

## **PUBLIC DISCLOSURE**

May 22, 2017

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

Peoples Bank Midwest  
10583 Main Street  
Hayward, Wisconsin 54843  
RSSD 456157

**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 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 Lending Test is rated: Satisfactory**

**The Community Development Test is rated: Outstanding**

The Community Reinvestment Act (CRA) performance of Peoples Bank Midwest, Hayward, Wisconsin (PBM), demonstrates a reasonable responsiveness to the credit needs and an excellent responsiveness to the community development needs of its assessment areas.

Examiners evaluated the bank's CRA performance using the Intermediate Small Bank (ISB) Examination Procedures, which contain a Lending Test and a Community Development Test for purposes of the CRA evaluation.<sup>1</sup>

The bank's Lending Test rating is Satisfactory based on the following criteria:

- The bank's lending to businesses of different sizes and to borrowers of different income levels is reasonable.
- The geographic distribution of the bank's loans reflects a reasonable dispersion throughout the assessment areas.
- The bank's net loan-to-deposit ratio is reasonable given the bank's size and financial condition and the assessment areas' credit needs.
- The bank originated a majority of its loans within the assessment areas.

The bank's Community Development Test rating is Outstanding based on the following criteria:

- Overall, the bank's performance demonstrates excellent responsiveness to the community development needs of its assessment areas. The bank's level of community development loans, qualified investments (including qualifying donations), and community development services is excellent, considering the bank's capacity and the need for and availability of such opportunities in each of the assessment areas.

The bank, formerly named Peoples Bank of Wisconsin, received an Outstanding rating at the previous evaluation, dated May 14, 2012. At the time, examiners evaluated the bank's performance using the Small Bank CRA Examination Procedures.

The bank changed its name to Peoples Bank Midwest in 2013 when it merged with its affiliate, Summit Community Bank, Maplewood, Minnesota.

## **SCOPE OF EVALUATION**

Examiners evaluated the bank's CRA performance in part based on information provided by bank management and employees and community contacts. Examiners also reviewed economic and demographic data, competitive factors, and the size and financial condition of the bank to understand and evaluate the bank's CRA performance. The CRA evaluation covers the period from the previous CRA evaluation dated May 14, 2012, to May 22, 2017.

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<sup>1</sup>During the evaluation period, the bank's asset size met the Regulation BB definition of an ISB for 2016 and 2017, and the definition of a small bank for 2012 to 2015. Since the bank was an ISB at the time of the evaluation, this Public Evaluation follows the Federal Financial Institutions Examination Council's (FFIEC) ISB format.

The bank has designated three assessment areas for CRA purposes: two in Wisconsin (Hayward and Eau Claire) and one in Minnesota (Vadnais Heights). The bank added the Vadnais Heights assessment area in 2013 after its merger with Summit Community Bank. Based on lending data provided by the bank and the June 30, 2016, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, the majority of the bank's activities occurs in the Wisconsin assessment areas. Both Wisconsin assessment areas have substantial lending and deposit activities. As a result, examiners performed full-scope reviews of both Wisconsin assessment areas. The Vadnais Heights assessment area has a smaller percentage of the bank's loan and deposit activity; however, the Intermediate Small Bank Examination Procedures require that examiners conduct at least one full-scope review of an assessment area in each state. Accordingly, examiners conducted a full-scope review of the Vadnais Heights assessment area.

Examiners weighted the bank's performance as follows to derive the overall CRA rating:

- The bank's Lending Test received greater weight than the Community Development Test. Overall, community development opportunities and activities in the Hayward assessment area were relatively low during the evaluation period. The bank primarily meets the needs of both the Hayward and Vadnais Heights assessment areas with its lending activities.
- For the Lending Test, the bank's activities in the Hayward assessment area received the greatest weight because the bank's historical footprint is located there, and it contained the majority (57.8%) of the bank's lending.
- For the Lending Test, by product type, the bank's small business and Home Mortgage Disclosure Act (HMDA) loans received equal weight based on lending activity.
- For the Lending Test, lending to businesses of different sizes and to borrowers of different income levels received the greatest weight, followed by the geographic distribution of loans. Examiners weighted the remaining Lending Test performance criteria equally.
- For the Community Development Test, the Eau Claire assessment area received the greatest weight because of the concentration of community development activities in that assessment area. Overall, the bank's community development activities in the Eau Claire assessment area showed excellent responsiveness to identified community development needs, especially concerning the City of Eau Claire's redevelopment plans for its downtown area, which includes moderate-income census tracts.

For community contacts, examiners interviewed individuals familiar with the economic and demographic characteristics as well as the community development opportunities in all three of the bank's assessment areas. Examiners used this information obtained during interviews to establish a performance context for the CRA evaluation. The assessment area sections of this evaluation include specific information obtained from these community contacts. Community contacts believe that financial institutions are meeting credit needs overall.

### **Lending Test Scope**

The scope of the Lending Test covers the bank's major product lines, consisting of commercial and residential real estate loans. Table 1 shows the bank's lending activity by loan type for 2016.

<i>Loan Type</i>	<i>Number of Loans</i>	<i>Percentage of Total Number</i>	<i>Total Loan Dollars</i>	<i>Percentage of Total Dollars</i>
Commercial (> \$1 million)	13	2.7	\$47,552,519	35.7
Construction/Land Development	35	7.2	11,377,801	8.5
Consumer	67	13.8	1,157,788	0.9
Home Equity Lines of Credit	22	4.5	1,849,900	1.4
Residential Real Estate	173	35.6	35,529,498	26.7
Small Business (≤ \$1 million)	176	36.2	35,838,642	26.9
<b>Total</b>	<b>486</b>	<b>100.0</b>	<b>\$133,306,148</b>	<b>100.0</b>

The Lending Test is based on a statistical sample of 94 small business loans originated between January 1, 2016, through December 31, 2016. The Lending Test also includes the bank’s 2012, 2013, 2014, and 2015 HMDA-reportable loans, which total 963 home purchase, refinance, home improvement and multifamily loans.<sup>3</sup> The bank is required to report HMDA data because it has offices in a metropolitan statistical area (MSA). Examiners analyzed the bank’s HMDA data to understand the residential real estate mortgage market in the assessment areas and the bank’s performance in those markets. Examiners also reviewed HMDA data reported by aggregate lenders to better assess the bank’s performance relative to other HMDA lenders in the bank’s assessment areas.

Examiners analyzed the following criteria to determine the Lending Test rating:

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

### **Community Development Test Scope**

Examiners reviewed the bank’s community development lending, qualified investments, and community development services in each assessment area. Examiners based the Community Development Test rating on the bank’s performance during the period of May 14, 2012, through May 22, 2017.

### **DESCRIPTION OF INSTITUTION**

*Structure.* PBM is a locally owned community bank headquartered in Hayward. It is wholly owned by Hayward Bancshares, Inc., a one-bank holding company.

*Offices and Retail Delivery Systems.* PBM has two locations in Wisconsin and one in Minnesota. In Wisconsin, the bank provides full-service banking through its main office in Hayward and its branch in Eau Claire. The bank also provides full-service banking operations at its Vadnais Heights branch in Minnesota. Until the merger in 2013, the Minnesota location was a separately chartered bank with one

<sup>2</sup>Note: Because the percentages presented in the tables are rounded to the nearest tenth, some columns or rows may not total 100.0%.

<sup>3</sup>Examiners did not review 2012 HMDA data for the Vadnais Heights assessment area because the assessment area was created after the 2013 merger.

office located in Maplewood. PBM closed the Maplewood branch on November 30, 2016, and subsequently opened the Vadnais Heights branch on December 1, 2016. The distance between the Maplewood and Vadnais Heights branches was approximately 2.4 miles. The Vadnais Heights branch is in a middle-income tract, as was the Maplewood branch. The bank's office hours at all locations are appropriate for the communities it serves. Each office operates a drive-up facility. The Hayward and Eau Claire offices offer Saturday lobby hours.

The bank operates one full-service automated teller machine (ATM), located at its main office. The bank also offers 24-hour telephone banking and online banking services. The bank's website is [www.pbmbank.com](http://www.pbmbank.com). Customers can view loan and deposit product information, access account information, view statements, transfer funds, and make loan payments through online banking. In addition, customers can apply for residential real estate loans online.

*Loan Portfolio.* According to the March 31, 2017, Report of Condition (ROC), the bank has total assets of \$335.0 million. The bank's \$247.1 million loan portfolio consists of 72.3% commercial, 21.4% residential real estate, 0.4% consumer, 0.1% agricultural, and 5.9% other loans. The overall composition of the bank's loan portfolio remained relatively consistent since the previous evaluation. The bank's total assets increased by 29.2%, primarily because of the bank's merger with its affiliate.

*Credit Products.* PBM is primarily a commercial and residential real estate lender. The bank also offers traditional closed-end and open-end consumer loans to serve the credit needs of residents in its assessment areas. The bank offers business loans through a variety of Small Business Administration loan programs. The bank continues to offer conventional residential real estate loans as well as home equity lines of credit. The bank no longer offers loans through the Federal Housing Administration (FHA), Department of Veterans Affairs (VA), or the Wisconsin Housing and Economic Development Authority (WHEDA).

## **DESCRIPTION OF ASSESSMENT AREAS**

The bank has three assessment areas for CRA purposes. Two are located in Wisconsin (Hayward and Eau Claire) and one is located in Minnesota (Vadnais Heights). The bank has not changed the Hayward and Eau Claire assessment areas since the previous evaluation. The Vadnais Heights assessment area is new since the previous evaluation because of the merger in 2013.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank's CRA rating is Satisfactory. The rating is based on a Satisfactory rating for the Lending Test, which received the most weight, as well as an Outstanding rating for the Community Development Test.

### **LENDING TEST**

Examiners rated the bank's Lending Test performance Satisfactory. The factors supporting the Lending Test rating include the following:

- The bank's lending to businesses of different sizes and to borrowers of different income levels is reasonable.
- The geographic distribution reflects a reasonable dispersion throughout the assessment areas.
- The bank's net loan-to-deposit ratio indicates a reasonable level of lending.
- The bank originated a majority of its loans within the assessment areas.

Since the bank has assessment areas in two states, as well as assessment areas in MSAs, examiners conducted a separate analysis for the bank’s performance in each assessment area. Each assessment area section of this evaluation includes a detailed discussion of the bank’s lending to businesses of different sizes and to borrowers of different income levels as well as the geographic distribution of the bank’s loans. However, examiners analyzed the loan-to-deposit ratio and the comparison of lending inside and outside the assessment areas at the bank level, as described below.

**LOAN-TO-DEPOSIT RATIO ANALYSIS**

The bank’s net loan-to-deposit ratio is reasonable given its asset size, financial condition, and the credit needs of the assessment areas. According to the March 31, 2017, Uniform Bank Performance Report (UBPR), the bank’s net loan-to-deposit ratio is 93.0%, which exceeds the national peer group’s net loan-to-deposit ratio of 80.4%. The bank’s national peer group includes all insured commercial banks having assets between \$300 million and \$1 billion.

