

PUBLIC DISCLOSURE

April 29, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Summit Community Bank
1274 East County Road D, Suite 106
Maplewood, Minnesota 55109
RSSD 3557895

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

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

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

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory."

The Community Reinvestment Act (CRA) performance of Summit Community Bank, Maplewood, Minnesota, was evaluated using the Small Bank CRA Examination Procedures. Based on the bank's asset size and financial condition, the bank effectively meets the credit needs of small businesses and residents in its assessment area. The bank received a satisfactory rating at the previous CRA performance evaluation, conducted April 27, 2009.

This CRA rating is based on the following factors:

- The geographic distribution of the bank's loans reflects reasonable dispersion throughout the assessment area.
- The bank's lending to businesses of different sizes and to borrowers of different income levels is reasonable.
- The bank's net loan-to-deposit ratio indicates a reasonable level of lending.
- Although the bank originated a majority of its loans outside its assessment area, the bank's performance is explainable. Examiners did not give significant weight to this criterion.

SCOPE OF EVALUATION

Examiners based the evaluation on a statistical sample of 41 small business loans originated from January 1, 2012, through December 31, 2012. The sample represents the bank's major product line. In addition, because the bank is located in the Minneapolis-St. Paul-Bloomington, Minnesota-Wisconsin Metropolitan Statistical Area (Minneapolis/St. Paul MSA), the bank is required to report Home Mortgage Disclosure Act (HMDA) data. Accordingly, the analysis also included the bank's 2011 and 2012 HMDA data. The bank originated 18 HMDA loans in 2011 and 28 in 2012. Although the bank originates a relatively small number of HMDA loans, examiners included these loans to highlight one way the bank serves the credit needs of its assessment area.

Table 1 shows the bank's lending activity by loan type from January 1, 2012, through December 31, 2012. HMDA loans are not broken out separately.

| <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 | 1 | 0.9 | \$ 256,000 | 0.8 |
| Consumer | 3 | 2.6 | 17,582 | 0.1 |
| Home Equity Line of Credit | 8 | 7.0 | 785,000 | 2.6 |
| Other | 5 | 4.4 | 1,577,800 | 5.2 |
| Residential Real Estate | 37 | 32.5 | 8,665,126 | 28.6 |
| Small Business (≤ \$1 million) | 52 | 45.6 | 8,474,793 | 27.9 |
| Commercial (> \$1 million) | 7 | 6.1 | 10,455,024 | 34.5 |
| Small Farm (≤ \$500,000) | 1 | 0.9 | 100,000 | 0.3 |
| Total | 114 | 100.0 | \$30,331,325 | 100.0 |

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

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

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

For the evaluation criteria, examiners placed the greatest weight on the geographic distribution of loans inside the assessment area followed by the bank's lending to businesses of different sizes and borrowers of different income levels. Examiners weighted the remaining criteria equally. By product, small business lending received the greatest weight. It represents the largest percentage of the bank's loan portfolio by number and dollar amount during the evaluation period. The bank has not received any CRA-related complaints since the previous evaluation.

DESCRIPTION OF INSTITUTION

Structure. Summit Community Bank is a full-service bank located in Maplewood, Minnesota. The bank is a subsidiary of Hayward Bancshares, Inc., Eau Claire, Wisconsin, a multibank holding company.

Offices and delivery methods. The bank has one office. Lobby hours are 9:00 a.m. to 5:00 p.m. Monday through Friday. The drive-up window is open 9:00 a.m. to 5:00 p.m. Monday through Friday and 9:00 a.m. to noon Saturday. The bank also offers 24-hour telephone and Internet banking. Internet banking customers may view account information, transfer funds, make loan payments, and access bill payment services. Since the previous evaluation, the bank closed its only automated teller machine (ATM). However, this is reasonable because the bank's ATM cards are part of the MoneyPass Network and therefore, customers are able to access other ATMs without a surcharge.

Loan portfolio. According to the March 31, 2013, Report of Condition, the bank has total assets of \$61.9 million. The bank's \$44.2 million loan portfolio consists of 73.9% commercial, 22.8% residential real estate, 0.4% consumer, and 2.9% other loans. Since the previous evaluation, the overall loan portfolio decreased by 9.9%. By loan type, commercial loans decreased by 17.0% while residential real estate loans increased by 5.3%.

