

PUBLIC DISCLOSURE

February 24, 2025

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Wadena State Bank
RSSD #210256

304 First Street Southeast
Wadena, Minnesota 56482

Federal Reserve Bank of Minneapolis

90 Hennepin Avenue
P.O. Box 291
Minneapolis, Minnesota 55480

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

TABLE OF CONTENTS

Institution's Community Reinvestment Act Rating.....	2
Scope of Examination	2
Description of Institution.....	3
Description of Assessment Area	4
Conclusions With Respect to Performance Criteria	8
Fair Lending or Other Illegal Credit Practices Review	19
Appendix A – Maps of the Assessment Area	20
Appendix B – Demographic Information	21
Appendix C – Glossary	24

INSTITUTION'S COMMUNITY REINVESTMENT ACT RATING

Wadena State Bank (the bank), Wadena, Minnesota, is rated **Outstanding**. This rating is based on the following conclusions with respect to the performance criteria:

- The bank's net loan-to-deposit ratio (NLTD) is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- A majority of the bank's loans are originated inside the AA.
- An excellent dispersion and distribution of loans occurs throughout the bank's AA.
- Lending reflects an excellent distribution among individuals of different income levels, including low- and moderate-income (LMI), and businesses and farms of different sizes.
- Neither the bank nor this Reserve Bank received any CRA-related complaints since the previous evaluation.
- The bank's investment record enhances credit availability in the AA.
- The bank's record of providing branches and services enhances credit availability in the AA.

SCOPE OF EXAMINATION

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

- The bank's 18-quarter average NLTD ratio, and
- A statistical sample of 55 consumer loans and 44 residential real estate loans originated between June 1, 2024, and November 30, 2024, as well as 73 small business and 67 small farm loans originated between December 1, 2023, and November 30, 2024.

Of the five lending performance criteria defined by CRA, examiners placed the greatest weight on the bank's lending to farms and businesses of different sizes and borrowers of different income levels. The geographic distribution of loans received the next highest weight. The bank's lending inside the AA and NLTD ratio received lower and equal weight in the analysis. By loan type, examiners weighted small business loans highest based on the number and dollar amount of lending during the sample period.¹ The weighting of the bank's other loan types from highest to lowest is small farm loans, residential real estate loans, and consumer loans.

¹ In 2020 and 2021, the bank participated in Paycheck Protection Program (PPP) lending through the Small Business Administration (SBA). These loans were designed to help businesses keep their workforces employed during the COVID-19 pandemic. Examiners considered the bank's PPP loans in their evaluation of the bank's small business and small farm loans.

At the request of bank management and in accordance with the Small Bank CRA Examination Procedures, examiners reviewed a few of the bank's qualified investments (donations and community development services). The bank's high level of these community development activities enhances the bank's overall CRA rating.

DESCRIPTION OF INSTITUTION

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

- The bank is a wholly owned subsidiary of Wadena Bankshares, Inc., Wadena, Minnesota.
- The bank has one affiliate, Wadena Statutory Trust 1, Wadena, Minnesota, which is not relevant for the purpose of this evaluation.
- The bank has total assets of \$201.6 million as of December 31, 2024. The bank's assets increased 6.6% since June 30, 2020, when the bank's assets were \$189.2 million.
- In addition to its main office in Wadena, the bank has two branches that are in Bluffton, Minnesota, and Deer Creek, Minnesota. The bank also operates an express banking facility, which is a drive-through office in Wadena across the street from the main office. The bank's loan officers work at the Wadena office, but they have moved to the branches as needed during the evaluation period.
- The bank operates cash-dispensing-only ATMs at the two branch offices and the express banking facility. It continues to operate a cash-dispensing-only ATM at the local hospital, which relocated during the evaluation period; consequently, the bank relocated this ATM from the former hospital location to the new hospital in April 2023.
- As shown in Table 1 below, the bank is a full-service lending institution with a primary focus of commercial lending. The bank offers conventional commercial loans, residential real estate loans, agricultural loans, home equity lines of credit, and consumer loans. In addition to offering conventional loan products, the bank offers government-sponsored loans through the SBA, U.S. Department of Agriculture (USDA) Farm Service Agency, and USDA Rural Development. The composition of the loan portfolio has been relatively stable since the last evaluation.

