

## **PUBLIC DISCLOSURE**

April 4, 2011

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Community Bank Corporation  
706 Walnut Street North  
Chaska, Minnesota 55318  
RSSD 2855156

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

NOTE: 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 the 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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*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 A at the end of this performance evaluation.*

**INSTITUTION’S CRA RATING:** This institution is rated “Satisfactory.”

The CRA performance of Community Bank Corporation, Chaska, Minnesota, was evaluated using the Small Bank CRA Evaluation Procedures. Based on the bank’s asset size, financial condition, and location, the bank effectively meets the credit needs of the small businesses and residents in the assessment area. Several factors support the bank’s satisfactory rating.

- The bank’s lending to businesses with gross annual revenues of \$1 million or less and to low- and moderate-income borrowers is good.
- The geographic distribution and dispersion of loans are reasonable, and no unexplained gaps in lending were identified.
- The bank originated the majority of its loans within its assessment area.
- The net loan-to-deposit ratio reflects a reasonable level of lending.

**SCOPE OF EVALUATION**

This evaluation is based on the bank’s small business, consumer, residential real estate, and home equity line of credit (HELOC) lending. The following statistical samples were included in the evaluation: 57 small business loans, 60 consumer loans, 48 HELOCs, and 50 residential real estate loans. Because the bank is located in a metropolitan statistical area (MSA), the bank is required to report Home Mortgage Disclosure Act (HMDA) data. Accordingly, the bank’s 2009 and 2010 HMDA data was included in the analysis. The bank originated 36 HMDA loans in 2009 and 29 in 2010. The loans in the small business and HELOC samples were originated between July 1, 2010, and December 31, 2010. The loans in the consumer and residential real estate loan samples were originated between January 1, 2010, and December 31, 2010. The samples represent the bank’s major product lines. Table 1 displays the bank’s loan origination activity for 2010.

	<i>Number of Loans</i>	<i>% of Total Number</i>	<i>Total Loan Dollars</i>	<i>% of Total Dollars</i>
Commercial	165	35.3	\$ 74,935,749	59.3
Residential Real Estate	66	14.1	16,463,268	13.0
HELOC	101	21.6	13,315,286	10.5
Other	19	4.1	10,659,425	8.4
HMDA	30	6.4	9,076,000	7.2
Consumer	86	18.4	1,966,632	1.6
Agricultural	1	0.1	40,000	< 0.1
<b>Total</b>	<b>468</b>	<b>100.0</b>	<b>\$126,456,360</b>	<b>100.0</b>

For HMDA loans, this evaluation includes the home purchase, refinance, home improvement, and multifamily dwelling loans the bank originated in 2009 and 2010. The HMDA data for 2007 and 2008 was reviewed for consistency but is not included in the evaluation. In total, the bank originated 133 HMDA loans from 2007 through 2010. The statistical sample of 50 residential real estate loans includes the home purchase, refinance, home improvement, and multifamily dwelling loans that the bank

<sup>1</sup>Note: Because the percentages presented in the tables are rounded to the nearest tenth, some columns or rows may not total 100%.

originated and subsequently sold on the secondary market in addition to the portfolio loans secured by residential real estate that are not subject to HMDA reporting requirements.

Because of reporting definitions, the bank does not include loans sold on the secondary market in its HMDA data. Since residential real estate lending is one of the bank's major product lines, examiners evaluated a statistical sample of non-HMDA residential real estate loans.

HMDA data reported by aggregate lenders was also reviewed to better assess the bank's performance regarding HMDA lending. This evaluation refers to this loan information as aggregate lending data.

The following criteria were analyzed to determine the bank's CRA rating:

- Lending to businesses of different sizes and to borrowers of different income levels,
- Geographic distribution of loans,
- Lending inside the assessment area,
- Net loan-to-deposit ratio, and
- Record of responding to complaints about the bank's CRA performance.

The distribution of loans to businesses of different sizes and borrowers of different income levels received the greatest weight. The geographic distribution of the loans in the samples received less weight because the assessment area contains no low-income census tracts and only one moderate-income census tract. Lending inside the assessment area and the net loan-to-deposit ratio were weighted equally. The bank has not received any CRA-related complaints since the previous evaluation.

In addition to having discussions with bank management, examiners contacted members of the community familiar with economic conditions and demographic characteristics. Information from the community contacts and bank management was used in the evaluation of the bank's CRA performance. The community contacts did not identify any unmet credit needs in the bank's assessment area.

