A statistical sample of 65 small business loans originated between January 1, 2020, and December 31, 2020. As shown in Table 1, commercial loans represent the majority of the bank's loan portfolio.

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

DESCRIPTION OF INSTITUTION

Minnesota Lakes Bank is a community bank headquartered in Delano, Minnesota. The bank's characteristics include the following:

- The bank is a wholly owned subsidiary of Wilcox Bancshares, Inc.
- Grand Rapids State Bank, Grand Rapids, Minnesota, is an affiliate.
- The bank has total assets of \$144.6 million as of June 30, 2021.
- In addition to its main office in Delano, the bank has a branch located in Mound, Minnesota, and a loan production office (LPO) in Buffalo, Minnesota.

- The main office and branch have drive-up services and operate cash-dispensing-only ATMs. The bank also operates two cash-dispensing-only ATMs located in Delano at local businesses.
- As shown in the table below, the bank’s primary business focus is commercial lending. The bank also offers residential real estate and consumer loans. In 2020 and 2021, the bank actively participated in Paycheck Protection Program (PPP) lending through the Small Business Administration; the bank originated 480 PPP loans totaling \$35.8 million. These loans are designed to help businesses keep their workforces employed during the Coronavirus (COVID-19) crisis. The overall composition of the loan portfolio has remained relatively consistent since the previous evaluation and total loans increased by 56.9%.

Table 1		
Composition of Loan Portfolio as of June 30, 2021		
Loan Type	\$(000)	%
Agriculture	709	0.8
Commercial	72,936	85.9
Consumer	1,292	1.5
Residential Real Estate	9,489	11.2
Other	492	0.6
Gross Loans	84,918	100.0
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>		

The bank was rated Satisfactory under the CRA at its June 5, 2017, performance evaluation. There are no known legal, financial, or other factors impeding the bank’s ability to help meet the credit needs in its communities.

DESCRIPTION OF ASSESSMENT AREA

The bank’s AA consists of the west central portion of the Minneapolis-St. Paul-Bloomington, MN-WI MSA (MSA). It includes portions of Wright, Hennepin, and Carver counties. See Appendix A for AA maps and Appendix B for additional demographic data.

- The bank changed its AA delineation since the previous evaluation by adding 10 more census tracts: one in Carver County and nine in Hennepin County. The AA now consists of 26 tracts, which includes 14 middle-income and 12 upper-income tracts. The income classifications of some tracts have also changed since the previous evaluation.¹
- According to the June 30, 2021, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, the bank ranks 44 out of 87 FDIC-insured institutions with offices in Carver, Hennepin, and Wright counties, and holds 0.1% of the deposits.

¹ Three tracts in Hennepin County (270.02, 271.02, and 272.03) changed from upper income to middle income.

- Examiners spoke with community contacts who are familiar with the local business economy.

Table 2 Population Change			
Area	2010 Population	2015 Population	% Change
Carver County	91,042	95,715	5.1
Hennepin County	1,152,425	1,197,776	3.9
Wright County	124,700	128,691	3.2
Minneapolis-St. Paul-Bloomington, MN-WI MSA	3,333,633	3,443,769	3.3
Minnesota	5,303,925	5,419,171	2.2
<i>Source: 2010 U.S. Census Bureau: Decennial Census 2011 – 2015 U.S. Census Bureau: American Community Survey</i>			

- As shown in Table 2, the population growth for each county is typically consistent with the growth for the entire MSA and the state of Minnesota.
- A community contact indicated that Delano is growing rapidly and another contact indicated that the population of Mound is aging.

Table 3 Median Family Income Change			
Area	2010 Median Family Income	2015 Median Family Income	% Change
Carver County	\$100,632	\$101,963	1.3
Hennepin County	\$88,252	\$87,230	-1.2
Wright County	\$83,458	\$82,991	-0.6
Minneapolis-St. Paul-Bloomington, MN-WI MSA	\$86,229	\$84,589	-1.9
Minnesota	\$77,650	\$77,055	-0.8
<i>Source: 2006 – 2010 U.S. Census Bureau: American Community Survey 2011 – 2015 U.S. Census Bureau: American Community Survey</i>			
<i>Note: Median family incomes have been inflation-adjusted and are expressed in 2015 dollars.</i>			

- As shown in Table 3, the median family income for each county in the AA is higher than the state of Minnesota, and typically higher than the MSA. The median family income for each county, the MSA, and the state has been stable.
- Bank management and community contacts indicated that many AA residents commute to other areas of the Twin Cities for work at higher paying jobs, contributing to labor shortages for local businesses.