Table 1 Composition of Loan Portfolio as of December 31, 2024		
Loan Type	\$(000)	%
Agricultural	30,409	23.2
Commercial	56,912	43.3
Residential Real Estate	38,262	29.1
Consumer	5,401	4.1
Other	327	0.3
Gross Loans	131,311	100.0
Note: Percentages may not total 100.0 percent due to rounding.		

During the evaluation period, the bank participated in the PPP, which started in April 2020. Under the program, PPP borrowers may be eligible for loan forgiveness if the borrower meets certain conditions. The bank actively extended PPP loans, which is further explained under the Lending to Borrowers of Different Income Levels and to Businesses and Farms of Different Sizes section of this evaluation.

The bank was rated Satisfactory under the CRA at its August 31, 2020, performance evaluation. There are no known legal, financial, or other factors impeding the bank's ability to help meet the credit needs in its communities.

DESCRIPTION OF ASSESSMENT AREA

The bank's AA is all of Wadena County, an eastern section of Otter Tail County, and the northern section of Todd County (see Appendix A for an AA map and Appendix B for additional demographic data).

- The bank did not change the boundary of its AA since the previous evaluation. However, the income classification of some census tracts changed based on the 2020 census (effective in 2022).
- The AA consists of 11 census tracts: two moderate- and nine middle-income. Previously, the AA included three moderate- and eight middle-income tracts.
 - The moderate-income tract in Wadena County did not change.
 - The moderate-income tract in Otter Tail County changed to middle-income.
 - Todd County tract 7901.00 changed from moderate- to middle-income, and tract 7903.00 changed from middle- to moderate-income.
- According to the June 30, 2024, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, the bank ranks fifth out of 24 FDIC-insured financial institutions with offices in Wadena, Otter Tail, and Todd counties, with 7.0% of the deposits. In Wadena County, the bank is one of four with offices in the county and has a market share of 47.7% of deposits.
- Examiners conducted three community contact interviews with representatives from organizations promoting economic development, serving LMI populations, and working with agricultural producers.

Tables 2 through 5 show general data about the AA and related areas such as counties, non-MSA Minnesota, and the state.

Table 2 Population Change			
Area	2015 Population	2020 Population	Percentage Change
All Counties in AA	95,736	99,408	3.8
Otter Tail County	57,511	60,081	4.5
Todd County	24,466	25,262	3.3
Wadena County	13,759	14,065	2.2
Non-MSA Minnesota	1,243,105	1,260,920	1.4
State of Minnesota	5,419,171	5,706,494	5.3
Source: 2011-2015 U.S. Census Bureau American Community Survey 2020 U.S. Census Bureau Decennial Census			

- According to 2020 data, the population of the AA is 43,609, which is a 4.5% increase from the 2015 data population of 41,745.
- A community contact mentioned that the population of the region is aging.
- Two community contacts mentioned that a lack of available workforce housing is a deterrent to attracting more people to the region. Major employers frequently struggle to recruit new employees and expand their businesses due to the lack of available housing.

Table 3 Median Family Income Change			
Area	2015 Median Family Income	2020 Median Family Income	Percentage Change
All Counties in AA	\$67,204	\$70,020	4.2%
Otter Tail County	\$71,416	\$75,951	6.3%
Todd County	\$62,486	\$66,645	6.7%
Wadena County	\$57,168	\$57,770	1.1%
Non-MSA Minnesota	\$68,851	\$74,710	8.5%
State of Minnesota	\$84,188	\$92,692	10.1%
Source: 2011-2015 U.S. Census Bureau American Community Survey 2016-2020 U.S. Census Bureau American Community Survey Median Family Incomes have been inflation-adjusted and are expressed in 2020 dollars.			

- The median family incomes for Wadena, Otter Tail, and Todd counties are lower than the state of Minnesota. Each of the counties listed in Table 3 experienced an increase in median family income; however, all counties experienced an increase at a rate below that of the state.
- Based on 2020 data, the percentage of families living below poverty in the AA is 8.6%, which is higher than the state's percentage of 5.6%. Wadena County is one of the poorer counties in Minnesota according to community contacts.
- Bank management noted that jobs at some of the area's largest employers, particularly in the healthcare and wholesale retail sectors, are generally well-paying with good benefits. Jobs in other sectors, like manufacturing and retail, tend to trend lower than the median.