Credit products. The bank is primarily a commercial lender but offers a variety of products to meet the credit needs of residents and businesses in the assessment area. Business loan products include construction financing, equipment financing, operating lines of credit, and commercial real estate loans. In addition to conventional business loans, the bank offers a variety of loan products through the U.S. Small Business Administration (SBA) to help meet the credit needs of small businesses in the assessment area. The bank is approved by the SBA as a Preferred Lender under the SBA's 7(a) loan program. Consumer loan products include automobile-secured and other general consumer-purpose loans. The bank offers purchase and refinance loans for residential real estate, home equity lines of credit, and temporary construction loans.

Market share. According to the June 30, 2012, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, Summit Community Bank ranks 28th out of 44 financial institutions located in Ramsey and Washington counties, combined, with 0.13% of the deposits.

Community contacts. In addition to discussions with bank management, examiners contacted community members familiar with the credit needs and economic and demographic characteristics of the assessment area. Examiners used information from these contacts and bank management to evaluate the bank's CRA

performance. The community contacts did not identify any unmet credit needs in the bank's assessment area.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area includes all of Ramsey and Washington counties, which is a portion of the Minneapolis/St. Paul MSA. The number of census tracts in the bank's assessment area increased from 186 to 187 since the previous evaluation because of changes in census tract boundaries based on 2010 U.S. Census data. There were also changes in income classifications of census tracts based on the same data. The assessment area now includes 23 low-income, 44 moderate-income, 75 middle-income, 41 upper-income, and 4 unknown-income census tracts. The bank's office is located in Maplewood, Minnesota, which is approximately 8.5 miles northeast of St. Paul. The bank is located in middle-income tract 423.01 in Ramsey County.

The total number of census tracts in Ramsey County increased by one, from 136 to 137. The number of low-income census tracts increased from 10 to 23, moderate-income census tracts decreased from 53 to 40, middle-income census tracts decreased from 52 to 51, upper-income census tracts increased from 20 to 21, and unknown-income census tracts increased from one to two. The unknown-income tracts include a park and a university.

The total number of census tracts in Washington County remained the same, at 50. However, the number of moderate-income census tracts increased from two to four, and upper-income census tracts decreased from 22 to 20. The number of low-income, middle-income, and unknown-income census tracts in Washington County remained the same, at zero, 24, and two, respectively. The unknown-income tracts each include a correctional facility.

Table 2 displays the demographic characteristics of the bank's assessment area based on the 2010 U.S. Census data and 2012 information reported by Dun & Bradstreet.

| <i>Income Categories</i> | <i>Tract Distribution</i> | | <i>Families by Tract Income</i> | | <i>Families < Poverty Level as % of Families by Tract</i> | | <i>Families by Family Income</i> | |
|------------------------------|-------------------------------|-------------------------------|---------------------------------|--------------|--|-------------|----------------------------------|--------------|
| | # | % | # | % | # | % | # | % |
| Low Income | 23 | 12.3 | 15,360 | 8.5 | 5,339 | 34.8 | 40,623 | 22.4 |
| Moderate Income | 44 | 23.5 | 35,017 | 19.4 | 4,736 | 13.5 | 32,835 | 18.1 |
| Middle Income | 75 | 40.1 | 81,741 | 45.2 | 4,042 | 4.9 | 40,307 | 22.3 |
| Upper Income | 41 | 21.9 | 48,825 | 27.0 | 937 | 1.9 | 67,190 | 37.1 |
| Unknown Income | 4 | 2.1 | 12 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Total Assessment Area | 187 | 100.0 | 180,955 | 100.0 | 15,054 | 8.3 | 180,955 | 100.0 |
| <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 | 29,110 | 9,645 | 4.8 | 33.1 | 16,577 | 56.9 | 2,888 | 9.9 |
| Moderate Income | 67,199 | 34,898 | 17.5 | 51.9 | 26,879 | 40.0 | 5,422 | 8.1 |
| Middle Income | 140,053 | 97,147 | 48.7 | 69.4 | 36,479 | 26.0 | 6,427 | 4.6 |
| Upper Income | 71,108 | 57,715 | 28.9 | 81.2 | 10,306 | 14.5 | 3,087 | 4.3 |
| Unknown Income | 51 | 0 | 0.0 | 0.0 | 51 | 100 | 0 | 0.0 |
| Total Assessment Area | 307,521 | 199,405 | 100.0 | 64.8 | 90,292 | 29.4 | 17,824 | 5.8 |

