

## **PUBLIC DISCLOSURE**

March 21, 2016

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

Plaza Park State Bank  
131 South Sixth Avenue  
Waite Park, Minnesota 56387  
RSSD 763556

**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.

**TABLE OF CONTENTS**

Institution’s CRA Rating ..... 1

Scope of Evaluation ..... 1

Description of Institution ..... 2

Description of Assessment Area ..... 3

Conclusions with Respect to Performance Criteria ..... 6

Fair Lending or Other Illegal Credit Practices Review..... 12

Appendix A..... 13

*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.

Plaza Park State Bank's performance was evaluated using the Small Bank Community Reinvestment Act (CRA) Examination Procedures. Relative to its asset size and financial condition, the bank effectively meets the credit needs of the businesses and residents in its assessment area. Several factors support the bank's satisfactory rating.

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

The bank received a satisfactory rating at the previous evaluation, dated January 3, 2012.

### **SCOPE OF EVALUATION**

This evaluation is based on a statistical sample of 81 consumer and 46 small business loans. In addition, examiners evaluated the bank's Home Mortgage Disclosure Act (HMDA) data for 2011 to 2014. The bank originated 198 HMDA loans, which include home purchase, refinance, home improvement, and multifamily dwelling loans.

The bank's consumer, small business, and residential real estate loans represent the bank's major product lines by either total number or total dollar amount. The bank originated the consumer and small business loans reviewed for this evaluation between May 1, 2015, and October 31, 2015. The bank is required to report data on residential real estate loan applications under HMDA because it operates offices in a metropolitan statistical area (MSA). The bank's data as well as the aggregate data of all lenders reporting HMDA data in the assessment area was analyzed as part of the evaluation, with a focus on 2013 and 2014 data.

Examiners analyzed the bank's CRA performance using information received from bank management and community contacts in the assessment area. To evaluate the bank's performance, examiners used information from these sources as well as economic and demographic characteristics of the assessment area, credit needs, competitive factors, and the size and financial condition of the bank.

Table 1 shows the bank's lending activity by loan type from January 1, 2014, through December 31, 2014.

<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>
Construction/Land Development	7	1.7	\$ 832,064	2.0
Consumer	180	43.6	4,395,272	10.5
Home Equity Lines of Credit	29	7.0	2,716,500	6.5
Letters of Credit	2	0.5	12,000	0.03
Residential Real Estate	85	20.6	17,704,210	42.4
Small Business (≤ \$1 million)	107	25.9	14,692,884	35.2
Commercial (> \$1 million)	1	0.2	1,400,000	3.4
Small Farm (≤ \$500,000)	2	0.5	15,623	0.04
<b>Total</b>	<b>413</b>	<b>100.0</b>	<b>\$41,768,553</b>	<b>100.0</b>

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

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

In assigning the overall rating, examiners placed the greatest weight on the bank's lending to businesses of different sizes and borrowers of different income levels and the geographic distribution of lending inside the assessment area. The remaining criteria received equal weight. By product type, equal weight was placed on small business, residential real estate, and consumer lending. Small business loans and residential real estate loans represent the largest percentage of the bank's loans by dollar amount. Consumer loans represent the largest percentage of the bank's loans by number.

## DESCRIPTION OF INSTITUTION

*Structure.* Plaza Park State Bank (PPB) is a full-service financial institution with its main office in Waite Park, Minnesota. It is wholly owned by Plaza Agency, Inc., a one-bank holding company in Waite Park, Minnesota.

*Offices and Delivery Systems.* PPB operates two full-service offices in suburbs of St. Cloud, Minnesota; the main office is in Waite Park, and a branch is located in Sartell, Minnesota. The bank has two cash-dispensing automatic teller machines (ATM), one at each office location. The bank also offers 24-hour telephone, mobile, and Internet banking. Mobile banking is new since the previous evaluation. Customers who are enrolled in Internet banking have access to this service by downloading an application to their mobile phone. From their phone, they can deposit checks and access the features offered in Internet banking. Customers enrolled in Internet banking can check balances, make loan payments, transfer funds between accounts, view monthly statements, and enroll in the online bill payment service.