Table 4 Unemployment Rates				
Area	2017	2018	2019	2020
Carver County	2.9%	2.5%	2.7%	5.2%
Hennepin County	3.0%	2.6%	2.7%	6.6%
Wright County	3.5%	3.1%	3.2%	5.5%
Minneapolis-St. Paul-Bloomington, MN-WI MSA	3.2%	2.8%	2.9%	6.4%
Minnesota	3.4%	3.0%	3.2%	6.2%

Source: Bureau of Labor Statistics: Local Area Unemployment Statistics

- Unemployment rates were consistent from 2017 to 2019 and then spiked in 2020, as shown in Table 4. The COVID-19 pandemic contributed to the unemployment rate due to several business shutdowns. A community contact noted that certain sectors, such as hospitality, suffered the most and many operators struggled to maintain staff. Essential service retailers, like grocery and hardware stores, were less impacted because they remained open. The shutdowns did not appear to significantly impact the financial service or the industrial sectors.
- Another community contact stated Wright County, like other areas, is experiencing ongoing labor force issues with baby boomers retiring at a higher rate than people entering the workforce.
- Industry differs within the AA based on the various communities. Mound mainly has a retail and service sector, many home-based businesses, minimal manufacturing, and some marine businesses. The largest employer is the school district. Other communities have industrial parks with larger-scale manufacturing, medical facilities, construction, and financial services, as well as retail and services.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Lending to Businesses of Different Sizes

The borrower distribution of small business lending is excellent. Table 5 shows the bank’s small business lending in the AA. The bank extended 79.4% of its small business loans to businesses with gross annual revenues of \$1 million or less, which is below demographics (91.8%). Nonetheless, the bank’s small business lending is excellent. The bank’s active participation in the PPP loan program is particularly responsive to credit needs of small businesses and enhances the bank’s performance. The bank also operates in a competitive environment that includes several national and regional banks along with credit unions. A community contact stated that many home-based businesses operate in the city of Mound. Smaller, home-based businesses may use a credit card for expenses and have less demand for bank loans. Finally, the majority (58.8%) of the bank’s small business loans were for \$100,000 or less, which indicates a willingness to serve the needs of smaller businesses in the AA.

Table 5 Distribution of Small Business Lending by Revenue Size of Businesses					
	Bank Loans				Total Businesses %
	#	#%	\$(000)	%	
By Revenue					
\$1 Million or Less	27	79.4	3,124	72.0	91.8
Over \$1 Million	7	20.6	1,216	28.0	6.7
Revenue Unknown	0	0.0	0	0.0	1.6
Total	34	100.0	4,339	100.0	100.0
By Loan Size					
\$100,000 or Less	20	58.8	885	20.4	
\$100,001 - \$250,000	9	26.5	1,489	34.3	
\$250,001 - \$1 Million	5	14.7	1,966	45.3	
Total	34	100.0	4,339	100.0	
By Loan Size and Revenue \$1 Million or Less					
\$100,000 or Less	18	66.7	771	24.7	
\$100,001 - \$250,000	6	22.2	1,011	32.4	
\$250,001 - \$1 Million	3	11.1	1,342	43.0	
Total	27	100.0	3,124	100.0	
<i>Source: 2020 FFIEC Census Data 2020 Dun & Bradstreet Data 2011 - 2015 U.S. Census Bureau: American Community Survey</i>					
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>					

Net Loan-to-Deposit Ratio

This performance criterion evaluates the bank's average NLTD ratio to determine the reasonableness of lending in light of performance context, such as the bank's capacity to lend, the availability of lending opportunities, the demographic and economic factors present in the AA, and in comparison to similarly situated FDIC-insured institutions. The similarly situated institutions were selected based on asset size, product offerings, market share, and area where they operate. The bank's NLTD ratio is reasonable.

Table 6 Comparative NLTD Ratios June 30, 2017, to June 30, 2021			
Institution	Location	Asset Size \$(000)	NLTD Ratio (%)
			17 Quarter Average
Minnesota Lakes Bank	Delano, Minnesota	\$144.6	74.1
Similarly Situated Institutions			
Bank of Maple Plain	Maple Plain, Minnesota	\$110.1	54.7
Lake Community Bank	Long Lake, Minnesota	\$146.8	79.9

The bank’s average NLTD ratio for the past 17 quarters is 74.1%. At the previous evaluation, the bank’s 23-quarter average NLTD was 50.6%. Since then, the bank’s average NLTD ratio has increased because of loan growth, especially for commercial loans. According to bank management, loan demand in recent years has been average except for PPP loans, which were in high demand. The bank’s NLTD has ranged from 64.7% to 79.7% during the evaluation period; overall, the NLTD ratio does not widely fluctuate.

The NLTD ratio for the bank as of June 30, 2021, is 64.7%, which is slightly below the peer group ratio of 69.1%. The bank’s peer group includes insured commercial banks having assets between \$100 million and \$300 million, with two or fewer full-service offices located in an MSA. As shown in Table 6, the bank’s average NLTD ratio was below one similarly situated institution and well above another.