Table 4 2024 Housing Cost Burden						
Area	Cost Burden - Renters			Cost Burden - Owners		
	Low Income	Moderate Income	All Renters	Low Income	Moderate Income	All Owners
All Counties in AA	59.4%	10.8%	33.1%	58.4%	21.9%	18.3%
Otter Tail County	61.6%	11.8%	34.4%	61.4%	26.9%	19.0%
Todd County	57.6%	5.8%	29.5%	52.1%	15.2%	16.8%
Wadena County	54.4%	12.7%	32.3%	59.6%	12.8%	18.1%
Non-MSA Minnesota	64.8%	23.9%	37.5%	56.9%	24.7%	17.0%
State of Minnesota	72.7%	30.1%	41.5%	61.2%	29.0%	16.7%
<i>Cost Burden is housing cost that equals 30 percent or more of household income. Source: U.S. Department of Housing and Urban Development (HUD), 2017-2021 Comprehensive Housing Affordability Strategy</i>						

- Housing in the AA is not generally affordable for low-income people based on the cost burden data in Table 4. Moderate-income people are less stressed than low-income people with respect to housing costs.
- Community contacts noted that demand for housing, particularly affordable housing, greatly exceeds the supply. Workforce housing is inadequate, with little to no available housing to meet the desires of those working at the area's largest employers. Most small lot, in-a-city homes on the market need improvements, and homes considered affordable require a significant amount of upkeep and modernization. Although there are homes under \$150,000 for sale, the required renovations pose a substantial hurdle to LMI families.
- Community contacts also stated that the availability of affordable rental housing has declined in recent years. Tragically, a fire at an apartment building in Wadena on February 16, 2025, killed one person and resulted in the destruction of 11 or more units. Residents were displaced, many of whom were low income, which tightened the affordable rental housing supply even further.
- Approximately 24.9% of homes in the AA are classified as vacant because they are likely seasonal homes. A community contact indicated that there are cabins in the area, primarily in Otter Tail County, for which the data shows 31.9% of housing units are vacant.

Table 5 Unemployment Rates				
Area	2020	2021	2022	2023
All Counties in AA	5.7%	3.9%	3.0%	3.5%
Otter Tail County	5.5%	3.6%	2.9%	3.3%
Todd County	5.4%	4.0%	3.1%	3.6%
Wadena County	7.8%	4.7%	4.0%	4.7%
Non-MSA Minnesota	6.0%	3.8%	3.0%	3.3%
State of Minnesota	6.3%	3.7%	2.6%	2.8%
Source: Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics				

- The AA's unemployment rate has fluctuated since the last evaluation with the highest rate occurring during the start of the pandemic. The December 2024 monthly unemployment rate, not seasonally adjusted for the counties in the AA, is as follows:
 - Wadena County: 4.9%
 - Otter Tail County: 3.5%
 - Todd County: 4.0%
- The area's largest employers are in the government, healthcare, manufacturing, and wholesale retail sectors. According to community contacts, major employers include the Wadena-Deer Creek Public Schools, Wadena; Astera Health, Wadena; Homecrest Outdoor Living, LLC, Wadena; Mason Brothers Company (a grocery wholesaler), Wadena; and Kern Laser Systems, Wadena.
- A community contact mentioned that the city of Wadena has a healthy downtown area, which includes restaurants, breweries, and retail stores, including several boutique and thrift stores, among other businesses. During the pandemic, an organized push by residents to shop locally played a significant role in helping local businesses, particularly restaurants and retail stores.
- Two community contacts stated that local residents are impacted by a shortage of childcare. Demand for childcare greatly exceeds the supply, and parents are often forced to work opposite shifts, coordinate with other families to have one parent serve as the childcare provider, or resort to underemployment or unemployment. The non-traditional shift schedules of local businesses in the manufacturing, wholesale retail, and hospital sectors adds a layer of complexity to the issue.
- A contact indicated that the composition of the local economy, with agricultural and tourism sectors, also contributes to underemployment and unemployment. The availability of jobs varies based on the season, with local businesses in Otter Tail County scaling up to match cabin-related foot traffic during the summer months, and farms looking to hire for short, contract work at different times throughout the year.
- A contact noted that agricultural conditions have been subpar. There are many crop, dairy, and livestock farms in the area, nearly all of which have gross annual revenues of less than \$1 million. Farmers have faced high input costs and depressed prices for prevalent commodities like corn, which has fallen in recent years from between \$6 and \$8 per bushel to between \$4 and \$5. Additionally, the drought classification for a majority of