<sup>1</sup>Note: Because the percentages presented in the tables are rounded to the nearest tenth, some columns or rows may not total 100.0%.

Both offices have the same hours of operation. Monday through Thursday, lobby hours are from 9:00 a.m. to 4:00 p.m., and the drive-through has extended hours from 7:30 a.m. to 5:30 p.m. The lobby is open from 9:00 a.m. to 5:30 p.m. on Friday, and the drive-through, from 7:30 a.m. to 7:00 p.m. The drive-through at each location is open on Saturday from 8:00 a.m. to noon. The bank's office hours are appropriate for the communities the bank serves, and there have been no changes since the previous evaluation.

*Loan Portfolio.* According to the December 31, 2015, Report of Condition (ROC), the bank's assets total \$189.4 million. Based on the ROC, the composition of the \$139.4 million loan portfolio is 64.2% commercial, 30.2% residential real estate, 4.4% consumer, and less than 1.0% each of agricultural and other loans. Since the previous evaluation, the loan portfolio has increased by 6.2%; the composition of the loan portfolio reflects an increase in commercial and consumer loans and a decrease in residential real estate loans since the previous evaluation.

*Credit Products.* PPB is primarily a commercial lender, although it does originate residential real estate, consumer, and farm loans. The bank offers a variety of traditional credit products to serve the needs of businesses and consumers in its assessment area. Commercial loan products include operating lines of credit and term loans; the bank also offers loans through U.S. Small Business Administration programs. Residential real estate loans types include purchase, refinance, and home equity loans and home equity lines of credit. The bank sells residential real estate loans on the secondary market and refers borrowers applying for Federal Housing Administration (FHA) loans and Department of Veterans Affairs (VA) loans to another lender. Consumer loans include open-end personal and overdraft lines of credit, and closed-end installment loans.

*Deposit Market Share.* According to the June 30, 2015, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, the bank's deposits total \$160.9 million, representing 3.6% of the deposits in the St. Cloud MSA. The bank ranks fifth among 32 FDIC-insured financial institutions operating in this area. The four higher-ranked financial institutions' combined deposits represent 62.7% of the deposits in the St. Cloud MSA.

## **DESCRIPTION OF ASSESSMENT AREA**

*Assessment Area.* The bank has defined its assessment area to include all of Benton County and portions of Stearns, Wright, and Sherburne counties. The majority of the bank's assessment area is located in Stearns and Benton counties, which is in the St. Cloud MSA. Both of the bank's offices are located in Stearns County. Sherburne and Wright counties are part of the Minneapolis-St. Paul-Bloomington-MN-WI MSA (Minneapolis-St. Paul MSA). The city limits of St. Cloud extend into Sherburne County.

The bank's assessment area, which includes all of St. Cloud and a relatively small portion of the Minneapolis-St. Paul MSA, is part of a larger combined statistical area (CSA), the Minneapolis-St. Paul-St. Cloud, MN-WI CSA.

The geographic boundaries of the assessment area have not changed since the previous evaluation. However, the updates from the 2010 census have changed the number and income classification of census tracts within the assessment area. Previously, there were one low-income, three moderate-income, 22 middle-income, four upper-income, and one unknown income census tracts. There are now six moderate-income, 25 middle-income, and three upper-income tracts in the assessment area; one tract has been eliminated. The tract previously classified as unknown income was the Minnesota Correction Facility – St. Cloud. As of the 2010 census, correctional facilities are no longer classified as individual census

tracts. As a result of the demographic changes, the bank's main office is now located in a moderate-income census tract. It was previously in a middle-income tract.

Table 2 shows the demographic characteristics of the assessment area based on the 2015 Federal Financial Institutions Examination Council (FFIEC) adjusted census data<sup>2</sup> and 2015 Dun & Bradstreet data.