TABLE 2
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>> \$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 | 3,020 | 8.1 | 2,568 | 7.7 | 304 | 11.4 | 148 | 12.7 |
| Moderate Income | 7,544 | 20.2 | 6,488 | 19.4 | 760 | 28.5 | 296 | 25.4 |
| Middle Income | 17,184 | 46.1 | 15,471 | 46.2 | 1,201 | 45.0 | 512 | 43.9 |
| Upper Income | 9,519 | 25.5 | 8,909 | 26.6 | 401 | 15.0 | 209 | 17.9 |
| Unknown Income | 26 | 0.1 | 21 | 0.1 | 3 | 0.1 | 2 | 0.2 |
| Total Assessment Area | 37,293 | 100.0 | 33,457 | 100.0 | 2,669 | 100.0 | 1,167 | 100.0 |
| Percentage of Total Businesses: | | | | 89.7 | | 7.2 | | 3.1 |
| <i>Income Categories</i> | <i>Total Farms by Tract</i> | | <i>Farms by Tract and Revenue Size</i> | | | | | |
| | | | <i>≤ \$1 Million</i> | | <i>> \$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 | 5 | 1.3 | 5 | 1.3 | 0 | 0.0 | 0 | 0.0 |
| Moderate Income | 22 | 5.6 | 21 | 5.5 | 1 | 16.7 | 0 | 0.0 |
| Middle Income | 170 | 43.4 | 167 | 43.4 | 3 | 50.0 | 0 | 0.0 |
| Upper Income | 195 | 49.7 | 192 | 49.9 | 2 | 33.3 | 1 | 100.0 |
| Unknown Income | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Total Assessment Area | 392 | 100.0 | 385 | 100.0 | 6 | 100.0 | 1 | 100.0 |
| Percentage of Total Farms: | | | | 98.2 | | 1.5 | | 0.3 |

Income. For purposes of classifying borrowers' income, this evaluation uses the U.S. Department of Housing and Urban Development's (HUD) estimated median family income for the Minneapolis/St. Paul MSA. This figure is \$82,700 for 2011. The Federal Financial Institutions Examination Council (FFIEC) announced that, beginning in 2012, it will calculate the annual median family income previously calculated by HUD. The FFIEC median family income is \$83,900 for 2012. For purposes of classifying census tracts by income level, this evaluation uses the Minneapolis/St. Paul MSA's median family income from the 2000 and 2010 census. According to 2000 census data, this figure was \$64,885. According to 2010 census data, this figure is \$80,925.

Population. According to 2000 U.S. Census data, the population of the assessment area was 712,165. By 2010, the population increased by 4.9% to 746,776. The population of the low-income tracts is 74,631, or approximately 10.0% of the assessment area population. The population of the moderate-income tracts is 157,595, or approximately 21.1% of the assessment area population. Of the 289,697 households in the assessment area, 26.4% and 17.3% are low and moderate income, respectively. These percentages are slightly higher than the percentages of low- and moderate-income households for the state of Minnesota, which are 23.1% and 16.5%, respectively.

Economy. Overall, economic conditions in the assessment area are stable. The economy in the assessment area struggled during the economic downturn; however, bank management and community contacts indicated that conditions have been improving over the past few years. The economy in the assessment area is relatively diverse and includes manufacturing, government, retail, health care, and medical technology. Major employers in the area include the State of Minnesota; 3M Company; Medtronic, Inc.; and Boston Scientific Corporation. These large employers have not had any major layoffs during the past several years.

According to community contacts, cities located in Ramsey County are generally mature and developed. As a result, land available for development and expansion is limited. Community contacts indicated that development in the county primarily consists of redevelopment of existing commercial space. Further, some vacant commercial buildings are being repurposed for new occupants. For example, a fitness club, spine care center, and shoe retailer recently moved into empty commercial space in Maplewood. A community contact also indicated that some businesses in the area are looking to expand and purchase their own buildings or relocate operations but remain in the area.

According to the Bureau of Labor Statistics, the February 2013 nonseasonally adjusted unemployment rate was 5.4% for Ramsey County and 5.3% for Washington County. These rates are lower than the statewide rate for Minnesota of 6.0% and the national rate of 8.1% for the same period.