Assessment Area Concentration

This performance criterion evaluates the percentage of lending extended inside and outside of the AA. The bank originated a majority (52.3%) of its loans, by number, inside the AA, as shown in Table 7. Since the previous evaluation, the bank gained new customers that operate in the Twin Cities but are outside of the bank’s AA. Accordingly, the bank expanded its AA by 10 tracts. Of the 31 small business loans outside the AA, the bank made numerous loans to businesses operating in tracts or counties that are part of the Minneapolis-St. Paul MSA but not the bank’s AA, especially in Hennepin County. The bank also engages in small business lending with customers operating in northern Minnesota, where the bank’s affiliate Grand Rapid State Bank operates.

Finally, while the percentage of the bank’s loans, by dollar, inside the AA is 37.3%, nine of the 10 largest loans in the sample were to borrowers outside the AA.

Table 7 Lending Inside and Outside the Assessment Area								
Loan Type	Inside				Outside			
	#	#%	\$(000)	%	#	#%	\$(000)	%
Small Business	34	52.3	\$4,339	37.3	31	47.7	\$7,296	62.7
Total Loans	34	52.3	\$4,339	37.3	31	47.7	\$7,296	62.7

Note: Percentages may not total 100.0 percent due to rounding.

Geographic Distribution of Loans

This performance criterion evaluates the bank’s distribution of lending within its AA by income level of census tracts, with consideration given to the dispersion of loans throughout the AA. The bank’s geographic distribution of small business loans reflects reasonable distribution among the different tracts and dispersion throughout the AA. No unexplained gaps in lending were identified. As stated previously, the AA consists of 14 middle- and 12 upper-income tracts. The

bank did not extend any small business loans in six middle- and nine upper-income tracts, mostly all in Hennepin County, where many financial institutions operate. The bank made 66.4% of its loans by dollar in Wright County, where the main office is located.

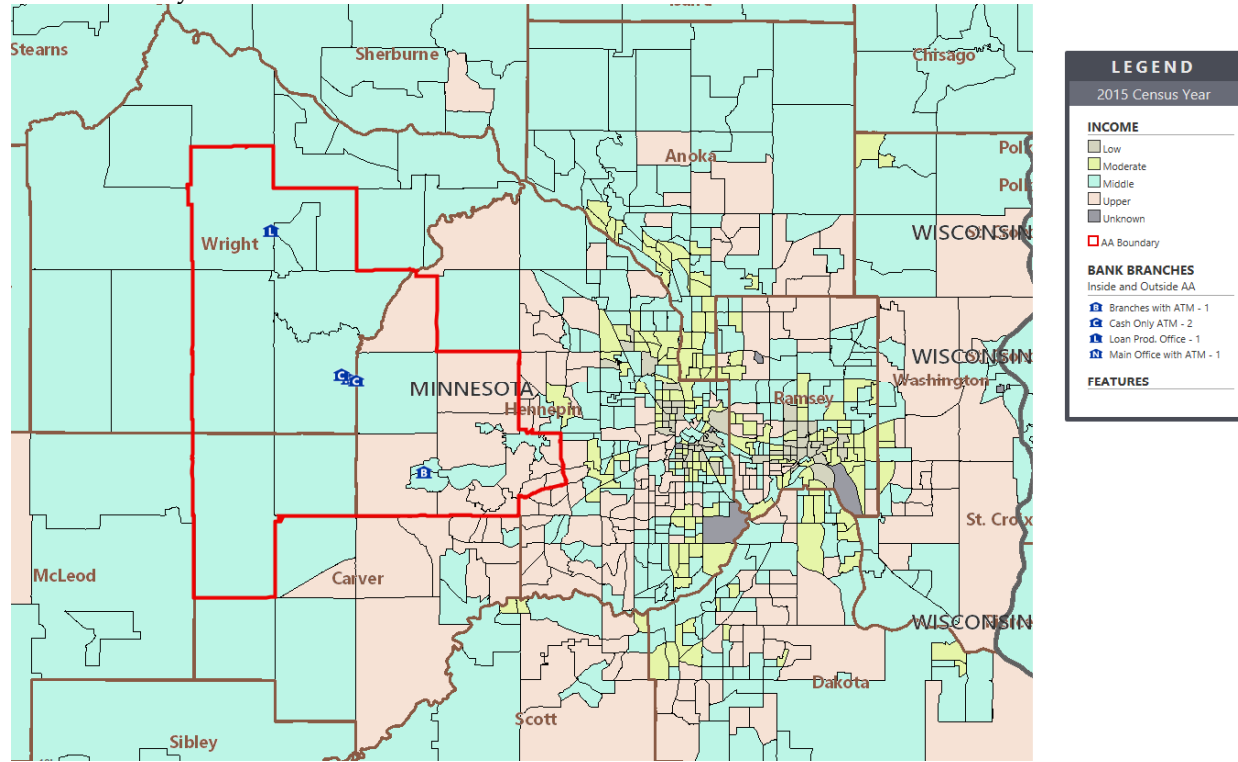
Table 8					
Distribution of Small Business Lending by Income Level of Geography					
Census Tract Income Level	Bank Loans				Total Businesses %
	#	#%	\$(000)	%	
Low	0	0.0	0	0.0	0.0
Moderate	0	0.0	0	0.0	0.0
Middle	26	76.5	3,556	82.0	52.5
Upper	8	23.5	783	18.0	47.5
Total	34	100.0	4,339	100.0	100.0
<i>Source: 2020 FFIEC Census Data 2020 Dun & Bradstreet Data 2011 – 2015 U.S. Census Bureau: American Community Survey</i>					
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>					