<b>TABLE 2</b>									
<b>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	8,109	19.2	
Moderate Income	6	17.6	6,301	14.9	1,078	17.1	6,992	16.5	
Middle Income	25	73.5	32,446	76.7	2,158	6.7	10,952	25.9	
Upper Income	3	8.8	3,542	8.4	43	1.2	16,236	38.4	
<b>Total Assessment Area</b>	<b>34</b>	<b>100.0</b>	<b>42,289</b>	<b>100.0</b>	<b>3,279</b>	<b>7.8</b>	<b>42,289</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	0.00	0	0.0	
Moderate Income	15,897	6,224	13.5	39.2	8,393	52.8	1,280	8.1	
Middle Income	49,688	35,900	78.0	72.3	10,141	20.4	3,647	7.3	
Upper Income	4,881	3,883	8.4	79.6	830	17.0	168	3.4	
<b>Total Assessment Area</b>	<b>70,466</b>	<b>46,007</b>	<b>100.0</b>	<b>65.3</b>	<b>19,364</b>	<b>27.5</b>	<b>5,095</b>	<b>7.2</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>			
		#	%	#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	0	0.0	
Moderate Income	1,648	18.1	1,443	17.4	201	26.7	4	7.5	
Middle Income	6,573	72.3	6,058	73.1	471	62.6	44	83.0	
Upper Income	866	9.5	781	9.4	80	10.6	5	9.4	
<b>Total Assessment Area</b>	<b>9,087</b>	<b>100.0</b>	<b>8,282</b>	<b>100.0</b>	<b>752</b>	<b>100.0</b>	<b>53</b>	<b>100.0</b>	
<b>Percentage of Total Businesses:</b>				<b>91.1</b>		<b>8.3</b>		<b>0.6</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>			
		#	%	#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	0	0.0	
Moderate Income	18	2.4	18	2.4	0	0.0	0	0.0	
Middle Income	706	95.4	703	95.4	3	100.0	0	0.0	
Upper Income	16	2.2	16	2.2	0	0.0	0	0.0	
<b>Total Assessment Area</b>	<b>740</b>	<b>100.0</b>	<b>737</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>99.6</b>		<b>0.4</b>		<b>0.00</b>	

<sup>2</sup>The FFIEC adjusted census data is based on decennial 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.

*Income.* For purposes of classifying borrower incomes, this evaluation uses the FFIEC estimated median family income for each MSA, as shown in Table 3.

<i>St. Cloud MSA</i>		<i>Minneapolis-St. Paul MSA</i>	
2011	\$68,400	2011	\$82,700
2012	\$69,300	2012	\$83,900
2013	\$65,800	2013	\$82,300
2014	\$69,600	2014	\$83,900
2015	\$73,200	2015	\$85,700

For purposes of classifying census tracts by income level, this evaluation uses the median family income from the 2010 census. Based on the 2015 median family income adjustments, this figure is \$51,572 for the St. Cloud MSA and \$64,336 for the Minneapolis-St. Paul MSA.

*Population.* According to 2010 census data, the population of the assessment area was 174,816. The 2015 US Census population estimate for the St. Cloud MSA is 194,418, which is a 2.8% increase in the MSA since 2010. The growth is consistent with statements from a community contact and bank management regarding population trends. According to 2015 FFIEC census data, 13.6% of the households in the assessment area are below the poverty level. This is slightly higher than the percentage for the state of Minnesota, which is 10.3%.

*Economy.* According to community contacts and bank management, economic conditions in the St. Cloud area are stable. There has been significant expansion in medical facilities in the past few years. CentraCare Health Systems, which manages several hospitals and clinics, is a major employer in St. Cloud and surrounding communities. Other major employers are the state government, local trucking and transportation companies, and a variety of manufacturing firms. According to community contacts, businesses are doing well and have job openings, primarily in the healthcare and manufacturing sectors. One of the contacts indicated that the demand for skilled labor is competitive. Retail and customer service industries have expanded significantly in recent years, offering competitive wages, which puts further pressure on employers to find employees.