## **DESCRIPTION OF INSTITUTION**

Community Bank Corporation effectively meets the credit needs of its assessment area given its size, location, and credit products. At the previous CRA evaluation, dated January 16, 2007, the bank received a satisfactory rating.

*Offices.* The bank operates three offices in Minnesota. In addition to the full-service main office in Chaska, it operates one full-service office and one limited-service office in Chanhassen. The limited-service office is in a senior living facility. The Chaska and Chanhassen full-service offices have drive-up facilities and are open on Saturdays. Both full-service offices have deposit-taking automated teller machines.

*Alternative delivery methods.* Through the bank's Internet banking service, customers can manage their accounts and pay bills online. The bank also operates a 24-hour telephone banking system.

*Loan portfolio.* According to the December 31, 2010, Report of Condition (ROC), the bank's assets total \$193.8 million. The bank is primarily a commercial lender. According to the ROC, the composition of the \$128.8 million loan portfolio is 71.1% commercial, 17.5% HELOC, 6.9% residential real estate, 2.3% other, and 2.2% consumer loans. Since the previous evaluation in January 2007, the loan portfolio has

increased by 33.5% and total assets have increased by 45.8%. Overall, the composition of the loan portfolio has not changed significantly since the previous evaluation.

*Credit products.* The bank continues to offer a variety of credit products for commercial, residential real estate, and consumer purposes. In addition to conventional loan programs, the bank offers Small Business Administration loans.

*Market share.* The bank's three offices are located in Carver County. According to the June 30, 2010, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, of the 16 FDIC-insured institutions with offices in Carver County, the bank ranks third with 9.7% of the deposits. KleinBank, Big Lake, Minnesota, and Security Bank Waconia, Waconia, Minnesota, rank first and second with 45.7% and 10.7% of the market's deposits, respectively. Carver County is included in the Minneapolis-St. Paul-Bloomington, Minnesota-Wisconsin (Minneapolis-St. Paul) MSA. Of the 164 FDIC-insured institutions in the Minneapolis-St. Paul MSA, the bank holds 0.2% of the market's deposits and ranks 53rd.

In addition to small community banks, several large national and regional institutions operate branches in Chaska and Chanhassen. According to community contacts and bank management, the bank operates in a highly competitive market for loans and deposits.

## DESCRIPTION OF ASSESSMENT AREA

The bank defines its assessment area as all of Carver County and portions of Hennepin and Scott counties. The counties are part of the Minneapolis-St. Paul MSA. The assessment area has not changed since the previous evaluation. The bank includes the far southwestern corner of Hennepin County, which consists of 6 middle-income and 23 upper-income census tracts. The Scott County portion of the assessment area consists of 1 moderate-, 8 middle-, and 4 upper-income census tracts. There are no low-income census tracts in the assessment area.

Chaska is located approximately 27 miles southwest of Minneapolis, Minnesota. Chanhassen is approximately eight miles northeast of Chaska. Table 2 displays the demographic characteristics of the assessment area based on the 2000 U.S. Census and 2009 Dun & Bradstreet data.

<i>Income Categories</i>	<i>Tract Distribution</i>		<i>Families by Tract Income</i>		<i>Families &lt; Poverty Level as % of Families by Tract</i>		<i>Families by Family Income</i>	
	#	%	#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	7,070	10.1
Moderate Income	1	1.7	968	1.4	42	4.3	9,810	14.0
Middle Income	23	38.3	26,047	37.3	720	2.8	16,504	23.6
Upper Income	36	60.0	42,832	61.3	686	1.6	36,463	52.2
<b>Total Assessment Area</b>	<b>60</b>	<b>100.0</b>	<b>69,847</b>	<b>100.0</b>	<b>1,448</b>	<b>2.1</b>	<b>69,847</b>	<b>100.0</b>