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

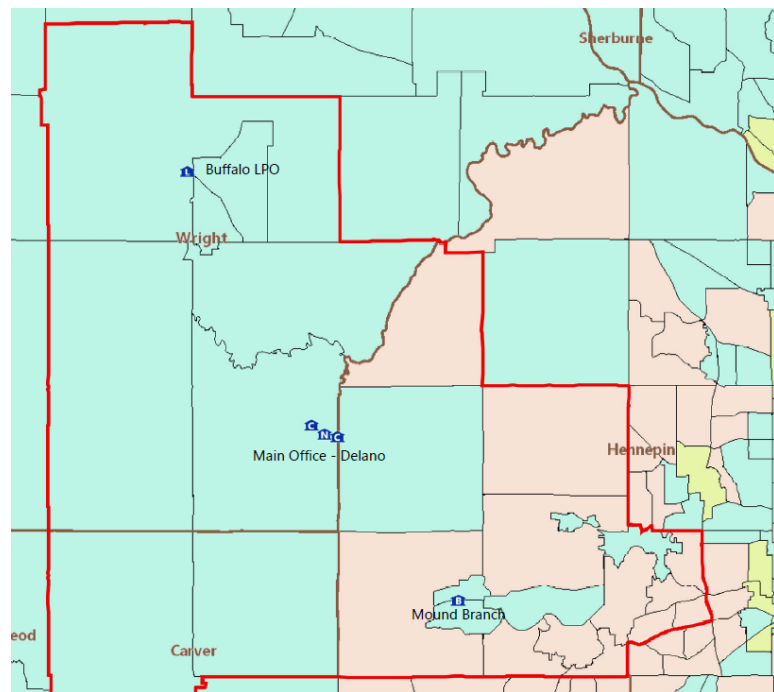
The examination did not reveal any evidence of violations of antidiscrimination laws or regulations (including Regulation B – Equal Credit Opportunity Act and the Fair Housing Act) or other illegal credit practices inconsistent with the bank helping to meet community credit needs.

APPENDIX A – MAPS OF THE ASSESSMENT AREA

AA Boundary



Office and ATM Details



APPENDIX B – DEMOGRAPHIC INFORMATION

Minneapolis-St. Paul MSA Assessment Area DEMOGRAPHICS								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	5,218	14.2
Moderate	0	0.0	0	0.0	0	0.0	5,684	15.5
Middle	14	53.8	21,509	58.5	1,021	4.7	7,899	21.5
Upper	12	46.2	15,251	41.5	381	2.5	17,959	48.9
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	26	100.0	36,760	100.0	1,402	3.8	36,760	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	0	0	0.0	0.0	0	0.0	0	0.0
Middle	33,306	23,796	57.6	71.4	7,403	22.2	2,107	6.3
Upper	21,614	17,496	42.4	80.9	2,897	13.4	1,221	5.6
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	54,920	41,292	100.0	75.2	10,300	18.8	3,328	6.1
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	5,159	52.5	4,728	52.5	350	53.4	81	52.9
Upper	4,662	47.5	4,285	47.5	305	46.6	72	47.1
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	9,821	100.0	9,013	100.0	655	100.0	153	100.0
Percentage of Total Businesses:				91.8		6.7		1.6
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	231	76.2	229	76.8	2	40	0	0.0
Upper	72	23.8	69	23.2	3	60	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	303	100.0	298	100.0	5	100.0	0	0.0
Percentage of Total Farms:				98.3		1.7		0.0
Source: 2020 FFIEC Census Data and 2020 Dun & Bradstreet Data								
Note: Percentages may not total 100.0 percent due to rounding.								

APPENDIX C – GLOSSARY

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

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

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

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

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

Full-scope review: Performance is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

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

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

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

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

Limited-scope review: Performance is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

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

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

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

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

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

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

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

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

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area. For these institutions, no state ratings will be received unless the bank also maintains deposit facilities outside of the multistate metropolitan area. CRA activity is captured in either a state rating or a multistate metropolitan area rating, but not both.

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

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

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