The 20-quarter average net loan-to-deposit ratio is 87.5%, which is generally consistent with the nine-quarter average net loan-to-deposit ratio of 90.7% at the previous evaluation. Since then, the bank’s quarterly net loan-to-deposit ratio has ranged from 79.6% to 97.0%. The 79.6% net loan-to-deposit ratio was toward the beginning of the evaluation period. According to bank management, loan demand was down until about 2014; the variance in the net loan-to-deposit ratio is due to normal fluctuations in market conditions.

As shown in Table 2, the bank’s 20-quarter average net loan-to-deposit ratio is slightly above the ratio for one competitor bank of similar asset size operating in the Hayward assessment area. Table 2 also shows the bank’s 20-quarter average net loan-to-deposit ratio compared to other institutions operating in its assessment areas.

<b>TABLE 2</b>			
<b>20-Quarter Average Net Loan-to-Deposit Ratios</b>			
<i>Bank</i>	<i>Total Assets as of March 31, 2017 (in thousands)</i>	<i>Average Net Loan-to-Deposit Ratio</i>	<i>State</i>
People’s Bank Midwest Hayward, Wisconsin	\$334,987	87.5%	Wisconsin
Chippewa Valley Bank Winter, Wisconsin	\$337,049	85.8%	Wisconsin
Lake Elmo Bank Lake Elmo, Minnesota	\$349,216	63.9%	Minnesota
North American Banking Company Roseville, Minnesota	\$421,687	80.4%	Minnesota

The bank’s net loan-to-deposit ratio is reasonable, which demonstrates its willingness to meet the credit needs of businesses and individuals. The bank is an active lender in highly competitive lending environments.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREAS

The bank originated a majority of its loans within its assessment areas, specifically 71.6% of loans by number and 69.6% by dollar amount. Table 3 shows lending activity by loan type within the assessment areas.

<i>Loan Category</i>	<i>Inside</i>				<i>Outside</i>			
	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>
HMDA <sup>4</sup>	680	70.6	122,704	68.6	283	29.4	56,271	31.4
Small Business	77	81.9	15,523	79.6	17	18.1	3,987	20.4
<b>Total</b>	<b>757</b>	<b>71.6</b>	<b>138,227</b>	<b>69.6</b>	<b>300</b>	<b>28.4</b>	<b>60,258</b>	<b>30.4</b>

*HMDA Lending.* The bank originated a majority (70.6%) of its HMDA loans inside the assessment areas. The majority of loans outside the assessment areas are in counties adjacent to the Wisconsin assessment areas. In addition, the areas surrounding the Hayward assessment area are primarily recreational areas with scattered lake communities, and the bank provides lending for second homes in those areas.

*Small Business Lending.* The bank originated a majority (81.9%) of its small business loans inside the assessment areas. The percentage is significantly higher than at the previous evaluation, when the bank originated 60.0% of its small business loans inside the assessment areas. This is the first evaluation to include the Vadnais Heights assessment area, where there are a number of opportunities to lend to small businesses.

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

The bank’s lending to businesses of different sizes and to borrowers of different income levels is reasonable. Refer to individual assessment area sections for more detailed information on these criteria.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of the bank’s loans in its assessment areas is reasonable, including in low- and moderate-income census tracts. Lending patterns do not reveal any unexplained gaps in lending. Refer to individual assessment area sections for more detailed information on these criteria.

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.

**COMMUNITY DEVELOPMENT TEST**

The bank’s Community Development Test rating is Outstanding. Overall, the bank’s community development activities demonstrate excellent responsiveness to community development needs, especially concerning the City of Eau Claire’s redevelopment plans for its downtown area, which includes moderate-income tracts. The bank engaged in community development lending, made qualified

<sup>4</sup>Examiners included all four years of HMDA data in the assessment area concentration criterion.



investments, and provided community development services. The overall level and nature of activities are excellent considering the bank's size and capacity as well as the strong competition and the availability of community development opportunities.

*Community Development Lending.* The bank's community development lending is excellent. The bank originated 14 community development loans totaling \$41.8 million that benefited the bank's assessment areas or broader regional areas that include the assessment areas during the evaluation period. The majority (63.6%) of these loans benefited the bank's Eau Claire assessment area, 6.9% benefited the Hayward assessment area, 9.5% benefited the Vadnais Heights assessment area, and 20.0% benefited a broader regional area.

Most notably, the bank was the lead lender for a \$23.3 million loan for purposes of constructing a mixed-use building in a catalyst area for future downtown development in Eau Claire. The bank made two additional loans totaling \$3.1 million in this downtown Eau Claire redevelopment district. These three loans were impactful because they helped to revitalize and stabilize a blighted, moderate-income area.

Examiners also considered a community development loan for \$127,500 that benefited an area outside of the bank's Wisconsin assessment areas. Examiners considered this loan because the bank was responsive to the community development needs within its assessment areas.

*Community Development Services.* The bank's level of community development services is excellent. The bank provided 91 community development services in its assessment areas or broader regional areas that include the assessment areas during the evaluation period. Most services benefited the bank's Eau Claire assessment area. Bank officers and employees primarily serve organizations that provide services to low- and moderate-income individuals, including youth, as well as organizations that promote economic development. Bank management encourages employees to engage in community services, regardless of whether those services qualify as community development.

Examiners also considered eight community development services that benefited areas outside of the bank's Wisconsin assessment areas. Examiners considered these services because the bank was responsive to the community development needs within its assessment areas.

*Qualified Investments.* The bank's level of qualified investments, primarily in the form of donations, is excellent. While the bank did not purchase any qualifying investments in the form of municipal bonds in the assessment areas during the evaluation period, this is reasonable. There were limited opportunities to purchase municipal bonds that qualify under CRA, and competition is high for these securities in the bank's assessment areas. The bank invested \$2.0 million in a Small Business Investment Company that makes loans across the United States. In addition, the bank purchased \$2.8 million in bonds that benefited areas outside of its Wisconsin and Minnesota assessment areas. Finally, the bank holds qualifying prior-period bonds totaling \$765,000 that benefit communities outside of the bank's Wisconsin assessment areas. Examiners considered these bonds because the bank was responsive to the community development needs of its assessment areas.

The bank made an excellent level of donations during the evaluation period. The bank made \$94,260 in donations that directly benefited its assessment areas or broader regional areas that include the assessment areas, and \$2,300 in donations outside of its assessment areas. The bank made the majority (87.2%) of donations in the Eau Claire assessment area. Of special note, the bank donated \$50,000 to a project that helped revitalize a blighted area targeted for redevelopment in downtown Eau Claire; these donations show excellent responsiveness to community development needs.

## **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, 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.

## STATE OF WISCONSIN

### **CRA RATING FOR Wisconsin: Satisfactory.**

**The Lending Test is rated: Satisfactory**

**The Community Development Test is rated: Outstanding**

Major factors supporting the rating include the following:

- The bank's lending to businesses of different sizes and to low- and moderate-income borrowers is reasonable.
- Overall, the geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- The bank's community development activities in Wisconsin show excellent responsiveness to community development needs.
- Overall, the level and nature of community development loans, qualified investments in the form of donations, and community development services in Wisconsin are excellent, given the bank's capacity and the need and availability of such opportunities.

### **SCOPE OF EVALUATION**

The scope of the CRA evaluation for the State of Wisconsin is consistent with the scope for the overall institution as described earlier in the Institution section. Examiners assessed the bank's performance using the following criteria: lending to businesses of different sizes and to borrowers of different income levels, geographic distribution of lending, and community development lending, qualified investments, and community development services.

The bank has designated two assessment areas in Wisconsin for CRA purposes: Hayward and Eau Claire. According to the June 30, 2016, FDIC Deposit Market Share Report, in the Hayward assessment area, the bank has \$121.2 million in deposits in Sawyer, Washburn, and Bayfield counties. The bank ranks fourth of 13 FDIC-insured institutions in the assessment area, with 13.5% of deposits in the market. The bank is the market share leader in Sawyer County (33.8%), where the bank's main office is located. Examiners performed a full-scope review of this assessment area. According to the June 30, 2016, FDIC Deposit Market Share Report, the bank has \$93.0 million in deposits in the Eau Claire assessment area, which is a 4.5% market share. Because the majority of the bank's small business lending in Wisconsin and community development activities occurred in the Eau Claire assessment area, examiners performed a full-scope review of this assessment area as well. Examiners weighted the Hayward assessment area more heavily for the Lending Test and the Eau Claire assessment area more heavily for the Community Development Test. These weightings are based on the opportunities and needs of the respective assessment areas during the evaluation period.

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN WISCONSIN**

*Assessment Areas.* During the evaluation period, the bank had two assessment areas in Wisconsin: Hayward and Eau Claire. The Hayward assessment area includes all of Sawyer County and portions of Washburn and Bayfield counties. The Eau Claire assessment area consists of Eau Claire County, which is a portion of the Eau Claire, WI MSA. The bank has not changed the Hayward and Eau Claire assessment areas since the previous evaluation.

Based on the 2016 FFIEC adjusted census data,<sup>5</sup> the bank's Wisconsin assessment areas include 29 census tracts: eight moderate-, 16 middle-, and five upper-income tracts. There are no low-income tracts in either assessment area and no upper-income tracts in the Hayward assessment area. Two tracts in Sawyer County and one in Washburn County are considered underserved. The Hayward assessment area also includes the Lac Courte Oreilles Indian Reservation (LCO Indian Reservation).

According to the June 30, 2016, FDIC Deposit Market Share Report, the bank ranked 98th among the 257 FDIC-insured institutions in Wisconsin, with 0.2% of the state's deposits. Two large national banks hold 20.7% and 12.7% of the state's deposits. The bank has \$214.2 million in deposits in its Wisconsin assessment areas, which represents 86.5% of the bank's total deposits.

*Population and Geographic Characteristics.* According to 2016 FFIEC census data, the total population of the assessment areas in Wisconsin is 122,063, and the total population of Wisconsin is 5,686,986. The bank's Wisconsin assessment areas include 2.1% of the state's population.

*General Economic and Housing Characteristics.* In general, Wisconsin's economy is good and is experiencing steady growth. The primary industries in the Wisconsin assessment areas include manufacturing, tourism, health care, and federal, state, and local government. Agriculture is also an important part of the economy, as Wisconsin is the nation's leading producer of cheese. According to the Bureau of Labor Statistics (BLS), the May 2017 nonseasonally adjusted unemployment rate for the State of Wisconsin was 2.8%. The unemployment rate is higher for the counties in the bank's Hayward assessment compared to Eau Claire County. A community contact indicated that in rural areas the unemployment rate may not accurately represent employment. Many residents are working multiple jobs or are underemployed.

Continued economic growth during the evaluation period is best evidenced by the revitalization of downtown Eau Claire. Several new businesses have moved into the downtown area, and a boutique hotel and event space have been built. In addition, there has been new construction for the local university. This economic expansion has spurred younger families to move to portions of metropolitan western Wisconsin. In rural areas, economic development has been slower; however, a contact and bank management indicated that tourism increased over the evaluation period and that visitors were looking for vacation or second homes in the area. This increase has a positive impact on employment and local businesses in the smaller towns that rely on tourism.