According to the Bureau of Labor Statistics, the 2015 nonseasonally adjusted unemployment rate for the St. Cloud MSA was 4.2%. This rate is lower than the 2015 national unemployment rate of 5.3% but higher than the 2015 statewide unemployment rate of 3.7%.

*Housing.* According to community contacts, affordable housing is a continued concern. A contact indicated that the lack of available single-family houses on the market, combined with the lack of builders constructing new affordable homes, puts upward pressure on the prices. According to the monthly indicator report from the St. Cloud Area Association of Realtors, the February 2016 year-to-date median sales price for a single-family home in St. Cloud was \$128,900, which is higher than the February 2015 year-to-date price of \$120,000. In addition, the February 2016 year-to-date median sales price in Waite Park was \$159,900 compared to February 2015 year-to-date sales price of \$148,000.

The report also indicated a steady decline in housing inventory available for purchase over the last 12 months, with a decrease of 7.3% in inventory from March 2015 to February 2016. This supports the statements of a contact who noted that demand for affordable homes has outpaced the supply. Finally, a contact reported there is a high demand for rental housing in the area. Bank management also stated that rental vacancy levels are very low.

*Banking Environment.* The bank operates in a very competitive environment. Several community banks, national and regional financial institutions, and credit unions operate in the bank's assessment area. Bank management stated that customers in the market are very loyal to their financial institutions and maintain relationships rather than shop for the best rate. Various financial institutions have tried to offer rate concessions, but customers often return to their preferred institution.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's lending performance in the assessment area is rated Satisfactory. The net loan-to-deposit ratio is reasonable. In addition, the bank originated a majority of its loans inside the assessment area. Overall, the bank's lending to borrowers of different income levels and businesses of different sizes is reasonable. Finally, the geographic distribution of loans reflects a reasonable distribution and dispersion throughout the assessment area.

### LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio is reasonable given its asset size, its financial condition, and the credit needs of the assessment area. Since the previous evaluation, the bank's quarterly net loan-to-deposit ratio has ranged from 83.0% to 91.6%. As of December 31, 2015, the bank's 16-quarter average net loan-to-deposit ratio was 87.5%. The December 31, 2015, net loan-to-deposit ratio for the bank is 83.0%, which is higher than the peer group ratio of 79.0% on the same date. The bank's peer group includes insured commercial banks with assets between \$100 million and \$300 million with two or fewer full-service banking offices and located in an MSA. At the previous evaluation, the bank's 16-quarter average net loan-to-deposit ratio was 93.9%. Table 4 shows the bank's 16-quarter average net loan-to-deposit ratio compared to ratios for four other banks of similar asset size. The bank's average net-loan-to-deposit ratio compares favorably to most of the similarly situated banks.

<i>Bank Name and Location</i>	<i>Assets as of December 31, 2015 (in thousands)</i>	<i>Average Net Loan-to Deposit Ratio</i>
Plaza Park State Bank, Waite Park, Minnesota	189,369	87.5%
Sentry Bank, Saint Joseph, Minnesota	204,559	69.4%
Liberty Bank Minnesota, St. Cloud, Minnesota	189,282	61.1%
Falcon National Bank, Foley, Minnesota	189,845	84.8%
BankVista, Sartell, Minnesota	168,964	103.1%

Bank management and the contacts stated that competition among financial institutions in the area is strong. In addition, bank management indicated that loan demand has increased after a decline in the past few years.

Overall, the bank's net loan-to-deposit ratio is reasonable given the bank's asset size, its financial condition, and the credit needs of the assessment areas. The net loan-to-deposit ratio demonstrates the bank's willingness to fulfill credit needs throughout the assessment area. In addition, community contacts did not identify any unmet credit needs in the assessment area.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank originated a majority of residential real estate, small business, and consumer loans inside the assessment area. By number, the bank originated 81.5% of the loans inside the assessment area. By loan dollar amount, the bank originated 83.7% of the loans inside the assessment area. Table 5 shows the bank’s distribution of loans inside and outside the assessment area.