Despite the relatively low unemployment rate, a community contact mentioned that poverty is a concern in parts of Ramsey County. The community contact also stated that, although poverty is less visible in suburban areas, it is still a concern. The levels of households and families in the assessment area below the poverty level at 11.0% and 8.3%, respectively, are higher than levels for the state of Minnesota, which are 10.3% and 6.8 %, respectively. The levels of households and families in Ramsey County below the poverty level are 13.5% and 10.9%, respectively.

Housing. Bank management and community contacts indicated that housing values in the assessment area decreased significantly during the economic downturn. However, values have started to increase gradually during the last year. Based on an analysis of demographic information, many homes are not affordable for low- and moderate-income residents of the area. Using the assumption that a borrower can obtain a loan for approximately three times annual income, based on the 2012 HUD estimated median family income of \$83,900 for the Minneapolis/St. Paul MSA, an individual earning the highest income in the moderate-income bracket (\$67,119) could afford a \$201,357 home. According to 2010 census data, the median housing price in the assessment area is \$234,616, which is generally not affordable for low- and moderate-income individuals. According to bank management and community contacts, some homes in the assessment area have been selling as low as \$50,000. Homes in this price range would generally be considered affordable housing for low- and moderate-income individuals; however, a community contact indicated that most of these homes are older and need renovations.

A community contact stated that many suburban Ramsey County residents are “aging in place” and continue to reside in the county, either in their single-family homes or in local senior apartments. As a result, demand for senior housing in the area has increased. There are a significant number of rental units in the area; 29.4% of the housing units in the assessment area are rental units. Despite this, vacancy rates remain low because of the housing needs in the assessment area.

Community contacts and bank management indicated that the financial services market in the assessment area is competitive for all product types. Numerous financial institutions operate in the assessment area, including branches of significantly larger banks. The community contacts did not identify any unmet credit needs in the bank’s assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank’s lending performance in the assessment area is reasonable. The geographic distribution of loans reflects reasonable dispersion and distribution throughout the assessment area. The bank’s lending to businesses of different sizes and borrowers of different income levels is reasonable. The net loan-to-deposit ratio is reasonable given the bank’s size and financial condition and the assessment area’s credit needs. Although the bank originated a majority of its loans outside the assessment area, the bank’s performance under this criterion is explainable.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution and dispersion of the bank’s small business and HMDA loans in the assessment area are reasonable and do not reveal any unexplained gaps in lending. According to 2010 census data, the assessment area contains 23 low-income and 44 moderate-income census tracts. The bank originated the majority of its loans in the middle-income tracts, which is reasonable because a majority of businesses, families, and households in the assessment area are in these tracts.

Table 3 shows the percentage of small business loans and 2011 and 2012 HMDA loans originated by census tract income level.

| TABLE 3 Distribution of Loans by Census Tract Income Level* | | | | | | | | | | |
|--|-------------------|-----------|------------------------|-----------|----------------------|-----------|---------------------|-----------|-----------------------|-----------|
| Loan Type | Low Income | | Moderate Income | | Middle Income | | Upper Income | | Unknown Income | |
| | # | \$ | # | \$ | # | \$ | # | \$ | # | \$ |
| Small Business | 0.0% | 0.0% | 14.3% | 11.8% | 71.4% | 55.5% | 14.3% | 32.8% | 0.0% | 0.0% |
| 2012 HMDA loans | 7.7% | 13.0% | 30.8% | 29.4% | 38.5% | 22.8% | 23.1% | 34.8% | 0.0% | 0.0% |
| 2011 HMDA loans | 10.0% | 44.3% | 40.0% | 15.4% | 40.0% | 36.5% | 10.0% | 3.8% | 0.0% | 0.0% |
| Demographic Data* | | | | | | | | | | |
| Number of Census Tracts | 23 | | 44 | | 75 | | 41 | | 4 | |
| Percentage of Census Tracts | 12.3% | | 23.5% | | 40.1% | | 21.9% | | 2.1% | |
| Percentage of Households | 9.1% | | 21.3% | | 46.1% | | 23.5% | | 0.02% | |
| Percentage of Families | 8.5% | | 19.4% | | 45.2% | | 27.0% | | 0.01% | |
| Percentage of Small Businesses | 8.1% | | 20.2% | | 46.1% | | 25.5% | | 0.1% | |
| *According to 2010 U.S. Census data and 2012 Dun & Bradstreet data. | | | | | | | | | | |