Affordable housing is still a concern in the Wisconsin assessment areas. While the housing market in both assessment areas is experiencing growth, there is a concern that demand has or will outstrip supply relatively soon. In the metropolitan areas of western Wisconsin, affordable homes sell quickly, and builders tend to build larger homes that would not be affordable for most low- and moderate-income families. In the nonmetropolitan areas, affordable housing is also a concern. According to a contact familiar with housing conditions in the bank's Hayward assessment area, builders routinely focus on construction of second homes for out-of-state residents. This results in a deficit of well-built, affordable homes for local residents.

Wisconsin has numerous financial institutions. Many large national and regional banks, as well as credit unions, operate in the state. Accordingly, competition for deposits, loans, and community development activities is strong in various regions and assessment areas.

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<sup>5</sup>The FFIEC adjusted census data is based on 2010 U.S. Census data and American Community Survey five-year estimate data, and it also reflects the Office of Management and Budget's metropolitan statistical area revisions.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN WISCONSIN

Examiners rated the bank's CRA performance in Wisconsin based on a full-scope review of the Eau Claire and Hayward assessment areas. A detailed discussion of the bank's performance in each of the bank's Wisconsin assessment areas follows this section.

The bank's overall CRA rating for Wisconsin is Satisfactory, based on the bank's performance under the Lending and Community Development tests. The Lending Test is rated Satisfactory. The bank's lending to businesses of different sizes and to borrowers of different income levels is reasonable. Overall, the geographic distribution of HMDA and small business loans reflects a reasonable dispersion throughout the assessment areas. The Community Development Test is rated Outstanding. Overall, the level and nature of the bank's community development loans, services, and qualified investments are excellent.

### LENDING TEST

The Lending Test is rated Satisfactory for Wisconsin. The bank's lending to businesses of different sizes and to borrowers of different income levels is reasonable. Overall, the geographic distribution of loans is reasonable and does not reflect any unexplained gaps in lending.

#### Borrower and Geographic Distributions

The bank's distribution of loans to borrowers of different income levels and businesses of different sizes is reasonable. The bank extends loans to small businesses and low- and moderate-income borrowers. The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas and does not reveal any unexplained gaps or patterns. The bank extended HMDA loans in all moderate-income tracts and extended small business loans in most moderate-income tracts.

For a detailed discussion of borrower and geographic distribution of lending, see the Conclusions with Respect to Performance Criteria section for the Eau Claire and Hayward assessment areas.

### COMMUNITY DEVELOPMENT TEST

The Community Development Test is rated Outstanding for Wisconsin. Overall, the bank's community development activities demonstrate excellent responsiveness to identified community development needs, especially concerning the City of Eau Claire's redevelopment plans for its downtown area, which includes moderate-income tracts. The bank engaged in community development lending, provided community development services, and made qualified investments in the form of donations in both assessment areas. The level and nature of these activities are excellent considering the bank's size and capacity, as well as strong competition and the availability of community development opportunities. As mentioned previously, examiners assigned more weight to the Eau Claire assessment area for the Community Development Test. Community development activities in the Hayward assessment area were relatively low but reasonable.

Because the bank's community development activities were responsive to needs in its assessment areas, examiners also considered community development activities that benefited areas outside of the bank's assessment areas.

*Community Development Lending.* The bank's community development lending in Wisconsin is excellent. The bank originated \$37.8 million in community development loans that benefited the bank's assessment areas or a broader regional area that includes the assessment areas. The majority (70.2%) of

the bank's community development loans benefited the bank's Eau Claire assessment area. Most notably, the bank was the lead lender for a \$23.3 million loan for purposes of constructing a mixed-use building in a catalyst area for future downtown development in Eau Claire.<sup>6</sup> The bank made two additional loans totaling \$3.1 million in this downtown Eau Claire redevelopment district. These three loans were impactful because they helped to revitalize and stabilize a blighted, moderate-income area. The bank also made one loan for affordable housing for \$127,500 outside of its assessment areas.

*Community Development Services.* The bank's level of community development services in Wisconsin is excellent. During the evaluation period, bank executives and staff contributed their time and financial expertise in providing 83 community development services that benefited the bank's assessment areas or larger regional areas that include the assessment areas. The majority (83.1%) of the bank's community development services benefited the Eau Claire assessment area. Examiners also considered eight community development services that benefited areas outside of its assessment areas.

*Qualified Investments.* The bank's level of qualified investments in Wisconsin is excellent. The bank did not purchase any qualifying investments in the form of securities that benefited its assessment areas during the evaluation period. This is reasonable, though, given the limited opportunities to purchase municipal bonds that qualify under CRA and the high level of competition for these securities in the bank's assessment areas. The bank made \$1.9 million in qualifying investments in the form of securities and holds \$765,000 in qualifying prior-period bonds that benefited communities outside the bank's assessment areas.

The bank made an excellent level of qualified investments in the form of donations during the evaluation period. The bank made \$89,760 in donations that directly benefited its assessment areas or broader regional areas that include the assessment areas. The bank made the majority (91.5%) of donations in the Eau Claire assessment area. The bank also made \$2,300 in donations outside of its assessment areas.

The bank's donations support numerous organizations throughout its Wisconsin assessment areas, including organizations that provide community services to low- and moderate-income individuals and promote economic development initiatives. The bank made donations to food shelves, hospitals, homeless shelters, and schools, for example. The largest donations were in the Eau Claire assessment area, where the bank donated \$50,000 toward the revitalization and stabilization of the downtown area. These donations were especially impactful.

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<sup>6</sup> The bank originated this loan when it was a small bank for CRA purposes, which is noteworthy. A few other financial institutions purchased participations in this loan.

## STATE OF WISCONSIN – METROPOLITAN AREA

### DESCRIPTION OF THE EAU CLAIRE ASSESSMENT AREA – FULL REVIEW

*Bank and Assessment Area Information.* The bank has one full-service branch in the assessment area, located in a middle-income census tract. The branch offers Saturday lobby hours and operates a drive-up facility. The Eau Claire assessment area comprises all of Eau Claire County, which is a portion of the larger Eau Claire, WI MSA. The bank has not changed the assessment area since the previous evaluation. The assessment area contains three moderate-income, 12 middle-income, and five upper-income census tracts. There are no low-income tracts.

According to the June 30, 2016, FDIC Deposit Market Share Report, the bank has \$93.0 million in deposits in Eau Claire County, representing 4.5% of the total deposits in the county. Further, the bank ranks eighth out of 17 FDIC-insured institutions that operate in Eau Claire County. In 2015, the bank ranked 16th out of 166 lenders who report HMDA data in the assessment area and originated 1.3% of the HMDA-reportable loans. The bank operates in a highly competitive market with many large national and regional banks as well as credit unions in the Eau Claire, WI MSA.

Table 4 shows the demographic characteristics of the assessment area based on the 2016 FFIEC adjusted census data and 2016 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>	
	<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	4,227	18.0
Moderate Income	3	15.0	2,335	10.0	427	18.3	4,285	18.3
Middle Income	12	60.0	15,109	64.5	1,044	6.9	5,348	22.8
Upper Income	5	25.0	5,998	25.6	359	6.0	9,582	40.9
Unknown Income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>20</b>	<b>100.0</b>	<b>23,442</b>	<b>100.0</b>	<b>1,830</b>	<b>7.8</b>	<b>23,442</b>	<b>100.0</b>
<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	5,535	2,591	10.2	46.8	2,134	38.6	810	14.6
Middle Income	26,415	16,524	65.0	62.6	8,704	33.0	1,187	4.5
Upper Income	9,809	6,326	24.9	64.5	2,961	30.2	522	5.3
Unknown Income	0	0	0.0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>41,759</b>	<b>25,441</b>	<b>100.0</b>	<b>60.9</b>	<b>13,799</b>	<b>33.0</b>	<b>2,519</b>	<b>6.0</b>

**TABLE 4**  
**Eau Claire Assessment Area Demographics**

<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	597	14.6	528	14.4	61	16.2	8	26.7
Middle Income	2,573	63.0	2,336	63.6	223	59.2	14	46.7
Upper Income	911	22.3	810	22.0	93	24.7	8	26.7
Unknown Income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>4,081</b>	<b>100.0</b>	<b>3,674</b>	<b>100.0</b>	<b>377</b>	<b>100.0</b>	<b>30</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>				<b>90.0</b>		<b>9.2</b>		<b>0.7</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	26	13.8	26	13.8	0	0.0	0	0.0
Middle Income	90	47.6	90	47.6	0	0.0	0	0.0
Upper Income	73	38.6	73	38.6	0	0.0	0	0.0
Unknown Income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>189</b>	<b>100.0</b>	<b>189</b>	<b>100.0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>
<b>Percentage of Total Farms:</b>				<b>100.0</b>		<b>0.0</b>		<b>0.0</b>

*Income.* For purposes of classifying borrower income, this evaluation uses FFIEC estimated median family income. For borrowers in the Eau Claire, WI MSA, this figure is \$64,500 for 2012, \$65,300 for 2013, \$64,800 for 2014, and \$65,900 for 2015. For purposes of classifying census tracts by income level, the evaluation uses the FFIEC adjusted census data median family income for the Eau Claire WI MSA, which is \$62,064 for all years of the evaluation period.

*Population.* According to 2010 U.S. Census data, the population in this assessment area was 98,736. Two-thirds of the assessment area’s population lived within the city limits of Eau Claire. The U.S. Census estimates that by 2016 the population of Eau Claire County increased by nearly 4.3%, to 102,965. A community contact indicated that rise is due to the number of younger people and families moving into the area because of the availability of good-paying jobs, quality housing, and the downtown revitalization efforts. Census data indicates that the Eau Claire assessment area has a higher Asian population than the state average. Bank management noted that this demographic reflects the relatively high percentage of Hmong residents in the county.

*Economy.* Eau Claire County has a relatively diverse, strong economy influenced by the presence of post-secondary institutions, medical facilities, and nonagricultural industries according to bank management and community contacts. The largest employer in the area is a large home-improvement chain, including its corporate and distribution centers. Additional top employers include three major hospitals and two colleges. Contacts indicated that the diverse economy has spurred the growth and redevelopment of blighted areas such as parts of downtown Eau Claire. Contacts noted that the local government identified the area as an important redevelopment zone, which precipitated significant public and private investment in redevelopment projects. The downtown revitalization has been a major contributor to population and housing growth in the area. Several businesses have moved into the downtown area and provided jobs, including a large software company.



According to the BLS, the May 2017 nonseasonally adjusted unemployment rate for Eau Claire County was 2.6%. This rate is slightly lower than the 2.8% unemployment rate for the State of Wisconsin for the same period. A contact indicated that the unemployment rate is low.

*Housing.* The availability of affordable housing remains an issue in the assessment area. According to community contacts, supply is limited at all price ranges, but supply is especially limited for affordable housing units. Lower-priced homes (less than \$150,000) are affordable and sell quickly. Based on 2015 FFIEC census data, the median housing value for Eau Claire County was \$147,200, which is below the State of Wisconsin median housing value of \$169,000.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank’s lending performance in the Eau Claire assessment area is reasonable. The bank’s community development performance demonstrates excellent responsiveness to community development needs.