<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>
Residential Real Estate	148	74.7	35,332	82.4	50	25.3	7,546	17.6
Small Business	44	95.7	4,978	90.9	2	4.3	500	9.1
Consumer	73	90.1	1,739	93.1	8	9.9	129	6.9
<b>Total</b>	<b>265</b>	<b>81.5</b>	<b>42,049</b>	<b>83.7</b>	<b>60</b>	<b>18.5</b>	<b>8,175</b>	<b>16.3</b>

The bank originated a substantial majority of its small business loans and consumer loans within the assessment area. The bank originated a majority of its residential real estate loans within the assessment area. According to bank management, residential real estate loans outside the assessment area are typically made for vacation homes or investment properties. Overall, the level of lending within the assessment area is reasonable.

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

Overall, the bank’s lending to businesses of different sizes and to borrowers of different income levels is reasonable. The bank’s consumer lending to low- and moderate-income borrowers is excellent.

*Small Business Lending.* The bank’s lending to small businesses is reasonable. Table 6 shows the distribution of small business lending in the assessment area.

<i>Small Business Originations</i>	<i>≤ \$100,000</i>	<i>&gt; \$100,000 to ≤ \$250,000</i>	<i>&gt; \$250,000 to ≤ \$1,000,000</i>	<i>Total Originations</i>
Percentage of Small Business Loans	61.4%	29.5%	9.1%	100.0%
Percentage of Loans to Businesses with Revenues of \$1 Million or Less	63.3%	23.3%	13.3%	68.2%

According to 2015 Dun & Bradstreet data, 91.1% of businesses in the assessment area have gross annual revenues of \$1 million or less. The bank originated 68.2% of small business loans by number and 73.5% by total dollar amount to entities with gross annual revenues of \$1 million or less. While the bank’s lending to small businesses is below demographics, it is reasonable. The bank operates in a very competitive market. In addition, the majority of the bank’s small business loans to small businesses were for \$100,000 or less, which indicates the bank’s willingness to serve the credit needs of small businesses.

Overall, the bank’s lending to small business is reasonable.

*Residential Real Estate Lending.* The bank’s residential real estate lending to low- and moderate-income borrowers is reasonable. Table 7 shows the bank’s HMDA lending by borrower income levels.

<b>TABLE 7</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	4	28.6	1	7.1	3	21.4	4	28.6	2	14.3
Refinance	0	0.0	0	0.0	2	28.6	5	71.4	0.0	0.0
Home Improvement	0	0.0	0	0.0	0	0.0	2	66.7	1	33.3
Multifamily	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total 2014 HMDA Loans</b>	<b>4</b>	<b>16.7</b>	<b>1</b>	<b>4.2</b>	<b>5</b>	<b>20.8</b>	<b>11</b>	<b>45.8</b>	<b>3</b>	<b>12.5</b>
<b>2013 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	4	16.7	0	0.0	14	58.3	6	25.0
Refinance	1	8.3	2	16.7	1	8.3	7	58.3	1	8.3
Home Improvement	0	0.0	0	0.0	1	25.0	2	50.0	1	25.0
Multifamily	0	0.0	0	0.0	0	0.0	0	0.0	5	100.0
<b>Total 2013 HMDA Loans</b>	<b>1</b>	<b>2.2</b>	<b>6</b>	<b>13.3</b>	<b>2</b>	<b>4.4</b>	<b>23</b>	<b>51.1</b>	<b>13</b>	<b>28.9</b>

The bank is not an active residential real estate lender in the assessment area. In 2013 and 2014, the bank originated 45 and 24 HMDA loans in the assessment area, respectively. In 2013, the bank ranked 25th among the 237 lenders that reported HMDA loans in the assessment area, capturing less than 1.0% of all HMDA loans reported. In total, aggregate lenders originated 6,985 HMDA loans in the assessment area. The 10 most active HMDA lenders in the assessment area originated and purchased 4,299 loans in 2013, accounting for approximately 61.5% of all HMDA transactions. In 2014, the bank ranked 29th among the 229 lenders that reported HMDA loans in the assessment area, again, capturing less than 1.0% of all HMDA loans reported. In total, aggregate lenders originated 4,660 HMDA loans in the assessment area. The 10 most active HMDA lenders in the assessment area originated and purchased 2,546 loans in 2014, accounting for approximately 54.6 % of all HMDA transactions. The 10 most active HMDA lenders in the assessment area are generally large national or regional financial institutions.