Wadena County and parts of Todd County reached D3 (extreme drought) in August and September of 2023. Farmers were able to withstand the financial stressors of the drought thanks to government disaster assistance programs and crop insurance. However, the increasing cost of land rent, machinery, and machinery maintenance, as well as tight margins, present significant headwinds for farmers.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Net Loan-to-Deposit Ratio

The NLTD ratio performance criterion evaluates the reasonableness of the bank's lending in light of performance context, including:

- the bank's capacity to lend,
- the availability of lending opportunities, and
- the demographic and economic factors in the AA.

Examiners also compared the bank's ratio to similarly situated FDIC-insured institutions. These institutions were selected based on asset size, location of office, number of branches, and distribution of loan types. The bank's NLTD ratio is reasonable.

The average NLTD for the past 18 quarters is 62.8%. At the previous evaluation, the bank's 17-quarter average NLTD was higher at 68.9%. Since then, the bank's NLTD ratio has ranged from 54.1% to 70.8%.

As of December 31, 2024, the bank's NLTD ratio was 70.8%, which is below the peer group ratio of 74.0%. These numbers place the bank in the fortieth percentile against its national peer group. The bank's peer group includes insured commercial banks not located in a metropolitan statistical area that have assets between \$100 million and \$300 million, with three or more full-service banking offices.

As shown in Table 6, the bank's NLTD ratio was comparable to one similarly situated institution and below another. Numerous financial institutions, including credit unions, operate in Wadena, Otter Tail, and Todd counties.

Table 6 Comparative NLTD Ratios for September 30, 2020, to December 31, 2024			
Institution	Location	Asset Size \$(000)	NLTD Ratio (%)
			18 Quarter Average
Wadena State Bank	Wadena, Minnesota	201,623	62.8
The First National Bank of Henning ²	Ottertail, Minnesota	378,598	72.2
Community First Bank	Menahga, Minnesota	120,277	62.2

The bank's quarterly NLTD ratio has been above the 18-quarter average since December 31, 2022. During that time, which is the latter part of the evaluation period, the bank's total loans grew 8.2%, while deposits decreased by 4.7%. In the early part of the evaluation period during the COVID-19 pandemic, the bank experienced changing loan demand and deposit levels. The bank's loan portfolio shrunk, but the bank responded to local credit needs by originating PPP loans. The bank also saw an increase in deposits when a fintech organization acquired a local national bank headquartered in Wadena, Minnesota. The bank's lower NLTD ratio during the early part of the evaluation period is likely attributed to these two factors.

The bank's NLTD ratio does not reflect all types of the bank's lending or lending-related activities. For example, the bank sells some of its loans, which may not be reflected in the quarterly loan data that serves as the basis for the NLTD ratio calculation. Also, the bank refers some of its clients to other lending entities when it does not offer the type of loan requested by the client.

In conclusion, the bank's average NLTD ratio is reasonable, despite being low compared with the bank's national peer group and one similarly situated institution. The NLTD ratio is comparable to another similarly situated institution and appears reasonable given the factors affecting the AA throughout the evaluation period. Examiners gave more weight to the bank's NLTD ratio in the latter part of the evaluation period to support the conclusion that the bank's performance under this criterion is reasonable.

Assessment Area Concentration

The AA concentration performance criterion evaluates how actively the bank serves the AA. The bank originated a majority of its loans, by number and dollar amount, inside the AA. As shown in Table 7, the bank extended 79.1% of its loans to borrowers inside its AA. The percentage of lending for residential real estate loans at 68.2% is lower than the percentages for other loan products but is higher than it was at the last evaluation. The loans analyzed for this evaluation showed the bank made 14 residential real estate loans outside the AA, which were likely to borrowers who moved from the AA or to borrowers seeking competitive rates for a loan offered by the bank. The bank also made 14 loans in amounts greater than or equal to \$300,000. Of those,

² The First National Bank of Henning grew during the evaluation period in part due to the acquisition of some branches from First Security Bank - Sleepy Eye.

a strong majority were made outside the AA, which helps to explain the 52.4% of residential real estate loans by dollar amount that the bank extended inside the AA.