**TABLE 2**  
**Assessment Area Demographics**

<i>Income Categories</i>	<i>Housing Units by Tract</i>	<i>Housing Types by Tract</i>							
		<i>Owner-Occupied</i>				<i>Rental</i>		<i>Vacant</i>	
		<i>#</i>	<i>%</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	
Low Income	0	0	0.0	0.0	0	0.0	0	0.0	
Moderate Income	1,615	823	1.1	51.0	768	47.6	24	1.5	
Middle Income	38,629	28,177	36.4	72.9	9,189	23.8	1,263	3.3	
Upper Income	56,814	48,448	62.6	85.3	6,864	12.1	1,502	2.6	
<b>Total Assessment Area</b>	<b>97,058</b>	<b>77,448</b>	<b>100.0</b>	<b>79.8</b>	<b>16,821</b>	<b>17.3</b>	<b>2,789</b>	<b>2.9</b>	
<i>Income Categories</i>	<i>Total Businesses by Tract</i>		<i>Businesses by Tract and Revenue Size</i>						
			<i>≤ \$1 Million</i>		<i>&gt; \$1 Million</i>		<i>Revenue Not Reported</i>		
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	
Low Income	0	0.0	0	0.0	0	0.0	0	0.0	
Moderate Income	179	1.0	167	1.1	6	0.5	6	0.8	
Middle Income	6,702	39.0	6,013	39.3	403	34.7	286	39.3	
Upper Income	10,298	59.9	9,111	59.6	751	64.7	436	59.9	
<b>Total Assessment Area</b>	<b>17,179</b>	<b>100.0</b>	<b>15,291</b>	<b>100.0</b>	<b>1,160</b>	<b>100.0</b>	<b>728</b>	<b>100.0</b>	
<b>Percentage of Total Businesses:</b>			<b>89.0</b>		<b>6.8</b>		<b>4.2</b>		
<i>Income Categories</i>	<i>Total Farms by Tract</i>		<i>Farms by Tract and Revenue Size</i>						
			<i>≤ \$1 Million</i>		<i>&gt; \$1 Million</i>		<i>Revenue Not Reported</i>		
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	
Low Income	0	0.0	0	0.0	0	0.0	0	0.0	
Moderate Income	4	0.6	4	0.7	0	0.0	0	0.0	
Middle Income	464	75.3	458	76.3	2	25.0	4	50.0	
Upper Income	148	24.0	138	23.0	6	75.0	4	50.0	
<b>Total Assessment Area</b>	<b>616</b>	<b>100.0</b>	<b>600</b>	<b>100.0</b>	<b>8</b>	<b>100.0</b>	<b>8</b>	<b>100.0</b>	
<b>Percentage of Total Farms:</b>			<b>97.4</b>		<b>1.3</b>		<b>1.3</b>		

*Income.* For purposes of classifying borrowers by income levels, this evaluation uses the Department of Housing and Urban Development (HUD) estimated median family income. For borrowers residing in the Minneapolis-St. Paul MSA, this figure is \$83,900 for 2009 and \$84,000 for 2010. For purposes of classifying census tracts by income levels, this evaluation uses the 2000 U.S. Census median family income of \$64,885 for the MSA.

*Population.* According to the U.S. Census Bureau, the 2009 population estimate for Chaska is 24,614, which reflects a 41.1% increase since 2000. For Chanhassen, the 2009 estimate is 24,025, an increase of 18.2% since 2000. The population of Carver County is 92,107, according to the bureau's 2009 population estimates.

Carver County, Chaska, and Chanhassen have grown significantly since the 2000 census, and the growth is expected to continue, according to a community contact. The contact attributes the growth to a number of factors, including high-quality schools, recent industrial growth, and the local parks and trails. Since Chaska is an outer-ring suburb, the proximity to Minneapolis and St. Paul, Eden Prairie, and Bloomington also contributes to the recent population growth because many residents work outside of Chaska and Chanhassen.

*Economy.* Bank management and community contacts described local economic conditions as good and somewhat sheltered from, but not immune to, the national economic downturn. For example, downtown Chaska has several empty commercial buildings, and the contacts indicated that it is hard to attract businesses to the area because most traffic bypasses downtown Chaska.

Carver County is host to a diverse mix of industries. Manufacturing and services are the primary industries in Chaska and Chanhassen, according to the community contacts. Both cities have viable industrial parks. The contacts attribute the favorable local economic conditions to the industrial diversity in the assessment area.