Small business. The bank’s distribution and dispersion of small business loans throughout the assessment area are reasonable. The bank did not originate any of its small business loans in low-income census tracts. The bank originated 14.3% of its small business loans in moderate-income census tracts. The 2012 Dun & Bradstreet data indicates that 8.1% of small businesses in the assessment area are located in low-income census tracts and 20.2% are located in moderate-income census tracts. According to bank management, commercial loan demand in 2012 was generally low while competition for commercial loans remained very high. In addition, the bank does not have any branches located in low- or moderate-income census tracts. A majority of the low- and moderate-income census tracts in the assessment area are located in St. Paul, where a number of large regional and national banks operate. The competitive nature of the Minneapolis/St. Paul MSA offers businesses many opportunities to choose banks located near their operations. Based on the location of the bank’s branches, competition, and the location of commercial entities in the assessment area, the bank’s small business lending in low- and moderate-income census tracts is reasonable.

HMDA loans. The distribution and dispersion of 2011 and 2012 HMDA loans throughout the assessment area are reasonable. The bank is not an active HMDA lender in the assessment area; therefore, the bank’s percentage of HMDA loans extended in low- and moderate-income census tracts is based on a relatively small number of HMDA loans. The bank originated a number of its HMDA loans to commercial borrowers that rehabilitate properties primarily located in low- and moderate-income census tracts. This type of lending helps serve the community by increasing the availability of quality housing in low- and moderate-income census tracts.

In 2012, the bank originated 7.7% of its HMDA loans in low-income census tracts and 30.8% in moderate-income tracts. According to 2010 census data, 8.5% of families in the assessment area live in low-income census tracts and 19.4% live in moderate-income census tracts. The bank's lending in low-income census tracts is comparable to demographics, and its lending in moderate-income census tracts exceeds demographics. Aggregate 2012 HMDA lending data has not yet been released publicly for comparison purposes.

In 2011, the bank originated 10.0% of its HMDA loans in low-income census tracts and 40.0% in moderate-income tracts. In addition, the bank extended a majority of its HMDA loan dollars in low- and moderate-income census tracts combined, at 59.7%. Aggregate lenders originated 1.2% of their HMDA loans in low-income census tracts and 15.3% in moderate-income census tracts in 2011. According to 2000 census data, 3.8% of families in the assessment area live in low-income census tracts and 22.9% live in moderate-income census tracts. The bank's lending is higher than aggregate lenders and exceeds demographics.

Overall, the bank's lending to businesses of different sizes and to individuals of different income levels is reasonable. The bank's dispersion and distribution of loans in the assessment area are also reasonable and do not reflect any unexplained gaps in lending.

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. The bank originated a reasonable percentage of small business loans to businesses with gross annual revenues of \$1 million or less and HMDA loans to low- and moderate-income borrowers.

Small business. The bank's lending to small businesses is reasonable. Table 4 displays the bank's small business lending in the assessment area. According to 2012 Dun & Bradstreet data, 89.7% of the businesses in the assessment area have gross annual revenues of \$1 million or less. The bank originated 42.9% of its small business loans to entities with gross annual revenues of \$1 million or less.

| <i>Small Business Originations</i> | <i>≤ \$100,000</i> | <i>> \$100,000 to ≤ \$250,000</i> | <i>> \$250,000 to ≤ \$1,000,000</i> | <i>> \$1,000,000</i> | <i>Total Originations</i> |
|--|--------------------|--|--|-------------------------|-------------------------------|
| Percentage of Small Business Loans | 35.7% | 42.9% | 21.4% | 0.0% | 100.0% |
| Percentage of Loans to Businesses with Revenues of \$1 Million or Less | 33.3% | 33.3% | 33.3% | 0.0% | 42.9% |

The percentage of loans made to businesses with gross annual revenues of \$1 million or less is lower than assessment area demographics; however, it is reasonable given the area's competitive banking environment for small business loans. The assessment area includes larger regional banks and national financial institutions. Bank management also explained that small business loan demand in 2012 was generally low because of the economic slowdown; some small businesses were still borrowing conservatively and not seeking additional debt. It was not until 2013 that the bank started to see an increase in demand for small business loans. In addition, bank management indicated that it has strong relationships with existing commercial customers and that some of these customers with gross annual revenues over \$1 million are likely to borrow multiple times throughout the year. The sample reflects this fact; it includes multiple loans to a commercial entity with gross annual revenues over \$1 million. Finally, bank management mentioned that it has a number of borrowers whose operations no longer meet

the definition of a small business. As these businesses have become more established, they have expanded operations and increased gross annual revenues to over \$1 million.