**LENDING TEST**

The bank’s lending to businesses of different sizes and to borrowers of different income levels is reasonable. The geographic distribution of loans reflects reasonable dispersion throughout the assessment area and does not reveal any unexplained gaps in lending.

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

*Small Business Lending.* The bank’s lending to small businesses is reasonable. As shown in Table 5, the bank extended 81.8% of its small business loans to businesses with gross annual revenues of \$1 million or less.

<b>TABLE 5</b>				
<b>Small Business Lending – Eau Claire Assessment Area</b>				
<i>Small Business Loan 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	40.9%	27.3%	31.8%	100.0%
Percentage of Loans to Businesses with Revenues of \$1 Million or Less	44.4%	22.2%	33.3%	81.8%

According to 2016 Dun & Bradstreet data, 90.0% of businesses in the assessment area have gross annual revenues of \$1 million or less. While lending is below demographic levels, the bank originated a large majority of its loans in 2016 to businesses with gross annual revenues of \$1 million or less. The bank also made more loans for \$100,000 or less than it did any other loan size. These loans indicate a willingness to meet the credit needs of small businesses, which typically need smaller-dollar loans. Given the competitive market, the bank’s small business lending is reasonable.

*HMDA Lending.* The bank’s lending to low- and moderate-income borrowers is reasonable, given the performance context. Table 6 shows the bank’s HMDA lending by borrower income levels for 2014 and 2015.

<b>TABLE 6</b>										
<b>Eau Claire Assessment Area</b>										
<b>2015 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	2	8.3	5	20.8	15	62.5	2	8.3
Refinance	0	0.0	0	0.0	1	8.3	10	83.3	1	8.3
Home Improvement	0	0.0	0	0.0	0	0.0	1	100.0	0	0.0
<b>Total 2015 HMDA Loans</b>	<b>0</b>	<b>0.0</b>	<b>2</b>	<b>5.4</b>	<b>6</b>	<b>16.2</b>	<b>26</b>	<b>70.3</b>	<b>3</b>	<b>8.1</b>
<b>2014 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	2	13.3	2	13.3	9	60.0	2	13.3
Refinance	0	0.0	1	9.1	1	9.1	7	63.6	2	18.2
Home Improvement	0	0.0	0	0.0	1	50.0	0	0.0	1	50.0
<b>Total 2014 HMDA Loans</b>	<b>0</b>	<b>0.0</b>	<b>3</b>	<b>10.7</b>	<b>4</b>	<b>14.3</b>	<b>16</b>	<b>57.1</b>	<b>5</b>	<b>17.9</b>
<b>Total HMDA Loans</b>	<b>0</b>	<b>0.0</b>	<b>5</b>	<b>7.7</b>	<b>10</b>	<b>15.4</b>	<b>42</b>	<b>64.6</b>	<b>8</b>	<b>12.3</b>

According to 2015 FFIEC adjusted census data, 18.0% of families in the assessment area are low income and 18.3% are moderate income, for an overall figure of 36.3%. The bank's level of lending to low- and moderate-income borrowers is below the demographic data. During 2015 and 2014, the bank originated 5.4% and 10.7% of its HMDA loans to moderate-income borrowers, respectively. The bank did not originate HMDA loans to low-income borrowers in either year.

The bank's performance is also below aggregate levels. In 2015, aggregate lenders originated 8.8% of loans to low-income borrowers and 20.0% to moderate-income borrowers. In 2014, aggregate lenders originated 9.9% of loans to low-income borrowers and 22.1% to moderate-income borrowers.

While not reflected in the table above, the bank's 2013 and 2012 lending to low-and moderate-income borrowers is generally comparable to the 2015 and 2014 results (below demographic data and aggregate lenders). For example, in 2013, the bank originated no HMDA loans to low-income borrowers and 15.7% of its HMDA loans to moderate-income borrowers. By comparison, aggregate lenders originated 9.3% of loans to low-income borrowers and 21.3% to moderate-income borrowers. In 2012, the bank originated 5.3% of its HMDA loans to low-income and 6.7% to moderate-income borrowers. Aggregate lenders originated 9.0% of loans to low-income and 18.3% to moderate-income borrowers during the same period.

While low, the bank's residential real estate lending to low- and moderate-income borrowers in the Eau Claire assessment area is reasonable. The bank is primarily a commercial lender based on its loan portfolio composition, and it has a smaller presence for HMDA lending in the Eau Claire market than in its Hayward market. Strong competition for residential real estate loans and the branch location also play a large role. There are a large number of financial institutions in Eau Claire, including large national and regional banks with multiple branches in the city. The bank's only location in Eau Claire is on the southern edge of the city near the Interstate highway, which makes it difficult for the bank to compete with financial institutions in the downtown area. Finally, the total number of the bank's HMDA loans declined during the evaluation period. The bank originated 126 loans in 2012 and 2013, and 65 in 2014

and 2015. According to bank management, demand for refinances fell as the credit environment changed at the end of 2012.

Using the assumption that a borrower can afford a home that costs approximately three times the gross annual income, and based on the 2015 FFIEC estimated median family income of \$65,900 for the Eau Claire WI MSA, a borrower at the highest level of the moderate-income bracket (\$52,719) would be able to afford a \$158,157 home. Similarly, a person at the highest level of the low-income bracket (\$32,949) would be able to afford a \$98,847 home. The 2015 FFIEC census data indicates the median housing value in Eau Claire County is \$147,200. Thus, homes may be more affordable for moderate-income borrowers, which is reflected in the bank’s higher moderate-income lending levels.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

The geographic distribution of the bank’s loans throughout the Eau Claire assessment area is reasonable and does not reveal any unexplained gaps in lending. The assessment area does not include any low-income tracts.

*Small Business Lending.* The distribution of small business loans is reasonable. Table 7 shows the bank’s small business lending by census tract income level.

<b>TABLE 7</b>												
<b>Geographic Distribution of Small Business Loans by Census Tract Income Level*</b>												
<b>Eau Claire Assessment Area</b>												
<i>Loan Type Sample</i>	<i>Moderate</i>				<i>Middle</i>				<i>Upper</i>			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Small Business	3	13.6	384	7.6	13	59.1	3,019	59.9	6	27.3	1,639	32.5
<b>Demographic Data</b>												
Number of Census Tracts	3				12				5			
Percentage of Census Tracts	15.0%				60.0%				25.0%			
Percentage of Businesses**	14.6%				63.0%				22.3%			
*Income classification of census tracts based on 2016 FFIEC census data.												
**Percentages are based on 2016 Dun & Bradstreet data.												

As Table 7 shows, 14.6% of businesses in the assessment area are located in the moderate-income tracts, according to 2016 Dun & Bradstreet data. By number, the bank’s lending in the moderate-income tracts (13.6%) is generally consistent with the percentage of businesses located in those tracts. While the bank’s lending is below demographic data by dollar amount, this is reasonable because the large majority of businesses in the assessment area are in either the middle- or upper-income tracts. The bank’s location in the assessment area is also a contributing factor. Two of the moderate-income tracts are in the central part of Eau Claire, which is some distance from the bank’s office. There are a number of other financial institutions closer to these tracts. The third moderate-income tract is in a rural area on the eastern edge of the bank’s assessment area. Given the location of the moderate-income tracts, and the location of the bank’s branch next to several middle- and upper-income tracts, the distribution of loans by tract is reasonable.

The bank did not originate small business loans in all census tracts in the assessment area. The bank did not originate loans in one moderate-, four middle-, and one upper-income census tract. These six tracts are all in the northwest corner of the bank’s assessment area, on the northern side of Eau Claire. Given

the distance of the bank from this area and the competitive banking environment, there are no unexplained gaps in the bank’s lending.

*HMDA Lending.* The geographic distribution of the bank’s HMDA loans in moderate-income census tracts is reasonable. Table 8 illustrates the distribution of loans in the assessment area by census tract income level. The bank’s 2013 and 2012 HMDA lending is not included in the table but is consistent with the 2015 and 2014 data.

<b>TABLE 8</b>						
<b>Eau Claire Assessment Area</b>						
<b>2015 HMDA Loans by Census Tract Income Level</b>						
	<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
<i>Loan Type</i>	#	%	#	%	#	%
Home Purchase	1	4.2	12	50.0	11	45.8
Refinance	0	0.0	3	25.0	9	75.0
Home Improvement	0	0.0	1	100.0	0	0.0
<b>Total 2015 HMDA Loans</b>	<b>1</b>	<b>2.7</b>	<b>16</b>	<b>43.2</b>	<b>20</b>	<b>54.1</b>
<b>2014 HMDA Loans by Census Tract Income Level</b>						
	<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
<i>Loan Type</i>	#	%	#	%	#	%
Home Purchase	0	0.0	5	33.3	10	66.7
Refinance	0	0.0	3	27.3	8	72.7
Home Improvement	1	50.0	0	0.0	1	50.0
<b>Total 2014 HMDA Loans</b>	<b>1</b>	<b>3.6</b>	<b>8</b>	<b>28.6</b>	<b>19</b>	<b>67.9</b>
<b>Total HMDA Loans</b>	<b>2</b>	<b>3.1</b>	<b>24</b>	<b>36.9</b>	<b>39</b>	<b>60.0</b>

During 2015 and 2014, the bank made 3.1% of its loans in the moderate-income tracts. According to 2015 FFIEC census data, 10.0% of families live in the moderate-income tracts. In 2015 and 2014, aggregate lenders made 10.0% and 10.7% of loans in the moderate-income tracts, respectively. The bank’s lending is below demographics and aggregate lenders but is reasonable. The high percentage of rental housing in the moderate-income tracts reduces the opportunities for the bank to make HMDA loans in these tracts. More than a third (38.6%) of housing in the moderate-income tracts is rental or homes listed as vacant (14.6%). In addition, two of the moderate-income tracts are located in downtown Eau Claire, and the third is located on the eastern edge of the assessment area and is relatively far from the bank’s branch. According to bank management, the downtown tracts include primarily rental housing and a women’s shelter, while the remainder of the land is used for commercial purposes. The downtown area is also very competitive for loans, which further reduces the bank’s opportunities to lend in that area.

For both 2015 and 2014, the bank originated loans in only one of the three moderate-income tracts in the assessment area. In 2013 and 2012, the bank originated HMDA-reportable loans in all three moderate-income tracts. During the evaluation period, the bank extended HMDA loans in each census tract in its assessment area.

Most tracts in the assessment area are middle-income tracts. The bank did not lend in every middle-income tract each year, which is explainable. For example, the bank did not originate HMDA loans in five middle-income tracts in 2015. Several of these tracts are north of downtown Eau Claire near the edge of the assessment area. These tracts are relatively far from the bank’s branch and are served by a

number of closer financial institutions. This trend was also present in previous years. There are no unexplained gaps in lending.

## COMMUNITY DEVELOPMENT TEST

The level and nature of community development activities in the Eau Claire assessment area are excellent given the availability of opportunities, the strong competition, and the bank's market presence and size. The bank engaged in community development lending and services and made qualified investments in the form of donations. The bank's community development activities in the Eau Claire assessment area demonstrate excellent responsiveness to identified community development needs.