Compared to other parts of Minnesota, the assessment area has a low unemployment rate, according to the contacts. While some local businesses reduced staffing in recent years, no significant layoffs occurred. In addition, a few new businesses have opened in or relocated to Chaska and Chanhassen, according to the contacts. According to the Metropolitan Council, the average annual unemployment rate for 2010 is 7.6% for Chaska and 5.4% for Chanhassen. According to the Bureau of Labor Statistics, since the previous evaluation, the unemployment rate for Carver County peaked at 8.3% in January 2010. For 2010, the county's annual unemployment rate is 6.9%, down from 7.5% for 2009. For the state, the unemployment rate is 8.1% for 2009 and 7.3% for 2010.

Local wages vary by industry. Community contacts indicated that many medical professionals live in Chaska and Chanhassen, and a high percentage of the population is well educated. Community contacts described the wages of manufacturing and service-related jobs as average. In 2009, the median household incomes for Chaska and Chanhassen are \$64,100 and \$98,700, according to the Metropolitan Council. For comparison, the median household incomes for Carver County and the Minneapolis-St. Paul MSA are \$77,100 and \$64,600, respectively.

*Housing.* Home values are high in the assessment area. According to the Metropolitan Council, the 2009 median housing values in Chaska and Chanhassen are \$249,100 and \$363,600, respectively. For Carver County and the Minneapolis-St. Paul MSA, the 2009 median home values are \$288,100 and \$242,300, respectively. Community contacts indicated there are many large and expensive homes in Chaska and Chanhassen because of the availability of large lots and the local amenities.

According to a community contact, many homeowners currently have mortgages that exceed their home's value because home values have declined in recent years due to the recession. In addition, some foreclosures and short sales have occurred. Mortgage loan demand has decreased in recent years due to job losses and declines in home values. A community contact described the housing market as stagnant.

In addition to higher-end housing, Chaska offers a variety of housing options for all income levels, including low and moderate, according to the community contacts. For example, there are some mobile home parks, apartment buildings, condominiums, and townhomes in Chaska. In addition, Chaska has worked with developers to build new residential neighborhoods with a variety of housing options, including housing targeted to low- and moderate-income borrowers.

According to HUD, the 2009 estimated median family income for the MSA is \$83,900. Accordingly, a low-income family's income is less than \$41,950, while a moderate-income family's income is between \$41,950 and \$67,120. The 2009 annual average wages for Chaska and Chanhassen are \$45,051 and \$44,315, respectively, according to the Metropolitan Council. Given these income levels, home prices in Chaska and Chanhassen are not generally affordable for low- and moderate-income families. Using the assumption that borrowers can obtain a loan for approximately three times their annual income, a borrower with the highest income in the low-income bracket (\$41,950) can afford a \$125,850 home. Using the same assumption for borrowers with the highest income in the moderate-income bracket (\$67,120), an individual could afford a \$201,360 home. In Chaska and Chanhassen, the majority of the homes sold in 2009 cost \$200,000 or more, according to the Metropolitan Council.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's CRA performance in the assessment area is good. The bank actively lends to low- and moderate-income borrowers and to businesses with gross annual revenues of \$1 million or less. The geographic distribution and dispersion of loans are reasonable. The bank originated the majority of its loans inside the assessment area. The net loan-to-deposit ratio reflects a reasonable level of lending. No unexplained gaps in lending were identified.

### LENDING TO BUSINESSES OF DIFFERENT SIZES AND TO BORROWERS OF DIFFERENT INCOME LEVELS

The bank's lending to businesses with gross annual revenues of \$1 million or less and to low- and moderate-income borrowers is good. The bank's HMDA lending to low- and moderate-income borrowers is very good, while its consumer lending performance is good. For HELOC and residential real estate lending, the bank's performance among low- and moderate-income borrowers is reasonable. The bank's lending to small businesses is also reasonable.

*Small business lending.* According to 2009 Dun & Bradstreet data, 89.0% of the businesses in the assessment area have gross annual revenues of \$1 million or less. The bank originated 72.7% of the loans in the sample to small businesses, the majority of which were for \$100,000 or less (62.5%). While the bank's lending to small businesses is lower than the demographic characteristics of the assessment area, the bank's performance is reasonable. Table 3 displays the bank's small business lending in the assessment area.

<i>Small Business Originations</i>	<i>≤ \$100,000</i>	<i>&gt; \$100,000 to ≤ \$250,000</i>	<i>&gt; \$250,000 to ≤ \$1,000,000</i>	<i>Total Originations</i>
Percentage of Small Business Loans	54.5%	20.5%	25.0%	100.0%
Percentage of Loans to Businesses with Revenues of \$1 Million or Less	62.5%	15.6%	21.9%	72.7%

The bank operates in a highly competitive environment for loans and deposits. According to bank management, demand for small business loans has decreased over the past few years as economic conditions have declined. Small businesses in particular have had fewer credit requests.