Overall, the bank's lending to businesses with gross annual revenues of \$1 million or less is reasonable.

HMDA loans. The bank's HMDA lending to low- and moderate-income borrowers in the assessment area is reasonable. The bank is not an active HMDA lender in the assessment area; therefore, the bank's percentage of HMDA loans to low- and moderate-income borrowers is based on a relatively small number of HMDA loans. In 2011 and 2012, the bank originated 18 and 28 HMDA loans, respectively. In 2011, 406 HMDA lenders originated 29,219 loans in the assessment area. As mentioned, aggregate 2012 HMDA lending data is not yet available publicly. Table 5 shows the bank's HMDA lending in the assessment area by borrower income levels.

| 2012 HMDA Loans by Income Level of Borrower | | | | | | | | | | |
|--|--------------|-------------|-----------------|-------------|---------------|--------------|--------------|--------------|----------------|--------------|
| <i>Income Level of Borrower</i> | <i>Low</i> | | <i>Moderate</i> | | <i>Middle</i> | | <i>Upper</i> | | <i>Unknown</i> | |
| <i>Loan Type</i> | # | \$ | # | \$ | # | \$ | # | \$ | # | \$ |
| Home Purchase | 0.0% | 0.0% | 0.0% | 0.0% | 12.5% | 15.4% | 25.0% | 43.9% | 62.5% | 40.7% |
| Refinance | 0.0% | 0.0% | 40.0% | 16.3% | 20.0% | 25.2% | 0.0% | 0.0% | 40.0% | 58.5% |
| Home Improvement | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Total 2012 HMDA Loans | 0.0% | 0.0% | 15.4% | 7.9% | 15.4% | 20.1% | 15.4% | 22.6% | 53.8% | 49.3% |
| 2011 HMDA Loans by Income Level of Borrower | | | | | | | | | | |
| <i>Income Level of Borrower</i> | <i>Low</i> | | <i>Moderate</i> | | <i>Middle</i> | | <i>Upper</i> | | <i>Unknown</i> | |
| <i>Loan Type</i> | # | \$ | # | \$ | # | \$ | # | \$ | # | \$ |
| Home Purchase | 0.0% | 0.0% | 0.0% | 0.0% | 20.0% | 12.1% | 0.0% | 0.0% | 80.0% | 87.9% |
| Refinance | 25.0% | 15.1% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 75.0% | 84.9% |
| Home Improvement | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 100.0% | 100.0% |
| Total 2011 HMDA Loans | 10.0% | 3.8% | 0.0% | 0.0% | 10.0% | 8.1% | 0.0% | 0.0% | 80.0% | 88.1% |

In 2012, the bank did not extend any HMDA loans to low-income borrowers. The bank extended 15.4% of its 2012 HMDA loans to moderate-income borrowers. According to the 2010 census data, 22.4% of the families in the assessment area are low income and 18.1% are moderate income.

In 2011, the bank extended 10.0% of its HMDA loans to low-income borrowers, which slightly exceeds aggregate lenders' performance in lending to low-income borrowers. The bank did not extend any HMDA loans to moderate-income borrowers. Aggregate lenders in the assessment area originated 6.6% of HMDA loans to low-income borrowers and 13.7% to moderate-income borrowers in 2011. According to the 2000 census data, 19.2% of the families in the assessment area are low income and 18.8% are moderate income.

Although the bank's HMDA lending to low- and moderate-income borrowers is lower than demographics, it is reasonable given the performance context. A majority of the bank's HMDA loans are to commercial entities that rehabilitate rental properties, not to individuals purchasing or refinancing a home. In these commercial transactions, borrower income is not reported; therefore, many of the bank's HMDA loans are reported with an unknown income. Also, some homes in the assessment area continue to be unaffordable for many low- and moderate-income residents, reducing the bank's opportunities to lend to these residents. Finally, the level of competition in the assessment area for HMDA loans is very high.