*Community Development Lending.* The bank's community development lending is excellent. During the evaluation period, the bank originated five community development loans totaling \$26.6 million in the Eau Claire assessment area. The loans primarily helped to revitalize and stabilize a blighted, moderate-income area in downtown Eau Claire. The City of Eau Claire and other groups have targeted downtown for redevelopment in recent years, so the bank's community development loans are impactful. Most notably, the bank was the lead lender for a \$23.3 million loan for purposes of constructing a mixed-use building in a catalyst area for future downtown development. The bank made two additional loans totaling \$3.1 million in this redevelopment district. Finally, the bank originated two loans to an organization that provides essential services for low- and moderate-income persons, including the homeless.

*Community Development Services.* The bank's level of community development services is excellent. The bank provided 69 community development services in the assessment area during the evaluation period. A number of bank employees, including executives, contributed their financial expertise to community development organizations. Bank employees primarily served organizations that provide community services to low- and moderate-income individuals.

*Qualified Investments.* Overall, the level of qualified investments is excellent. The bank made qualifying donations totaling \$82,160 in this assessment area. Of this amount, the bank donated \$50,000 to a project that helped revitalize a blighted area targeted for redevelopment in downtown Eau Claire; these donations were impactful and highly responsive to identified community development needs. Other donations were to organizations that provide essential services to low- and moderate-income individuals, such as health care, food, and shelter. The bank did not make any qualifying investments in the form of securities in the assessment area during the evaluation period. Given the limited opportunities to purchase municipal bonds that qualify under CRA and the high level of competition for these securities in the bank's assessment area, this is reasonable.

## STATE OF WISCONSIN – NONMETROPOLITAN AREA

### DESCRIPTION OF THE HAYWARD ASSESSMENT AREA – FULL REVIEW

*Bank and Assessment Area Information.* The bank’s main office is in the Hayward assessment area, in a moderate-income tract. The office offers Saturday lobby hours and operates a drive-up facility and a full-service ATM. The Hayward assessment area consists of Sawyer County and the adjacent census tracts in eastern and northern Washburn County and southern Bayfield County, in northwestern Wisconsin. This assessment area includes five moderate- and four middle-income tracts. There are no low-income or upper-income tracts. The census tract in Bayfield County is considered distressed. Two census tracts in Sawyer County and one in Washburn County are considered underserved. The LCO Indian Reservation is located in this assessment area.

According to the June 30, 2016, FDIC Deposit Market Share Report, the bank has \$121.2 million in deposits in Sawyer, Washburn, and Bayfield counties, which represents 13.5% of deposits in the market. The bank is the market share leader in Sawyer County (33.8%). The bank is an active HMDA lender in the Hayward assessment area and ranked second out of 192 lenders reporting HMDA data in this assessment area in 2015.

Table 9 shows the demographic characteristics of the Hayward assessment area based on the 2016 FFIEC adjusted census data and 2016 Dun & Bradstreet data.

<b>TABLE 9</b>								
<b>Hayward Assessment Area Demographics</b>								
<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	2,162	28.3
Moderate Income	5	55.6	3,922	51.4	712	18.2	1,530	20.1
Middle Income	4	44.4	3,708	48.6	229	6.2	1,664	21.8
Upper Income	0	0.0	0	0.0	0	0.0	2,274	29.8
Unknown Income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>9</b>	<b>100.0</b>	<b>7,630</b>	<b>100.0</b>	<b>941</b>	<b>12.3</b>	<b>7,630</b>	<b>100.0</b>
<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>	
		#	%	%	#	%	#	%
Low Income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate Income	10,602	4,144	48.5	39.1	1,992	18.8	4,466	42.1
Middle Income	12,689	4,395	51.5	34.6	843	6.6	7,451	58.7
Upper Income	0	0	0.0	0.0	0	0.0	0	0.0
Unknown Income	0	0	0.0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>23,291</b>	<b>8,539</b>	<b>100.0</b>	<b>36.7</b>	<b>2,835</b>	<b>12.2</b>	<b>11,917</b>	<b>51.2</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	793	53.3	702	51.6	67	76.1	24	61.5
Middle Income	695	46.7	659	48.4	21	23.9	15	38.5
Upper Income	0	0.0	0	0.0	0	0.0	0	0.0
Unknown Income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>1,488</b>	<b>100.0</b>	<b>1,361</b>	<b>100.0</b>	<b>88</b>	<b>100.0</b>	<b>39</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>				<b>91.5</b>		<b>5.9</b>		<b>2.6</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	36	51.4	34	50.7	2	66.7	0	0.0
Middle Income	34	48.6	33	49.3	1	33.3	0	0.0
Upper Income	0	0.0	0	0.0	0	0.0	0	0.0
Unknown Income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>70</b>	<b>100.0</b>	<b>67</b>	<b>100.0</b>	<b>3</b>	<b>100.0</b>	<b>0</b>	<b>0.0</b>
<b>Percentage of Total Farms:</b>				<b>95.7</b>		<b>4.3</b>		<b>0.0</b>

*Income.* For purposes of classifying borrower income, this evaluation uses the FFIEC estimated median family income. For borrowers in the nonmetropolitan areas of Wisconsin, the figure is \$59,900 for 2012, \$58,600 for 2013, \$60,600 for 2014, and \$61,500 for 2015. For purposes of classifying census tracts by income level, the evaluation uses the FFIEC adjusted census data median family income for nonmetropolitan Wisconsin, which was \$57,005 in 2014 to 2016 and \$57,384 in 2012 and 2013.

*Population.* According to 2010 U.S. Census data, the population in this assessment area was 23,327. A substantial majority (71.0%) of the population in the assessment area resides in Sawyer County. The U.S. Census estimates that by 2016 the population of Sawyer County slightly decreased from 16,557 to 16,369 since the 2010 census.

*Economy.* According to a community contact, the local economy is good and stable. However, the area is rural and the population is aging and not growing, which constrains economic growth. Tourism is the primary economic driver, and it provides seasonal, inconsistent work that typically pays low wages. Bank management and community contacts indicated that the 2017 tourist season has been successful so far, with many part-time positions listed in the local newspaper. Major employment sectors include local government (including counties, towns, school districts, and the Lac Courte Orielles Band of Lake Superior Chippewa Indians), manufacturing, retail trade, health care and social assistance, and accommodation and food services. A contact indicated that, in general, good job opportunities are in low supply, and it is difficult for most families needing dual incomes to find two full-time jobs. Another contact indicated that an area food-packing plant provides the most consistent hours, but wages are generally low.

According to the BLS, the May 2017 nonseasonally adjusted unemployment rate was 3.7% for Sawyer County, 4.0% for Bayfield County, and 3.0% for Washburn County. These rates are slightly above the

statewide rate of 2.8% for the same period, although a community contact described the local unemployment rate as low.

A contact familiar with economic conditions on the LCO Indian Reservation noted that the economy is weak and the unemployment rate is high among tribal members. Tribal enterprises are the main employers and include a casino, lodge, and convention center; a cranberry marsh; a development corporation; gas stations; and a grocery store. Nontribal, tourism-related businesses, such as lake resorts and recreational businesses, are also significant employers.

*Housing.* The housing market in the Hayward assessment area reflects the importance of tourism. Based on 2010 census data, 51.2% of units in the assessment area are classified as vacant. This number is primarily driven by the high number of vacation homes in the area. According to 2015 FFIEC census data, the median housing value in the assessment area is \$165,654, which is similar to the State of Wisconsin median housing value of \$169,000. Nonetheless, affordability continues to be a concern. According to contacts, the housing that is available to low- or moderate-income individuals is poor in quality and limited in supply. A contact also indicated that housing is generally not affordable for low- and moderate-income residents because of low wages.

A contact familiar with housing on the LCO Indian Reservation noted that tribal members need more affordable housing units. Multiple families share housing units because of the affordable housing shortage, and some members have moved away from the reservation.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank’s lending performance in the Hayward assessment area is reasonable. This assessment area accounts for the majority of the bank’s lending activity, with 57.8% of total loans. The bank’s community development performance demonstrates adequate responsiveness to the community development needs of this assessment area.

**LENDING TEST**

The bank’s lending to businesses of different sizes and to borrowers of different income levels is reasonable. Overall, the geographic distribution of the bank’s loans reflects a reasonable dispersion throughout the Hayward assessment area.

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

*Small Business Lending.* The bank’s small business lending in the assessment area is reasonable. Table 10 shows the bank’s small business lending.

<b>TABLE 10</b>				
<b>Small Business Lending – Hayward Assessment Area</b>				
<i>Small Business Loan 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	75.0%	18.8%	6.3%	100.0%
Percentage of Loans to Businesses with Revenues of \$1 Million or Less	80.0%	13.3%	6.7%	93.8%



The bank originated 93.8% of its small business loans to businesses that have gross annual revenues of \$1 million or less. According to 2016 Dun & Bradstreet data, 91.5% of the businesses in the assessment area have gross annual revenues of \$1 million or less. The bank’s lending slightly exceeds demographics. Bank management indicated that competition for small business loans in the assessment area is strong. The bank originated 80.0% of its small business loans in amounts of \$100,000 or less to small businesses, which indicates a willingness to serve the credit needs of small businesses.

*HMDA Lending.* The bank’s HMDA lending to low- and moderate-income borrowers is reasonable. The bank is an active HMDA lender in the assessment area; it ranked second out of 192 lenders reporting HMDA data in this assessment area in 2015 and second among 169 lenders in 2014. The bank was ranked fourth in lending in the assessment area in 2013 and second in 2012. Table 11 shows the bank’s HMDA lending by borrower income levels for 2015 and 2014. During the evaluation period, the bank originated 6.9% of its HMDA loans to low-income borrowers and 16.4% to moderate-income borrowers.

<b>TABLE 11</b>										
<b>Hayward Assessment Area</b>										
<b>2015 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>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Home Purchase	2	3.9	9	17.6	9	17.6	29	56.9	2	3.9
Refinance	1	3.8	7	26.9	4	15.4	13	50.0	1	3.8
Home Improvement	0	0.0	2	22.2	1	11.1	6	66.7	0	0.0
<b>Total 2015 HMDA Loans</b>	<b>3</b>	<b>3.5</b>	<b>18</b>	<b>20.9</b>	<b>14</b>	<b>16.3</b>	<b>48</b>	<b>55.8</b>	<b>3</b>	<b>3.5</b>
<b>2014 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>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Home Purchase	0	0.0	5	10.9	5	10.9	34	73.9	2	4.3
Refinance	1	5.0	3	15.0	6	30.0	10	50.0	0	0.0
Home Improvement	0	0.0	1	12.5	1	12.5	5	62.5	1	12.5
<b>Total 2014 HMDA Loans</b>	<b>1</b>	<b>1.4</b>	<b>9</b>	<b>12.2</b>	<b>12</b>	<b>16.2</b>	<b>49</b>	<b>66.2</b>	<b>3</b>	<b>4.1</b>
<b>Total HMDA Loans</b>	<b>4</b>	<b>2.5</b>	<b>27</b>	<b>16.9</b>	<b>26</b>	<b>16.3</b>	<b>97</b>	<b>60.6</b>	<b>6</b>	<b>3.8</b>

As shown in Table 11, in 2015 the bank originated 3.5% of its HMDA-reportable loans to low-income borrowers and 20.9% of its HMDA-reportable loans to moderate-income borrowers. According to 2015 FFIEC adjusted census data, 28.3% of families in the assessment area are low income and 20.1% are moderate income. The bank’s HMDA lending in 2015 is below demographics for low-income borrowers and consistent with demographics for moderate-income borrowers. HMDA lending in 2014 was below demographics, with 1.4% of originations to low-income borrowers and 12.2% to moderate-income borrowers. While not shown in the table, the bank’s HMDA lending was generally consistent in 2013 and 2012 for low- and moderate-income borrowers.