Table 7 Lending Inside and Outside the AA								
Loan Type	Inside				Outside			
	#	#%	\$(000)	%	#	#%	\$(000)	%
Consumer	48	87.3	686	84.2	7	12.7	129	15.8
Residential Real Estate	30	68.2	5,193	52.4	14	31.8	4,722	47.6
Small Business	59	80.8	8,260	88.0	14	19.2	1,130	12.0
Small Farm	52	77.6	4,030	83.4	15	22.4	803	16.6
Total	189	79.1	18,168	72.8	50	20.9	6,784	27.2
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>								

The bank's lending outside the AA does not limit its ability to serve consumers, small businesses, and small farms inside the AA. In conclusion, the evaluation revealed that the bank originated a majority of its loans inside the AA.

Geographic Distribution of Loans

This performance criterion evaluates the bank's distribution of lending within its AA by income level of census tracts with consideration given to the dispersion of loans throughout the AA. Overall, the bank's geographic distribution of loans reflects excellent distribution among the different census tracts and dispersion throughout the AA. The geographic distribution of small business and residential real estate loans is excellent, and the distribution of small farm and consumer loans is reasonable.

As mentioned, the AA includes two moderate-income census tracts: one in Wadena County and one in Todd County. The bank's main office is in the Wadena County moderate-income tract. The town in the Todd County moderate-income tract that is nearest to the bank's branches is approximately 20 miles away. This tract includes, or is very near to, two communities in which several other financial institutions have branches.

Small Business Lending

The geographic distribution of small business lending is excellent. In 2023 and 2024, the bank's AA had two moderate-income tracts: one in Wadena County and one in Todd County. As Table 8 shows, the bank made 23 loans in the moderate-income tracts. These loans are 39.0% of the small business loans and compare favorably to the percentages of small businesses in the AA's moderate-income tracts (20%). The bank made all 23 small business loans in the moderate-income tracts to borrowers in Wadena County. This is reasonable given the previously explained distance between Wadena and the Todd County moderate-income tract as well as access to financial institutions that are more conveniently located to that tract than the bank. The bank extended

small business loans in seven of the nine middle-income census tracts. The two tracts with no small business loans are on the northern and southern edge of the AA, and both have communities with banking options that are likely more convenient for borrowers located there.

Table 8 Distribution of 2023 and 2024 Small Business Lending By Income Level of Geography									
Geographic Income Level	Bank Loans By Year								Total Businesses %
	2023				2024				
	#	#%	\$(000)	\$%	#	#%	\$(000)	\$%	
Low	0	0.0	0	0.0	0	0.0	0	0.0	0.0
Moderate	5	71.4	796	94.3	18	34.6	3,776	50.9	20.0
Middle	2	28.6	48	5.7	34	65.4	3,641	49.1	80.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0	0.0
Tract Unknown	0	0.0	0	0.0	0	0.0	0	0.0	
Total	7	100.0	844	100.0	52	100.0	7,417	100.0	100.0
Source: 2024 FFIEC Census Data 2024 Dun & Bradstreet Data 2016-2020 U.S. Census Bureau: American Community Survey Note: Percentages may not total 100.0 percent due to rounding.									

The overall dispersion of small business loans in the AA does not reveal any unexplained gaps in lending. Given the AA's performance context factors and the dispersion and distribution of the bank's small business loans, geographic distribution of the bank's small business lending is excellent.

Small Farm Lending

The geographic distribution of small farm lending is reasonable. As Table 9 shows, the bank made five loans, 10.6% of the small farm loans for 2023 and 2024, in the moderate-income tracts. However, within the AA, farms in the moderate-income tracts are 15.2% of all farms in the AA, so the bank's lending is below demographics. The small farm loans made in the moderate-income tracts were all extended in the Wadena County moderate-income tract. This is reasonable given the previously explained distance between Wadena and the Todd County moderate-income tract as well as access to financial institutions that are more conveniently located to that tract than the bank. The bank extended small farm loans in seven of the middle-income tracts; this dispersion is also explained by the location of other financial institutions' offices.