*HELOC lending.* The bank's HELOC lending to low- and moderate-income borrowers is reasonable. Table 4 includes the bank's HELOC lending activity by borrower income levels. According to the 2000 census, 10.1% and 14.0% of the families in the assessment area are low- and moderate-income, respectively. In the sample, the bank originated 4.5% and 13.6% of HELOCs to low- and moderate-income borrowers, respectively. The bank's lending to moderate-income borrowers is consistent with demographics. While the bank's lending to low-income borrowers is lower than demographics, the bank's performance is reasonable. The demand for HELOCs from low- and moderate-income families is low because in many cases they do not have sufficient equity in their homes to support a second mortgage.

Three loans in the sample were originated to borrowers with unknown incomes. These borrowers are either employees or commercial customers. The bank's HELOC lending performance is reasonable.



**TABLE 4**  
**Distribution of HELOC, Residential Real Estate, and Consumer Loans**  
**by Borrower Income Levels\***

	<i>Income Level</i>									
	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>
HELOC	4.5%	3.0%	13.6%	8.5%	15.9%	11.4%	59.1%	65.1%	6.8%	12.0%
Residential Real Estate	6.1%	3.6%	2.0%	1.3%	18.4%	14.5%	69.4%	75.8%	4.1%	4.8%
Consumer	21.2%	5.8%	5.8%	1.7%	7.7%	1.6%	53.8%	83.4%	11.5%	7.5%
Percentage of Families by Income Levels**	10.1%		14.0%		23.6%		52.2%		Not Applicable	
Percentage of Households by Income Levels**	13.0%		13.2%		19.1%		54.7%		Not Applicable	
*HUD median family income for the MSA is \$84,000 for 2010.										
**Based on 2000 U.S. Census data.										

*Residential real estate lending.* While the bank's lending to low- and moderate-income borrowers is low, it is reasonable given the performance context. Table 4 displays the bank's residential real estate lending activity by borrower income level. As discussed previously, the stock of owner-occupied affordable housing in Chaska and Chanhassen is limited. In addition, the demand for mortgage loans has declined, according to bank management. The 2000 census indicates 10.1% and 14.0% of the families in the assessment area are low and moderate income, respectively. The bank originated 6.1% and 2.0% of residential real estate loans to low- and moderate-income borrowers, respectively. Much of the bank's residential real estate lending consists of loans sold to the secondary market. In the past few years, underwriting standards for secondary market loans have become stricter, which very likely has affected low- and moderate-income borrowers. As noted in the discussion of the bank's HMDA loans, the bank is meeting the credit needs of low- and moderate-income borrowers.

Two loans in the sample were extended to borrowers with unknown incomes, both of whom are employees. The bank's performance for this loan category is reasonable.

*Consumer lending.* The bank's consumer lending to low-income borrowers is very good, while its lending to moderate-income borrowers is lower than demographics yet reasonable. Table 4 illustrates the bank's consumer lending activity by borrower income levels. The bank extended 21.2% and 5.8% of consumer loans to low- and moderate-income borrowers, respectively. The majority of consumer loans to low-income individuals were for small dollar amounts. According to the 2000 census, 13.0% and 13.2% of the households in the assessment area are low and moderate income, respectively. As with other types of loans, loan demand has decreased over the past few years. Given the high level of competition in the assessment area for consumer loans, the bank's lending performance among low- and moderate-income individuals is good.

In the sample, six consumer loans had unknown incomes. These loans were either secured by certificates of deposit or made to employees or commercial customers. The bank's consumer lending to low- and moderate-income borrowers is good.

*HMDA lending.* The bank is not an active HMDA lender. In 2009 and 2010, the bank originated 36 and 29 HMDA loans, respectively. In 2009, 395 HMDA reporters originated 23,263 loans in the assessment area. Aggregate information was not available for 2010 HMDA data at the time of the evaluation.