Although below demographics, the bank’s lending levels are reasonable. As previously noted, the number and quality of affordable homes in the assessment area is low. As a result, the bank has fewer opportunities to make home purchase loans to low- or moderate-income families. Other factors, including low wages and a stagnant economy, also make it difficult for low- and moderate-income individuals to become homeowners.

During the evaluation period, the bank’s lending was at times both above and below aggregate lenders. The bank’s overall performance is above aggregate in 2015. The bank extended 3.5% of its loans to low-income borrowers and 20.9% to moderate-income borrowers, for a combined figure of 24.4%. Aggregate lenders originated 4.9% of loans to low-income borrowers and 15.5% to moderate-income borrowers, for a combined figure of 20.4%. The bank’s overall performance was below aggregate in 2014. The bank extended 1.4% of its loans to low-income borrowers and 12.2% of its loans to moderate-income borrowers, for a combined figure of 13.5%. Aggregate lenders originated 4.5% of loans to low-income borrowers and 13.6% of loans to moderate-income borrowers, for a combined figure of 18.1%. The bank’s overall performance in 2013 and 2012 exceeded aggregate lenders. The bank originated 20.4% and 28.7% HMDA loans to low-and moderate-income borrowers, compared to aggregate lenders at 17.6% and 18.8%, respectively.

The bank no longer offers WHEDA, FHA, or VA loans; however, the number of originations indicates the bank continues to work to meet the credit needs of its community. The bank’s refinance lending to low- and moderate-income borrowers exceeded aggregate lenders each year during the evaluation period.

The bank originated more loans to moderate-income borrowers than to low-income borrowers during the evaluation period, which is reasonable. Using the assumption that a borrower could afford a home that costs approximately three times gross annual income, based on the 2015 FFIEC estimated median family income of \$61,500 for the nonmetropolitan areas of Wisconsin, a person at the highest level of the low-income bracket (\$30,749) would be able to afford a \$92,247 home. Similarly, a person in the highest level of the moderate-income bracket (\$49,199) would be able to afford a \$147,597 home. The 2015 FFIEC census data indicates the median housing value in the assessment area is \$165,654, which is more affordable to moderate-income borrowers.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

Overall, the geographic distribution of the bank’s loans reflects a reasonable dispersion throughout the Hayward assessment area. The Hayward assessment area does not include any low-income census tracts. The bank originated the majority of its small business loans in moderate-income tracts and a majority of its HMDA loans in middle-income tracts. The majority of tracts (55.6%) in the assessment area are moderate income.

*Small Business Lending.* The distribution of small business loans is excellent. Table 12 shows the bank’s small business lending by census tract income level.

<i>Loan Type Sample</i>	<i>Moderate</i>				<i>Middle</i>			
	<i>#</i>	<i>%</i>	<i>\$ (000s)</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>\$ (000s)</i>	<i>%</i>
Small Business	10	62.5	709	71.3	6	37.5	285	28.7
<b><i>Demographic Data</i></b>								
Number of Census Tracts	5				4			
Percentage of Census Tracts	55.6%				44.4%			
Percentage of Businesses**	53.3%				46.7%			
*Income classification of census tracts based on 2016 FFIEC census data.								
**Percentages are based on 2016 Dun & Bradstreet data.								

As Table 12 shows, 53.3% of the businesses in the assessment area are located in moderate-income tracts, according to 2016 Dun & Bradstreet data. The bank extended 62.5% of its small business loans to businesses located in the moderate-income tracts, which exceeds demographic data and is excellent. The bank's percentage of small business loan dollars in the moderate-income tracts exceeds the demographic data as well. The majority of the bank's small business lending occurs in census tract 1003.00, where the bank's main office is located. The bank did not make small business loans in one middle-income census tract (9503.00) and two moderate-income tracts (1007.00 and 9501.00). The tracts where the bank did not make loans are either on the edge of the assessment area in sparsely populated areas or in areas served by other financial institutions. The bank also originated a small business loan on the LCO Indian Reservation. According to a community contact, the Lac Courte Orielles Federal Credit Union primarily serves the LCO Indian Reservation. There are no unexplained gaps in lending.

*HMDA Lending.* The geographic distribution of the bank's HMDA loans in moderate-income census tracts is reasonable. Table 13 shows the distribution of loans in the assessment area by census tract income level. The bank's 2013 and 2012 HMDA lending is not included in the table.

<b>TABLE 13</b>				
<b>Hayward Assessment Area</b>				
<b>2015 HMDA Loans by Census Tract Income Level</b>				
	<i>Moderate</i>		<i>Middle</i>	
<i>Loan Type</i>	#	%	#	%
Home Purchase	19	37.3	32	62.7
Refinance	8	30.8	18	69.2
Home Improvement	8	88.9	1	11.1
<b>Total 2015 HMDA Loans</b>	<b>35</b>	<b>40.7</b>	<b>51</b>	<b>59.3</b>
<b>2014 HMDA Loans by Census Tract Income Level</b>				
	<i>Moderate</i>		<i>Middle</i>	
<i>Loan Type</i>	#	%	#	%
Home Purchase	14	30.4	32	69.6
Refinance	9	45.0	11	55.0
Home Improvement	6	75.0	2	25.0
<b>Total 2014 HMDA Loans</b>	<b>29</b>	<b>39.2</b>	<b>45</b>	<b>60.8</b>
<b>Total HMDA Loans</b>	<b>64</b>	<b>40.0</b>	<b>96</b>	<b>60.0</b>

The bank's HMDA lending in the moderate-income census tracts is 40.7% in 2015 and 39.2% in 2014, which is below the demographic data. According to 2015 FFIEC census data, 51.4% of families reside in moderate-income tracts. The bank's performance is slightly below aggregate lender performance for 2015 and 2014. Aggregate lenders originated 43.2% of HMDA loans in moderate-income tracts in 2015 and 41.4% in 2014.

For both 2013 and 2012, the bank's performance exceeded aggregate lenders. In 2013, the bank extended 51.0% of its loans in moderate-income tracts, compared to 36.8% for aggregate lenders. In 2012, the bank extended 41.5% of its loans in moderate-income tracts, compared to 36.5% for aggregate lenders. The bank's lending in moderate tracts in 2013 was consistent with demographic data and it was lower in 2012.

The geographic dispersion of HMDA loans is reasonable. For example, in 2015 and 2014, the bank made 32 HMDA loans in moderate-income tract 1003.00, where the bank's main office is located. By comparison, during the same period, the bank originated five HMDA loans in moderate-income tract 1008.00 and one HMDA loan in moderate-income tract 1007.00. This is reasonable because these tracts are on the south-central and southeastern edge of the bank's assessment area. The bank originated 17 loans to borrowers residing in moderate-income tract 9400.00, which is where the LCO Indian Reservation is located. Finally, the bank originated nine loans in moderate-income tract 9501.00 during the same period, which is in northern Washburn County. Data from 2013 and 2012 show a similar result.

There were no unexplained gaps in lending, and the bank extended HMDA loans in each tract during the evaluation period, despite the relatively large geographic footprint of the assessment area.

## COMMUNITY DEVELOPMENT TEST

The level and nature of community development activities in the Hayward assessment area are adequate, although the level was relatively low during the evaluation period. Community development opportunities in the Hayward assessment area were relatively limited during the evaluation period. In addition, for most years during the evaluation period (2012 to 2015), the bank was considered a small bank for CRA purposes. Only during the latter part of the evaluation period (2016 and 2017) did the bank become subject to the Intermediate Small Bank CRA Examination Procedures because of its asset growth. The bank engaged in community development lending and services and made qualified investments in the form of donations. The bank's community development activities demonstrate adequate responsiveness to community development needs.

*Community Development Loans.* The bank's community development lending is adequate. The bank originated four community development loans in the assessment area, totaling \$2.9 million. The loans helped to revitalize and stabilize a moderate-income area, promoted economic development, and supported an organization that provides essential services to low- and moderate-income individuals in the assessment area. The largest loan (\$2.4 million refinance) was to a local municipality and funded public works improvements to the city's water and waste treatment facilities. Another loan (\$350,000) helped a processing plant in the area expand its operations, which added several permanent full-time positions for lower-income individuals. The remaining two loans provided financing to a local food shelf and to a business in a moderate-income area.

*Community Development Services.* The bank's level of community development services is adequate. The bank provided nine community development services in the assessment area during the evaluation period. A number of bank staff members provided financial education to students at local schools that serve primarily low- and moderate-income youth. One staff member served on the board of an organization that provides services to low- and moderate-income women.

*Qualified Investments.* The bank's level of qualified investments is adequate. The bank did not make any qualified investments in the form of securities in the assessment area during the evaluation period. Given the limited opportunities to purchase municipal bonds that qualify under CRA and the high level of competition for these securities in the bank's assessment area, this is reasonable. Bank management also indicated that few municipalities in the area have an interest in taking on new debt. The bank made 20 donations totaling \$7,200 in the assessment area. Most donations were to organizations that provide essential services to low- and moderate-income individuals, such as food, shelter, and clothing. The bank also provided a number of donations to a hospital and fire department that helped to revitalize and stabilize underserved and moderate-income areas.

## STATE OF MINNESOTA – METROPOLITAN AREA

### CRA RATING FOR Minnesota: Satisfactory.

**The Lending Test is rated: Satisfactory**

**The Community Development Test is rated: Satisfactory**

Major factors supporting the rating include the following:

- The bank's lending to businesses of different sizes and to borrowers of different income levels is reasonable.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- Overall, the bank's community development activities show adequate responsiveness to the area's community development needs.
- Overall, the level and nature of the bank's community development loans, qualified investments in the form of donations, and community development services are adequate.

### SCOPE OF EVALUATION

The scope of the CRA evaluation for the State of Minnesota is consistent with the scope for the overall institution as described earlier in the Institution section. Examiners completed a full-scope review for the Vadnais Heights assessment area, which is the bank's only assessment area in Minnesota. Since the bank has only one assessment area in the state, examiners discuss the statewide performance concurrently with the Vadnais Heights assessment area. To complete the full-scope review, examiners used the following criteria: lending to businesses of different sizes and borrowers of different income levels, geographic distribution of lending, community development lending, qualified investments, and community development services.