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

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio is reasonable given the bank's size and financial condition, assessment area credit needs, and competition from local financial institutions.

Since the previous evaluation, the bank's quarterly net loan-to-deposit ratio has ranged from 63.9% to 145.7%. The bank's average net loan-to-deposit ratio for the past 17 quarters is 91.4%, which is lower than the 142.0% 7-quarter average at the previous evaluation. The bank's 17-quarter average net loan-to-deposit ratio is higher than the ratios for four other financial institutions operating in the area, as shown in Table 6.

| <i>Bank Name and Location</i> | <i>Assets as of March 31, 2013 (in thousands)</i> | <i>Average Net Loan-to Deposit Ratio</i> |
|---|---|--|
| Summit Community Bank, Maplewood, Minnesota | \$ 61,909 | 91.4% |
| Western Bank, St. Paul, Minnesota | \$449,620 | 88.8% |
| Lake Area Bank, Lindstrom, Minnesota | \$272,211 | 83.0% |
| Platinum Bank, Oakdale, Minnesota | \$142,014 | 82.8% |
| Premier Bank, Maplewood, Minnesota | \$554,934 | 80.8% |

The bank's average net loan-to-deposit ratio is also higher than the national peer group's net loan-to-deposit ratio, which is 77.5% for the same period. The bank's national peer group includes banks with assets between \$50 million and \$100 million, with two or fewer full-service banking offices, and located in a metropolitan statistical area.

The financial services market is competitive because numerous financial institutions operate in the assessment area, including branches of significantly larger national banks. Bank management explained that during the evaluation period, loan demand in the assessment areas decreased; however, competition for loans remained strong. The bank's total loan portfolio has decreased slightly since the previous evaluation, while its total deposits have increased, which lowered the net loan-to-deposit ratio.

The net loan-to-deposit ratio demonstrates the bank's willingness to fulfill the credit needs in its assessment area. In addition, community contacts did not identify any unmet credit needs in the assessment area. For these reasons, the bank's net loan-to-deposit ratio is reasonable.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank originated a majority of its loans outside the assessment area. The bank originated 42.5% of its loans by number and 42.2% by dollar amount inside the assessment area. Table 7 shows lending activity by loan type within the assessment area.

| <i>Loan Type</i> | <i>Total Number of Loans</i> | <i>Total Dollar Amount of Loans</i> |
|--------------------------|----------------------------------|---|
| Small Business | 34.1% | 44.1% |
| 2011 and 2012 HMDA Loans | 50.0% | 41.0% |
| Total | 42.5% | 42.2% |

Although the percentage of loans originated inside the assessment area is low, it is explainable. The bank is no longer considered a *de novo* bank; however, it still exhibits some characteristics of a newer financial institution. For example, two of the bank's commercial lenders have had long, established careers in the Minneapolis/St. Paul MSA. As a result, both lenders brought several commercial loan relationships with them when they joined Summit Community Bank. Several of the loans that the bank originated outside its assessment area were a result of these existing relationships. The sample reflects this fact. In addition, the bank originated numerous small business loans in 2012 to one particular small business located outside the assessment area. For HMDA loans, the numbers reflect the fact that the bank is not an active residential real estate lender in the assessment area. In addition, bank management indicated that some of the bank's HMDA lending is to existing commercial customers located outside the assessment area. Finally, of the small business and HMDA loans originated outside the assessment area, 84% are in counties adjacent to the assessment area.

The bank operates in a highly competitive lending environment, and community contacts did not identify any unmet credit needs in the assessment area during the evaluation period. Given the context, examiners did not give significant weight to this criterion.

RECORD OF RESPONSE TO CRA-RELATED COMPLAINTS

The bank has not received any CRA-related complaints 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: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 C.F.R. 121.301) or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies.

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

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

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

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

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

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

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

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

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

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

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

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

Metropolitan statistical area (MSA): An area, defined by the Office of Management and Budget, based on the concept of a core area with at least one urbanized area that has a population of at least 50,000. The MSA comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

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

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

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

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

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

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

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

Small loan to business: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or classified as commercial and industrial loans.

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

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

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