As mentioned, 10.1% and 14.0% of families in the assessment area are low and moderate income, respectively. Overall, the bank's level of HMDA lending to low- and moderate-income borrowers is very good. The bank's refinance lending to low- and moderate-income borrowers in the assessment area received the most weight in this evaluation because the majority of the bank's HMDA loans in 2009 and 2010 are refinance loans.

In 2010, the bank extended 20 refinance loans, 1 home purchase loan, and 1 multifamily dwelling loan in the assessment area. The bank did not originate any home improvement loans. The bank's refinance lending to low- and moderate-income borrowers is excellent. The bank originated 25.0% and 30.0% of refinance loans to low- and moderate-income borrowers. For comparison, aggregate lenders originated 3.9% and 12.9% of refinance loans to low- and moderate-income borrowers, respectively.

In 2009, the bank extended 23 refinance loans, 4 home purchase loans, 1 home improvement loan, and 1 multifamily dwelling loan in the assessment area. The bank's refinance lending to low-income borrowers is very good, while its lending to moderate-income borrowers is lower than demographics. The bank originated 13.0% and 8.7% of refinance loans to low- and moderate-income borrowers, respectively. For comparison, aggregate lenders originated 4.2% and 14.4% of refinance loans to low- and moderate-income borrowers, respectively. The bank's performance among moderate-income borrowers is reasonable because the bank is not an active HMDA lender and it operates in a highly competitive market for HMDA loans. In addition, affordable housing availability remains an issue in the assessment area, according to a community contact. Table 5 displays the bank's HMDA lending in the assessment area for 2009 and 2010.

<b>2010 HMDA Loans by Income Level of Borrower</b>										
<i>Income Level of Borrower</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
<i>Loan Type</i>	#	%	#	%	#	%	#	%	#	%
Home Purchase	0	0.0	0	0.0	0	0.0	1	100.0	0	0.0
Refinance	5	25.0	6	30.0	3	10.0	6	30.0	1	5.0
Home Improvement	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Multifamily	0	0.0	0	0.0	0	0.0	0	0.0	1	100.0
<b>Total 2010 HMDA Loans</b>	<b>5</b>	<b>22.7</b>	<b>6</b>	<b>27.3</b>	<b>2</b>	<b>9.1</b>	<b>7</b>	<b>31.8</b>	<b>2</b>	<b>9.1</b>
<b>2009 HMDA Loans by Income Level of Borrower</b>										
<i>Income Level of Borrower</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
<i>Loan Type</i>	#	%	#	%	#	%	#	%	#	%
Home Purchase	1	25.0	0	0.0	2	50.0	1	25.0	0	0.0
Refinance	3	13.0	2	8.7	4	17.4	13	56.5	1	4.3
Home Improvement	0	0.0	1	100.0	0	0.0	0	0.0	0	0.0
Multifamily	0	0.0	0	0.0	0	0.0	0	0.0	1	100.0
<b>Total 2009 HMDA Loans</b>	<b>4</b>	<b>13.8</b>	<b>3</b>	<b>10.3</b>	<b>6</b>	<b>20.7</b>	<b>14</b>	<b>48.3</b>	<b>2</b>	<b>6.9</b>

The bank's refinance lending among low- and moderate-income borrowers for 2009 and 2010 indicates the bank's HMDA performance is very good.

Overall, the distribution of the bank's loans by income and revenue levels is good. The bank actively lends to low- and moderate-income borrowers and to businesses with gross annual revenues of \$1 million or less.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

The geographic distribution and dispersion of loans in the assessment area are reasonable. No unexplained gaps in lending were identified. The assessment area includes no low-income census tracts and one moderate-income census tract. For all loan types, the bank originated only one loan in the moderate-income census tract, a small business loan.

Chaska is located in a middle-income census tract, and Chanhassen is in an upper-income census tract. The one moderate-income census tract in the assessment area is in downtown Shakopee, which is east of Chaska, across the Minnesota River. Shakopee has a competitive banking environment; ten FDIC-insured institutions operate in Shakopee, according to the June 30, 2010, FDIC Deposit Market Share Report. In addition, a limited number of small businesses, households, and families operate or reside in the moderate-income census tract. Thus, the bank’s limited lending activity in the moderate-income census tract is reasonable.

Table 6 displays the bank’s geographic distribution of small business, HELOC, residential real estate, and consumer loans by census tract income levels. Table 7 shows the 2009 and 2010 HMDA loans by census tract income levels. The demographic characteristics of the assessment area, according to the 2000 census and 2009 Dun & Bradstreet data, are included in Table 6.