### DESCRIPTION OF THE VADNAIS HEIGHTS ASSESSMENT AREA – FULL REVIEW

*Bank Information.* The bank operates one branch in Vadnais Heights, Minnesota, in a middle-income tract. The bank moved from its Maplewood, Minnesota, location to its current location in 2016. The Maplewood office became a branch after the bank's merger with its affiliate in 2013. The Maplewood branch was in a middle-income tract as well. The bank's Vadnais Heights branch is located in the northeast portion of Ramsey County, approximately 10 miles north of St. Paul.

According to the June 30, 2016, FDIC Deposit Market Share Report, the bank had \$33.5 million in deposits in the assessment area, which represents less than 0.1% of the market share and 13.5% of the bank's total deposits. The bank ranks 73rd out of 98 FDIC-insured institutions that operate in the assessment area, and it has a limited market presence. The bank faces significant competition from other financial institutions in the surrounding area.

*Assessment Area.* The Vadnais Heights assessment area is new since the previous evaluation and consists of a portion of the Minneapolis-St. Paul-Bloomington, MN-WI MSA (Minneapolis-St. Paul MSA). The assessment area includes Hennepin, Ramsey, Anoka, and Washington counties. The assessment area includes 63 low-income, 122 moderate-income, 226 middle-income, and 154 upper-income census tracts;

four tracts are listed as unknown income. The assessment area includes all majority-minority tracts in the Minneapolis-St. Paul MSA.

Table 14 provides detailed demographic information about the assessment area based on the 2016 FFIEC adjusted census data and 2016 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>	
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Low Income	63	11.1	37,893	7.0	13,431	35.4	112,863	20.8
Moderate Income	122	21.4	95,354	17.6	11,894	12.5	94,198	17.4
Middle Income	226	39.7	229,586	42.3	11,081	4.8	119,811	22.1
Upper Income	154	27.1	179,330	33.1	3,906	2.2	215,303	39.7
Unknown Income	4	0.7	12	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>569</b>	<b>100.0</b>	<b>542,175</b>	<b>100.0</b>	<b>40,312</b>	<b>7.4</b>	<b>542,175</b>	<b>100.0</b>
<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	84,440	22,775	3.7	27.0	52,800	62.5	8,865	10.5
Moderate Income	188,246	95,212	15.7	50.6	78,892	41.9	14,142	7.5
Middle Income	395,100	275,873	45.4	69.8	99,207	25.1	20,020	5.1
Upper Income	272,149	213,855	35.2	78.6	44,914	16.5	13,380	4.9
Unknown Income	51	0	0.0	0.0	51	100.0	0	0.0
<b>Total Assessment Area</b>	<b>939,986</b>	<b>607,715</b>	<b>100.0</b>	<b>64.7</b>	<b>275,864</b>	<b>29.3</b>	<b>56,407</b>	<b>6.0</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>	
Low Income	6,868	6.0	5,915	5.8	885	7.3	68	7.5
Moderate Income	19,172	16.7	16,371	16.1	2,639	21.7	162	17.9
Middle Income	47,168	41.1	41,534	40.9	5,317	43.7	317	35.0
Upper Income	41,395	36.1	37,711	37.1	3,326	27.3	358	39.5
Unknown Income	25	0.0	20	0.0	3	0.0	2	0.2
<b>Total Assessment Area</b>	<b>114,628</b>	<b>100.0</b>	<b>101,551</b>	<b>100.0</b>	<b>12,170</b>	<b>100.0</b>	<b>907</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>				<b>88.6</b>		<b>10.6</b>		<b>0.8</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>	
Low Income	15	1.7	15	1.8	0	0.0	0	0.0
Moderate Income	62	7.1	59	6.9	2	9.1	1	100.0
Middle Income	342	39.0	333	38.9	9	40.9	0	0.0
Upper Income	459	52.3	448	52.4	11	50.0	0	0.0
Unknown Income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>878</b>	<b>100.0</b>	<b>855</b>	<b>100.0</b>	<b>22</b>	<b>100.0</b>	<b>1</b>	<b>100.0</b>
<b>Percentage of Total Farms:</b>				<b>97.4</b>		<b>2.5</b>		<b>0.1</b>

*Income.* For purposes of classifying borrower income, this evaluation uses the FFIEC estimated median family income. For borrowers in the Minneapolis-St. Paul MSA, the figure is \$82,300 for 2013, \$83,900 for 2014, and \$85,700 for 2015. For purposes of classifying census tracts by income level, the evaluation uses the FFIEC adjusted census data median family income for the Minneapolis-St. Paul MSA. Because of changes in the metropolitan statistical delineations that became effective in 2014, this figure was \$80,925 in 2013 and \$79,301 for subsequent years.

*Population.* According to the 2010 U.S. Census data, the population in this assessment area was 2,230,045. All counties have seen a growth in population based on 2016 population estimates. The census estimates that the total population in the assessment area rose by 6.4% overall. Hennepin County's population grew the most (6.9%), followed by Ramsey County (6.3%), Washington County (6.3%), and Anoka County (4.6%). A majority of the population in the assessment area resides in Hennepin County (51.7%). Census data shows that the Asian population in Ramsey County is higher than in the other counties in the bank's assessment area and higher than the state average. A community contact familiar with demographic characteristics of Roseville, Minnesota, indicated that the city is home to a refugee population, which has evolved during the past decades. The contact noted that, initially, the refugees moving to Roseville were from Burma, but since 2004, refugees are from Nepal and a few other countries.

*Economy.* Overall, the local economy is strong and diverse. Major employers in the area include a multinational manufacturing company, a large medical research firm, a large software corporation, health care facilities and numerous large retail chains, as well as small businesses and state and local government. Many residents also commute to work in other parts of the Minneapolis-St. Paul MSA. Economic conditions of the assessment area mirror the economic profile of the Minneapolis-St. Paul MSA as a whole. A contact indicated that commercial real estate is well developed in Roseville, Minnesota, which is near Vadnais Heights, due to its central location for warehouses and shipping.

According to BLS, the May 2017 nonseasonally adjusted unemployment rate was 3.4% for Ramsey County, 3.1% for Washington County, 3.2% for Hennepin County, and 3.3% for Anoka County. These rates were either below or consistent with the statewide rate of 3.4% for the same period.

Despite strong economic performance, poverty is a concern in the area, especially in Ramsey County. According to 2016 FFIEC census data, 13.5% of the households in Ramsey County are below poverty. This percentage is higher than the percentage for the three remaining counties in the bank's assessment area as well as for the state (10.3%).

*Housing.* A contact indicated that the housing markets in Vadnais Heights and nearby Maplewood are typical suburban markets; housing stock is generally average to better than average. Vadnais Heights is primarily a single-family dwelling market with prices that are higher than Maplewood. The contact noted that issues facing the Vadnais Heights and Maplewood housing markets are lack of development space and price increases. According to a contact, houses in Roseville, a first-ring suburb of Minneapolis and St. Paul, are older and smaller homes that are not updated. Some of these older homes have values of less than \$200,000, which is generally affordable; however, the supply of homes at this price is limited. Based on 2015 FFIEC census data, the median housing value in the assessment area was \$238,859, which is higher than the statewide median housing value of \$206,200.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank's lending performance in the Vadnais Heights assessment area is reasonable. The assessment area accounts for only 14.1% of the bank's lending activity. Overall, the bank's community development

performance demonstrates adequate responsiveness to the community development needs of this assessment area.

**LENDING TEST**

The bank’s lending to businesses of different sizes and to borrowers of different income levels is reasonable. The geographic distribution of loans reflects reasonable dispersion throughout the assessment area and does not reveal any unexplained gaps in lending.

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

*Small Business Lending.* The bank’s small business lending is reasonable. Table 15 shows the bank’s small business lending.

<b>TABLE 15</b>				
<b>Small Business Lending – Vadnais Heights Assessment Area</b>				
<i>Small Business Loan Originations</i>	<i>≤ \$100,000</i>	<i>&gt; \$100,000 to ≤ \$250,000</i>	<i>&gt; \$250,000 to &lt; \$1,000,000</i>	<i>Total Originations</i>
Percentage of Small Business Loans	35.9%	33.3%	30.8%	100.0%
Percentage of Loans to Businesses with Revenues of \$1 Million or Less	41.4%	44.8%	13.8%	74.4%

According to 2016 Dun & Bradstreet data, 88.6% of the businesses in the assessment area have gross annual revenues of \$1 million or less. The bank originated 74.4% of its small business loans to businesses that have gross annual revenues of \$1 million or less. The bank’s lending percentage is lower than demographics; however, it is reasonable given the competitive banking environment for small business loans. The bank originated 41.4% of its small business loans in amounts of \$100,000 or less to small businesses, which indicates a willingness to serve the credit needs of smaller entities.

*HMDA Lending.* The bank’s HMDA lending to low- and moderate-income borrowers is reasonable. Table 16 shows the bank’s HMDA lending by borrower income levels for 2015 and 2014.

<b>TABLE 16</b>										
<b>Vadnais Heights Assessment Area</b>										
<b>2015 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>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Home Purchase	1	6.7	0	0.0	3	20.0	6	40.0	5	33.3
Refinance	0	0.0	1	12.5	0	0.0	4	50.0	3	37.5
Home Improvement	0	0.0	0	0.0	1	25.0	2	50.0	1	25.0
<b>Total 2015 HMDA Loans</b>	<b>1</b>	<b>3.7</b>	<b>1</b>	<b>3.7</b>	<b>4</b>	<b>14.8</b>	<b>12</b>	<b>44.4</b>	<b>9</b>	<b>33.3</b>



<b>TABLE 16</b>										
<b>Vadnais Heights Assessment Area</b>										
<b>2014 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>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Home Purchase	1	7.1	3	21.4	1	7.1	1	7.1	8	57.1
Refinance	0	0.0	0	0.0	1	16.7	4	66.7	1	16.7
Multifamily	0	0.0	0	0.0	0	0.0	2	100.0	0	0.0
<b>Total 2014 HMDA Loans</b>	<b>1</b>	<b>4.5</b>	<b>3</b>	<b>13.6</b>	<b>2</b>	<b>9.1</b>	<b>5</b>	<b>22.7</b>	<b>11</b>	<b>50.0</b>
<b>Total HMDA Loans</b>	<b>2</b>	<b>4.1</b>	<b>4</b>	<b>8.2</b>	<b>6</b>	<b>12.2</b>	<b>17</b>	<b>34.7</b>	<b>20</b>	<b>40.8</b>

The bank originated 3.7% of its HMDA loans to low-income borrowers in 2015, and 4.5% in 2014. Loans to moderate-income borrowers made up 3.7% of HMDA originations in 2015, and 13.6% in 2014. According to 2015 FFIEC adjusted census data, 20.8% of families in the assessment area are low income and 17.4% are moderate income.