Table 9 Distribution of 2023 and 2024 Small Farm Lending By Income Level of Geography									
Geographic Income Level	Bank Loans By Year								Total Farms %
	2023				2024				
	#	#%	\$(000)	\$%	#	#%	\$(000)	\$%	
Low	0	0.0	0	0.0	0	0.0	0	0.0	0.0
Moderate	0	0.0	0	0.0	5	10.6	549	15.7	15.2
Middle	5	100.0	531	100.0	42	89.4	2,949	84.3	84.8
Upper	0	0.0	0	0.0	0	0.0	0	0.0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0	0.0
Tract Unknown	0	0.0	0	0.0	0	0.0	0	0.0	
Total	5	100.0	531	100.0	47	100.0	3,498	100.0	100.0
Source: 2024 FFIEC Census Data 2024 Dun & Bradstreet Data 2016-2020 U.S. Census Bureau: American Community Survey Note: Percentages may not total 100.0 percent due to rounding.									

The overall dispersion of small farm loans in the AA does not reveal any unexplained gaps in lending. Given the AA's performance context factors and the dispersion and distribution of the bank's small farm loans, geographic distribution of the bank's small farm lending is reasonable.

Residential Real Estate Lending

The geographic distribution of residential lending is excellent. As Table 10 shows, the bank extended 23.3% of its residential loans in moderate-income tracts. The bank's lending is above demographics, which indicates 17.7% of the AA's owner-occupied units are in the moderate-income tracts. The bank made all seven residential real estate loans in the Wadena County moderate-income tract. This is reasonable given the previously explained distance between Wadena and the Todd County moderate-income tract as well as access to financial institutions that are more conveniently located to that tract than the bank. The bank extended residential loans in seven of nine middle-income tracts; this dispersion is also explained by the location of other financial institutions operating in the AA.

Table 10 Distribution of 2024 Residential Real Estate Lending By Income Level of Geography					
Geographic Income Level	Bank Loans				Owner Occupied Units %
	#	#%	\$(000)	\$%	
Low	0	0.0	0	0.0	0.0
Moderate	7	23.3	1,007	19.4	17.7
Middle	23	76.7	4,186	80.6	82.3
Upper	0	0.0	0	0.0	0.0
Unknown	0	0.0	0	0.0	0.0
Tract Unknown	0	0.0	0	0.0	
Total	30	100.0	5,193	100.0	100.0
<i>Source: 2024 FFIEC Census Data</i> <i>2016-2020 U.S. Census Bureau: American Community Survey</i> <i>Note: Percentages may not total 100.0 percent due to rounding.</i>					

The overall dispersion of residential real estate loans in the AA does not reveal any unexplained gaps in lending. Given the AA's performance context factors and the dispersion and distribution of the bank's real estate loans, the geographic distribution of the bank's residential loans is excellent.

Consumer Lending

The geographic distribution of consumer lending is reasonable. As Table 11 shows, the geographic distribution of the bank's consumer loans is reasonable but low; the bank extended 14.6% of its consumer loans in moderate-income tracts. The bank's lending is below demographics, which indicates 20.1% of the AA's households are in the moderate-income tracts. The bank made seven of its consumer loans in the two moderate-income tracts, only one of which was extended to a borrower in the Todd County moderate-income tract. The bank extended consumer loans in seven of nine middle-income tracts; this dispersion is explained by the location of other financial institutions.

Table 11 Distribution of 2024 Consumer Lending By Income Level of Geography					
Geographic Income Level	Bank Loans				Households %
	#	#%	\$(000)	%	
Low	0	0.0	0	0.0	0.0
Moderate	7	14.6	91	13.3	20.1
Middle	41	85.4	595	86.7	79.9
Upper	0	0.0	0	0.0	0.0
Unknown	0	0.0	0	0.0	0.0
Tract Unknown	0	0.0	0	0.0	
Total	48	100.0	686	100.0	100.0
<i>Source: 2024 FFIEC Census Data</i> <i>2016-2020 U.S. Census Bureau: American Community Survey</i> <i>Note: Percentages may not total 100.0 percent due to rounding.</i>					

The overall dispersion of consumer loans in the AA does not reveal any unexplained gaps in lending. Given the AA's performance context factors and the dispersion and distribution of the bank's consumer loans, the geographic distribution of the bank's consumer loans is reasonable.