*Small business lending.* Only 1.1% of the small businesses in the assessment area are located in the moderate-income census tract, while the bank originated 2.3% of its small business loans (one loan) in the census tract. The bank’s performance in the moderate-income census tract is reasonable.

*HELOC, residential real estate, and consumer lending.* The bank did not originate any consumer loans or loans secured by a home in the moderate-income census tract. According to the 2000 census, only 1.4% of the families and 1.7% of households in the assessment area live in this census tract. As mentioned, there are several financial institutions in Shakopee which may be more convenient to borrowers residing in this tract. Therefore, the bank’s lack of lending in this census tract is reasonable.

<b>TABLE 6</b>										
<b>Geographic Distribution of Loans by Census Tract Income Level*</b>										
<i>Loan Type Sample</i>	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>		<i>Unknown Income</i>	
	#	\$	#	\$	#	\$	#	\$	#	\$
Small Business	0.0%	0.0%	2.3%	0.6%	36.4%	39.8%	61.4%	59.7%	0.0%	0.0%
HELOC	0.0%	0.0%	0.0%	0.0%	45.5%	39.0%	54.5%	61.0%	0.0%	0.0%
Residential Real Estate	0.0%	0.0%	0.0%	0.0%	40.8%	40.2%	59.2%	59.8%	0.0%	0.0%
Consumer	0.0%	0.0%	0.0%	0.0%	34.6%	54.6%	65.4%	45.4%	0.0%	0.0%
<b><i>Demographic Data</i></b>										
Number of Census Tracts	0		1		23		36		0	
Percentage of Census Tracts	0.0%		1.7%		38.3%		60.0%		0.0%	
Percentage of Small Businesses	0.0%		1.0%		39.0%		59.9%		0.0%	
Percentage of Households	0.0%		1.7%		39.6%		58.7%		0.0%	
Percentage of Families	0.0%		1.4%		37.3%		61.3%		0.0%	
*Income classification of census tracts based on 2000 median family income.										

*HMDA lending.* The bank did not originate any HMDA loans in the moderate-income census tract in 2009 or 2010. As mentioned, the number of families residing in this census tract is limited. Thus, the bank's lack of lending in the moderate-income census tract is reasonable.

<b>TABLE 7</b>								
<b>HMDA Lending</b>								
<b>2010 HMDA Loans by Income Level of Census Tract</b>								
<i>Income Level of Borrower</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
<i>Loan Type</i>	#	\$	#	\$	#	\$	#	\$
Home Purchase	0	0.0	0	0.0	1	100.0	0	0.0
Refinance	0	0.0	0	0.0	6	30.0	14	70.0
Home Improvement	0	0.0	0	0.0	0	0.0	0	0.0
Multifamily	0	0.0	0	0.0	1	100.0	0	0.0
<b>Total 2010 HMDA Loans</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>8</b>	<b>36.4</b>	<b>14</b>	<b>63.6</b>
<b>2009 HMDA Loans by Income Level of Census Tract</b>								
<i>Income Level of Borrower</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
<i>Loan Type</i>	#	\$	#	\$	#	\$	#	\$
Home Purchase	0	0.0	0	0.0	1	25.0	3	75.0
Refinance	0	0.0	0	0.0	9	39.1	14	60.9
Home Improvement	0	0.0	0	0.0	0	0.0	1	100.0
Multifamily	0	0.0	0	0.0	1	100.0	0	0.0
<b>Total 2009 HMDA Loans</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>11</b>	<b>37.9</b>	<b>18</b>	<b>62.1</b>

Given the limited numbers of small businesses, households, and families that operate or reside in the moderate-income census tract, the bank's lending in the census tract is reasonable. In addition, several financial institutions have offices that are more conveniently located to the residents and businesses in the moderate-income census tract.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank extended the majority of the small business, HELOC, residential real estate, HMDA, and consumer loans inside the assessment area. By number of loans, the bank originated 85.7% inside the assessment area. By total loan dollars, the bank originated 87.8% inside the assessment area. Table 8 shows the distribution of loans inside and outside the assessment area.