While the bank’s HMDA lending to low- and moderate-income borrowers is lower than demographics in each year, it is reasonable given the performance context. First, bank management indicated that many of the bank’s HMDA loans are to commercial entities that rehabilitate properties for rental purposes instead of to borrowers purchasing a dwelling. In addition, there are numerous financial institutions in the bank’s assessment area, and competition is strong. Further, the demographic data suggests that the 2015 FFIEC census data median housing value (\$238,859) in the assessment area would not be affordable for many low- to moderate-income residents. Using the assumption that a borrower could afford a home that costs approximately three times gross annual income, based on the 2015 FFIEC estimated median family income for the Minneapolis-St. Paul MSA of \$85,700, a person at the highest level of the low-income bracket (\$42,849) would be able to afford a \$128,547 home. Similarly, a person in the highest level of the moderate-income bracket (\$68,559) would be able to afford a \$205,677 home.

The bank’s lending to low- and moderate-income borrowers in 2015 and 2014 is below aggregate lenders. In 2015, aggregate lenders originated 8.8% of HMDA loans to low-income borrowers and 18.9% to moderate-income borrowers. In 2014, aggregate lenders originated 9.6% to low-income borrowers and 20.9% to moderate-income borrowers.

While not shown in Table 16, the bank’s lending pattern in 2013 followed similar trends. In 2013, the bank originated 5.6% of its HMDA loans to low-income and 11.1% to moderate-income borrowers. This is below aggregate lenders for low-income (10.3%) and moderate-income (19.2%) income borrowers.

The bank is not an active HMDA lender in the assessment area and originates very few HMDA loans. For example, in 2015 and 2014, the bank originated 27 and 22 HMDA loans, respectively, and in 2013 the bank originated 18 HMDA loans. The bank’s focus is on commercial loans.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

The geographic distribution of the bank’s small business and HMDA loans reflects a reasonable dispersion throughout the assessment area and does not reveal any unexplained gaps in lending. Based on 2016 FFIEC census data, the assessment area contains 63 low-income and 122 moderate-income census tracts. The majority of tracts in the assessment area are middle-income, and a majority of businesses and families are in these tracts. The bank’s lending is primarily in these middle-income tracts. Most of the

low- and moderate-income tracts in the assessment area are some distance from the bank’s office, which is northeast of the urban centers of the assessment area.

*Small Business Lending.* The distribution of small business loans is reasonable. Table 17 shows the bank’s small business lending by census tract income level.

<i>Loan Type Sample</i>	<i>Moderate</i>				<i>Middle</i>				<i>Upper</i>			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Small Business	4	10.3	730	7.7	21	53.8	4,594	48.4	14	35.9	4,164	43.9
<b>Demographic Data</b>												
Number of Census Tracts**	122				226				154			
Percentage of Census Tracts	21.4%				39.7%				27.1%			
Percentage of Businesses***	16.7%				41.1%				36.1%			
*Income classification of census tracts based on 2016 FFIEC census data.												
**The assessment area also includes 63 low-income (11.1%) census tracts and 4 unknown-income (0.7%) census tracts, which are not reflected in the table because the bank did not make loans in these tracts.												
***Percentages are based on 2016 Dun & Bradstreet data. The percentage of businesses in the low-income tracts is 6.0%, and in the unknown-income tracts it is 0.0%.												

The bank did not originate any small business loans in the low-income tracts and extended 10.3% of its loans in the moderate-income tracts. According to 2016 Dun & Bradstreet data, only 6.0% of businesses in the assessment area operate in the low-income tracts and 16.7% in the moderate-income tracts. While below demographics, the bank’s lending is reasonable for several reasons. There is strong competition for small business lending in the urban centers of the assessment area, where most of the low-income tracts are located. The bank’s branch location is also new since the previous evaluation, and it is closer to middle- and upper-income tracts than its previous location. The majority of businesses in the assessment area are located in middle-income tracts.

The bank did not originate small business loans in most tracts in the assessment area; nonetheless, the dispersion of small business loans is reasonable given the location of the branch, the bank’s limited market presence, the strong competition in the assessment area, and the relatively large geographic size of the assessment area. Of the four loans in the moderate-income tracts, three were to businesses in Ramsey County, which is the county the branch is in, and one was to a business in Hennepin County.

*HMDA Lending.* The geographic distribution of the bank’s HMDA loans in low- and moderate-income census tracts is reasonable. Table 18 shows the distribution of HMDA loans in the assessment area by census tract income level. The bank’s 2013 HMDA lending is not included in the table.

TABLE 18 Vadnais Heights Assessment Area								
2015 HMDA Loans by Census Tract Income Level								
	Low		Moderate		Middle		Upper	
<i>Loan Type</i>	#	%	#	%	#	%	#	%
Home Purchase	1	6.7	3	20.0	8	53.3	3	20.0
Refinance	0	0.0	1	12.5	4	50.0	3	37.5
Home Improvement	0	0.0	0	0.0	4	100.0	0	0.0
<b>Total 2015 HMDA Loans</b>	<b>1</b>	<b>3.7</b>	<b>4</b>	<b>14.8</b>	<b>16</b>	<b>59.3</b>	<b>6</b>	<b>22.2</b>
2014 HMDA Loans by Census Tract Income Level								
	Low		Moderate		Middle		Upper	
<i>Loan Type</i>	#	%	#	%	#	%	#	%
Home Purchase	0	0.0	2	14.3	7	50.0	5	35.7
Refinance	0	0.0	0	0.0	3	50.0	3	50.0
Multifamily	2	100.0	0	0.0	0	0.0	0	0.0
<b>Total 2014 HMDA Loans</b>	<b>2</b>	<b>9.1</b>	<b>2</b>	<b>9.1</b>	<b>10</b>	<b>45.5</b>	<b>8</b>	<b>36.4</b>
<b>Total HMDA Loans</b>	<b>3</b>	<b>6.1</b>	<b>6</b>	<b>12.2</b>	<b>26</b>	<b>53.1</b>	<b>14</b>	<b>28.6</b>

The bank is not a high-volume HMDA lender in the assessment area. Therefore, the percentage of HMDA loans extended in low- and moderate-income census tracts is based on a relatively small number of loans.

In 2015, the bank originated 3.7% of its HMDA loans in low-income tracts and 14.8% in moderate-income census tracts. According to 2015 FFIEC census data, 7.0% of families in the assessment area live in the low-income tracts, and 17.6% live in the moderate-income tracts. The bank's lending in low- and moderate-income tracts is below demographics, but it is consistent with aggregate lending. Aggregate lenders originated 3.8% of their HMDA loans in low-income tracts and 14.9% in moderate-income tracts in 2015.

In 2014, the bank originated 9.1% of its HMDA loans in low-income tracts and 9.1% in moderate-income tracts. The bank lent 33.9% of its 2014 HMDA loan dollars in one low-income tract; specifically, the bank originated two multifamily loans in this tract. The bank's performance exceeds demographics and aggregate lenders in the low-income tracts and is below them in the moderate-income tracts. Aggregate lenders originated 3.9% of their HMDA loans in the low-income tracts and 15.3% in the moderate-income tracts.

In 2013, the bank originated 16.7% of its HMDA loans in low-income tracts and 5.6% in moderate-income tracts. Aggregate lenders originated 3.5% of their HMDA loans in low-income tracts and 15.8% in moderate-income tracts. The bank's performance exceeds aggregate lenders in low-income tracts and is below them in moderate-income tracts.

During the evaluation period, the bank originated four multifamily loans in low-income tracts,<sup>7</sup> which is notable. The bank did not originate HMDA loans in most tracts in the assessment area; nonetheless, the dispersion of HMDA loans is reasonable given the location of the branch, the bank's limited market presence, the strong competition in the assessment area, the relatively large geographic size of the assessment area, and the bank's commercial lending focus. The bank extended HMDA loans in three

<sup>7</sup>The bank originated two multifamily loans in low-income tracts in 2013 and two in 2014.

low-income tracts in Hennepin County and in one low-income tract in Ramsey County. The bank extended HMDA loans in three moderate-income tracts in Hennepin County and in three moderate-income tracts in Ramsey County. The urban centers of the assessment area contain most of its low-income tracts, which are some distance from the branch.

## COMMUNITY DEVELOPMENT TEST

Overall, the bank's community development activities demonstrate adequate responsiveness to identified community development needs. The bank originated community development loans, provided community development services, and made qualified investments. Based on lending and deposit data, this is the bank's smallest assessment area.

In 2016, the bank moved the location of its branch within the assessment area. Additionally, until the merger in 2013, the bank's location in the Minneapolis-St. Paul MSA had been under a separate charter. At that time, the management of the Twin Cities-based bank chose to be considered for a satisfactory rating under the Small Bank CRA Examination Procedures. As a result, the bank was not subject to a review of its community development activities.

*Community Development Lending.* The bank's community development lending is excellent. The bank originated three community development loans totaling \$4.0 million. A notable example is the financing of an addition to a nursing home that primarily serves low- and moderate-income individuals and is located near moderate-income tracts. The remaining two loans helped to provide affordable housing for seniors and to stabilize a moderate-income area. The bank's community development lending in the Vadnais Heights assessment area shows excellent responsiveness to area credit needs.

*Community Development Services.* The bank's level of community development services is adequate, especially given the time and labor involved in moving the bank's branch with limited resources. During the evaluation period, the bank provided eight community development services. Two officers served on the board and the expansion committee for a local economic development corporation for several years. One bank employee served on the board of an organization that provides services to disabled adults who are primarily low and moderate income.

*Qualified Investments.* The bank's qualified investments in the Vadnais Heights assessment area are adequate. The bank made qualified investments in the form of donations totaling \$4,000 during the evaluation period that promoted economic development efforts. While this is relatively low, the Vadnais Heights assessment area is the bank's smallest market based on loan and deposit data. Further, this is a new assessment area since the previous evaluation. The bank did not make any qualified investments in the form of bonds in the assessment area during the evaluation period. Given the high level of competition for these securities, this is reasonable. Examiners considered the bank's purchase of four qualifying bonds totaling \$879,946 that benefited areas outside of the Vadnais Heights assessment area.

## 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:** An activity associated with one of the following five descriptions: (1) affordable housing (including multifamily rental housing) for low- or moderate-income individuals; (2) community services targeted to low- or moderate-income individuals; (3) 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; (4) activities that revitalize or stabilize low- or moderate-income census tracts, designated disaster areas, or distressed or underserved nonmetropolitan middle-income census tracts; or (5) Neighborhood Stabilization Program (NSP)-eligible activities in areas with HUD-approved NSP plans, which are conducted within two years after the date when NSP program funds are required to be spent and benefit low-, moderate-, and middle-income individuals and census tracts.

**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.

**Distressed nonmetropolitan middle-income census tract:** A middle-income, nonmetropolitan census tract will be designated as distressed if it is in a county that meets one or more of the following triggers: (1) an unemployment rate of at least 1.5 times the national average, (2) a poverty rate of 20.0% or more, or (3) a population loss of 10.0% or more between the previous and most recent decennial census or a net migration loss of 5.0% or more over the 5-year period preceding the most recent census.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include 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 (i.e., approved, denied, or 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 (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 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 statistical 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 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 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 MSA. 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 MSA, 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 instructions for preparation of 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.

**Underserved middle-income census tract:** A middle-income, nonmetropolitan census tract will be designated as underserved if it meets criteria for population size, density, and dispersion that indicate the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

**Upper income:** Individual income that is 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.)