According to data obtained from the St. Cloud Area Association of Realtors, the February 2016 median sales price for a single-family home was \$128,900 in St. Cloud and \$159,900 in Waite Park. Both prices are increases from the previous year. Using the assumption that a borrower can obtain a loan for approximately three times annual income, based on the 2015 FFIEC median family income of \$73,200 for the St. Cloud MSA, an individual with the highest income in the low-income bracket (\$36,600) can afford a \$109,800 home. An individual with the highest income in the moderate-income bracket (\$58,560) can afford a \$175,680 home. Given the low inventory of available housing stock and the upward pressure on prices, low-income borrowers would likely not be able to afford a home at the median price listed by the St. Cloud Area Association of Realtors.

Community contacts indicated that the availability of housing stock in the assessment area continues to be low, which puts further upward pressure on housing prices. These factors would make it difficult for low-income borrowers to be homeowners, which helps explain the bank’s level of lending to low-income borrowers when compared to demographic information.

In 2013, the bank originated 2.2% of its HMDA loans to low-income borrowers and 13.3% to moderate-income borrowers. The bank's lending to low-income borrowers is lower than demographics, as 19.2% of all families in the assessment area are low-income families. The bank's lending to moderate-income borrowers is slightly below demographics, as 16.6% of all families in the assessment area are moderate-income families. The bank's lending to low-income borrowers was below aggregate lenders, which originated 9.0% of all HMDA loans to low-income borrowers. The bank's lending to moderate-income borrowers was also below that of aggregate lenders, which originated 21.8% to moderate-income borrowers. The bank is not primarily a residential real estate lender, and it originated less than 1.0% of all HMDA loans reported in the assessment area in 2013. In addition, the bank does not offer products such as FHA- or VA-insured loans. The bank's lending is reasonable given the performance context.

In 2014, the bank originated 16.7% of its 2014 HMDA loans to low-income borrowers and 4.2% to moderate-income borrowers. The bank's lending to low-income borrowers is slightly below demographics; in 2014, 19.2% of all families in the assessment area are low-income families. The bank's lending to moderate-income borrowers is also below demographics, as 16.5% of all families in the assessment area are moderate-income. The bank's volume of HMDA lending decreased significantly, from 45 loans in 2013 to 24 loans in 2014. Despite the lower volume, the bank's lending to low-income borrowers exceeded aggregate lenders, which originated 10.5% of the loans to low-income borrowers. The bank's lending to moderate-income borrowers is below aggregate lenders; however, the low volume affects the overall percentages. Aggregate lenders originated 22.8% of loans to moderate-income borrowers.

Residential real estate loan demand decreased in 2014, according to bank management, which is evident in the bank's HMDA lending. Nonetheless, the bank was able to meet the credit needs of low- and moderate-income borrowers in the assessment area.

Examiners also evaluated the bank's 2012 and 2011 HMDA lending activity and determined that, overall, the bank's performance was consistent with its performance in 2013 and 2014. In 2012, the bank originated 5.4% of its loans to low-income borrowers and 13.5% of its loans to moderate-income borrowers. The aggregate lenders originated 10.2% of the loans to low-income borrowers and 22.0% to moderate-income borrowers. The bank's performance is below peer, but it is reasonable given the bank's lending strategy. In 2011, the bank originated 2.4% of its loans to low-income borrowers and 23.8% to moderate-income borrowers. The aggregate lenders originated 12.3% of the loans to low-income borrowers and 21.4% to moderate-income borrowers. The bank's lending to low-income borrowers is below aggregate lenders; however, its lending to moderate-income borrowers exceeded the aggregate lenders.