<b>TABLE 8</b>								
<b>Distribution of Loans Inside and Outside the Assessment Area</b>								
<i>Loan Category</i>	<i>Inside</i>				<i>Outside</i>			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Small Business	44	77.2	8,781	75.1	13	22.8	2,913	24.9
HELOC	44	91.7	6,966	95.7	4	8.3	315	4.3
Residential Real Estate	49	98.0	11,874	98.7	1	2.0	156	1.3
HMDA	51	78.5	12,457	87.4	14	21.5	1,791	12.6
Consumer	52	86.7	1,130	66.7	8	13.3	565	33.3
<b>Total</b>	<b>240</b>	<b>85.7</b>	<b>41,209</b>	<b>87.8</b>	<b>40</b>	<b>14.3</b>	<b>5,740</b>	<b>12.2</b>

While the percentages of HMDA loans and small business loans inside the assessment area are lower than the percentages of residential real estate loans, consumer loans, and HELOCs, they are nonetheless reasonable. Several customers who work or own businesses inside the assessment area live outside the assessment area or have additional homes outside the assessment area, according to bank management. In addition, the bank occasionally makes small business loans to businesses outside the assessment area to maintain existing customer relationships or to accommodate referrals.

Overall, the bank originated the majority of its loans inside the assessment area.

#### NET LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio reflects a reasonable level of lending. Since the previous evaluation, the bank's net loan-to-deposit ratio has ranged from 82.6% to 109.0%. As of December 31, 2010, the bank's net loan-to-deposit ratio was 87.0% and the average net loan-to-deposit ratio over the previous 17 quarters was 96.3%. The 17-quarter average for the bank's peer group is 83.4%. The bank's peer group is defined as insured commercial banks with assets between \$100 million and \$300 million with two or fewer full-service offices located in an MSA. Table 9 displays the bank's 17-quarter average net loan-to-deposit ratio for the bank and two other banks of similar asset size in the Minneapolis-St. Paul MSA.

<i>Bank Name and Location</i>	<i>Assets as of December 31, 2010 (in millions)</i>	<i>Average Net Loan-to-Deposit Ratio</i>
Community Bank Corporation, Chaska, Minnesota	\$193.2	96.3%
Prior Lake State Bank, Prior Lake, Minnesota	\$188.7	79.7%
Security Bank Waconia, Waconia, Minnesota	\$172.7	73.4%

Overall, the bank's net loan-to-deposit ratio reflects a reasonable level of lending.

Overall, the bank's CRA performance is satisfactory. The bank's lending to low- and moderate-income borrowers and small businesses is good. The geographic distribution and dispersion of loans are reasonable. No unexplained gaps in lending were identified. The bank originated the majority of loans inside the assessment area. The net loan-to-deposit ratio is reasonable.

#### RECORD OF RESPONSE TO CRA-RELATED COMPLAINTS

Neither the bank nor the Federal Reserve Bank of Minneapolis has received any CRA-related complaints concerning the bank since the previous evaluation.

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

The evaluation did not reveal any evidence of substantive violations of antidiscrimination laws or regulations (including Regulation B--Equal Credit Opportunity Act, Regulation C--Home Mortgage Disclosure Act, and the Fair Housing Act) or other illegal credit practices inconsistent with the bank helping to meet community credit needs.

## Appendix A

### Glossary of Common CRA Terms

**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 statistical area/assessment area.

**Census tract:** A small subdivision of metropolitan and other densely populated counties. 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 on 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 C.F.R. 121.301) or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation (the Agencies) have adopted the following additional language as part of the revitalize or stabilize definition of community development.

Activities that revitalize or stabilize:

- (i) Low- or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Agencies based on:
  - a. Rates of poverty, unemployment, and population loss or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help meet essential community needs, including the needs of low- and moderate-income individuals.

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

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

**Full-scope review:** Performance is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., 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 data such as the race, gender, and income of applicants; the amount of loan requested; and the disposition of the application (e.g., approved, denied, and withdrawn).

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

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

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

**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 statistical area (MSA):** An area, defined by the Office of Management and Budget, based on the concept of a core area with at least one urbanized area that has a population of at least 50,000. The MSA comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county 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 percent and less than 120 percent, in the case of a geography.

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

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

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

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

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

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

**Small loan to business:** 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 typically are either secured by nonfarm or nonresidential real estate or classified as commercial and industrial loans.

**Small loan to farm:** 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 or 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 geography.

(For additional information, please see the Definitions sections of Regulation BB at 12 C.F.R. 228.12.)