Overall, the bank's residential real estate lending to low- and moderate-income borrowers is reasonable.

*Consumer Lending.* The bank's lending to low- and moderate-income borrowers is excellent. As shown in Table 8, 23.6% of the households in the assessment area are low income and 16.9% are moderate income. The bank originated 28.8% and 21.9% of the consumer loans to low- and moderate-income borrowers, respectively. The bank's lending to low- and moderate-income borrowers is noticeably above demographics.

	<i>Income Level</i>									
	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>
Consumer	28.8%	4.7%	21.9%	12.7%	23.3%	14.0%	24.7%	68.2%	0.0	0.0
Percentage of Households by Income Levels**	23.6%		16.9%		18.8%		40.7%		NA	
*FFIEC median family income is \$85,700 for the Minneapolis-St. Paul MSA and \$73,200 for the St. Cloud MSA.										
**Based on 2015 FFIEC census data.										

The bank continues to offer a variety of consumer loan products and accommodates requests for small-dollar loans. According to bank management, the bank's fees on consumer loan products are low. The bank originated 21.9% of its consumer loans for amounts of \$3,000 or less. Of these loans, the bank made 87.5% to low- and moderate-income borrowers. The bank's origination of small-dollar loans demonstrates its ability and willingness to meet the credit needs of the low- and moderate-income borrowers in the community.

Overall, the bank's consumer lending to low- and moderate-income borrowers is excellent.

#### GEOGRAPHIC DISTRIBUTION OF LOANS

Overall, the geographic distribution of loans reflects reasonable dispersion of the bank's small business, residential real estate, and consumer loans throughout the assessment area.

*Small Business Lending.* The bank's small business lending in the moderate-income census tracts is reasonable. The bank originated 20.5% of small business loans in moderate-income census tracts, which slightly exceeds demographics. According to 2015 Dun & Bradstreet data, 17.4% of small businesses in the assessment area are located in moderate-income census tracts. The bank's main office is in a moderate-income census tract. Dispersion across all tracts is reasonable. In addition, there are no unexplained gaps or concentrations in the assessment area.

Table 9 shows the geographic distribution of the bank's small business loans in the assessment area.

<i>Loan Type Sample</i>	<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>	
	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>
Small Business	20.5%	25.4%	70.5%	58.3%	9.1%	16.3%
<b><i>Demographic Data</i></b>						
Number of Census Tracts	6		25		3	
Percentage of Census Tracts	17.6%		73.5%		8.8%	
Percentage of Small Businesses**	17.4%		73.1%		9.4%	
*Income classification of census tracts based on 2010 median family income.						
**Percentages are based on 2015 Dun & Bradstreet data.						

Overall, the bank’s small business lending in the moderate-income census tracts is reasonable.

*Residential Real Estate Lending.* The geographic distribution of HMDA loans reflects reasonable dispersion throughout the assessment area. For 2013 and 2014, the bank extended 33.0% and 16.7% of all HMDA loans in moderate-income census tracts, respectively. According to FFIEC census data, 14.9% of the families in the assessment area reside in the moderate-income census tracts. Further, 13.5% of the owner-occupied housing units in the assessment area are located in moderate-income census tracts. The bank’s HMDA lending performance in moderate-income census tracts exceeds aggregate lender performance. Aggregate lenders extended 12.9% of all HMDA loans in the moderate-income tracts in 2013 and 12.7% in 2014. There are no low-income census tracts in the assessment area.

Table 10 shows the distribution of the bank’s 2013 and 2014 HMDA loans by census tract income level.

<b>TABLE 10</b>						
<b>2013 HMDA Loans by Income Level of Census Tract</b>						
<i>Income Level of Borrower</i>	<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
<i>Loan Type</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Home Purchase	11	45.8	13	54.2	0	0.0
Refinance	1	8.3	11	91.7	0	0.0
Home Improvement	1	25.0	3	75.0	0	0.0
Multifamily	2	40.0	1	20.0	2	40.0
<b>Total 2013 HMDA Loans</b>	<b>15</b>	<b>33.3</b>	<b>28</b>	<b>62.2</b>	<b>2</b>	<b>4.4</b>
<b>2014 HMDA Loans by Income Level of Census Tract</b>						
<i>Income Level of Borrower</i>	<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
<i>Loan Type</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Home Purchase	3	21.4	8	57.1	3	21.4
Refinance	1	14.3	6	85.7	0	0.0
Home Improvement	0	0.0	2	66.7	1	33.3
Multifamily	0	0.0	0	0.0	0	0.0
<b>Total 2014 HMDA Loans</b>	<b>4</b>	<b>16.7</b>	<b>16</b>	<b>66.7</b>	<b>4</b>	<b>16.7</b>

The majority of the loans originated in 2013 were home purchase and refinance loans. The bank made 45.8% of home purchase loans in moderate-income tracts, far exceeding aggregate lenders’ purchase loans in these tracts, at 13.9%. The bank’s refinance lending in moderate-income tracts, at 8.3%, was slightly below that of aggregate lenders, at 11.9%. Similar to 2013, the majority of the HMDA loans originated in 2014 were for home purchase and refinance transactions. The bank’s lending volume in moderate-income census tracts was lower in 2014 than 2013; however, this is reasonable because loan originations in the assessment area as a whole were lower and the bank is not primarily a residential real estate lender. Though the low volume in 2014 affects the overall percentages, the bank’s home purchase lending in moderate-income tracts, at 21.4%, is above that of aggregate lenders, at 12.7%. The bank’s refinance lending in these tracts is comparable to aggregate lenders. There are no unexplained gaps or concentrations in the assessment area.

Examiners also evaluated the geographic distribution of the bank’s 2012 HMDA loans. The lending in moderate-income census tracts is consistent with its performance in 2013 and 2014. The bank originated 21.6% of its loans in moderate-income census tracts. Its performance exceeds that of the aggregate lenders, which originated 12.3% of loans in the moderate-income census tracts. The income classification

of census tracts in 2011 was based on 2000 census data; the assessment area included both low- and moderate-income census tracts. The overall geographic distribution of the bank's 2011 loans was comparable to aggregate lenders, although its lending in low- and moderate-income census tracts was slightly below that of aggregate lenders.

Overall, the geographic distribution of the bank's 2013 and 2014 HMDA loans reflects reasonable dispersion throughout the assessment area.

*Consumer Lending.* The bank's consumer lending in the moderate-income census tracts is reasonable. The bank originated 12.3% of consumer loans in the moderate-income census tracts. According to the 2010 census, 22.4% of households in the assessment area are located in moderate-income census tracts. In addition, the bank's main office is located in a moderate-income tract. While the distribution of consumer loans is below demographics, it is reasonable. Several of the moderate-income census tracts are in the city of St. Cloud, and several other local, regional, and national banks operate branches in these tracts. The bank originated the majority of consumer loans in middle-income census tracts, which is reasonable, considering that 73.5% of the census tracts in the bank's assessment area are classified as middle income. There are no unexplained gaps or concentrations in the assessment area.

Table 11 shows the geographic distribution of the bank's consumer loans.

<i>Loan Type Sample</i>	<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>	
	#	\$	#	\$	#	\$
Consumer	12.3%	6.3%	83.6%	88.9%	4.1%	4.7%
<b><i>Demographic Data</i></b>						
Number of Census Tracts	6		25		3	
Percentage of Census Tracts	17.6%		73.5%		8.8%	
Percentage of Households	22.4%		70.4%		7.2%	
*Income classification of census tracts based on 2010 median family income.						

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

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

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

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

## Appendix A

### Glossary of Common CRA Terms

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

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

**Community development:** 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.)