In conclusion, the geographic distribution of the bank's lending is excellent.

Lending to Borrowers of Different Income Levels and to Businesses and Farms of Different Sizes

This performance criterion evaluates the bank's lending to borrowers of different income levels and businesses and farms of different revenue sizes. The bank's lending has an excellent distribution among individuals of different income levels and businesses and farms of different sizes.

Small Business Lending

The borrower distribution of small business lending is excellent. Table 12 shows that the bank extended 78.0% of its 2023 and 2024 loans to small businesses, which are defined as entities with gross annual revenues of \$1 million or less. These entities represent 91.5% of businesses in the AA. The bank's performance is lower than expected given the demographic data for the AA. Several borrowers with revenues of more than \$1 million received multiple loans during the sample period, which partially explains this result. Table 12 also shows that the bank is very willing to extend small dollar amount loans, as it extended 62.7% of the loans for amounts of \$100,000 or less.

In addition, the bank actively extended PPP loans in the AA. In 2020 and 2021, the bank originated 275 PPP loans to small businesses in Wadena, Todd, and Otter Tail counties, totaling \$10.6 million. Of these loans, 66.5% were for amounts less than \$25,000. This level of responsiveness to credit needs enhances the evaluation of the bank's small business lending.

Table 12									
Distribution of 2023 and 2024 Small Business Lending By Revenue Size of Businesses									
	Bank Loans By Year								Total Businesses %
	2023				2024				
	#	#%	\$(000)	%	#	#%	\$(000)	%	
By Revenue									
\$1 Million or Less	6	85.7	768	91.0	40	76.9	3,763	50.7	91.5
Over \$1 Million	1	14.3	75	8.9	12	23.1	3,653	49.3	6.2
Revenue Unknown	0	0.0	0	0.0	0	0.0	0	0.0	2.3
Total	7	100.0	844	100.0	52	100.0	7,417	100.0	100.0
By Loan Size									
\$100,000 or Less	5	71.4	198	23.5	32	61.5	1,245	16.8	
\$100,001 - \$250,000	1	14.3	250	29.6	12	23.1	1,866	25.2	
\$250,001 - \$1 Million	1	14.3	395	46.8	8	15.4	4,305	58.0	
Total	7	100.0	844	100.0	52	100.0	7,417	100.0	
By Loan Size and Revenue \$1 Million or Less									
\$100,000 or Less	4	66.7	123	16.0	29	72.5	1,000	26.6	
\$100,001 - \$250,000	1	16.7	250	32.6	7	17.5	1,068	28.4	
\$250,001 - \$1 Million	1	16.7	395	51.4	4	10.0	1,695	45.0	
Total	6	100.0	768	100.0	40	100.0	3,763	100.0	
Source: 2024 FFIEC Census Data 2024 Dun & Bradstreet Data 2016-2020 U.S. Census Bureau: American Community Survey Note: Percentages may not total 100.0 percent due to rounding.									

In conclusion, the bank's small business lending is excellent. The bank served as a leader in extending PPP loans during the pandemic, actively extended small business loans to small entities, and is very willing to extend small dollar amount loans to its commercial borrowers.

Small Farm Lending

The borrower distribution of small farm lending is excellent. Table 13 shows that the bank extended 90.4% of its 2023 and 2024 loans to small farms, defined as entities with gross annual revenues of \$1 million or less. These entities represent almost all the farms in the AA. The bank's performance is lower than expected given the demographic data for the AA. Table 13 also shows that the bank is very willing to extend small dollar amount loans, as it extended 75.0% of the loans for amounts of \$100,000 or less.

As mentioned, the bank actively extended PPP loans in the AA. In 2020 and 2021, the bank originated over 175 PPP loans to small farms in Wadena, Todd, and Otter Tail counties, totaling \$2.1 million. Of these loans, 98.9% were for less than \$25,000. This level of responsiveness to credit needs enhances the evaluation of the bank's small farm lending.

Table 13 Distribution of 2023 and 2024 Small Farm Lending By Revenue Size of Farms									
	Bank Loans By Year								Total Farms %
	2023				2024				
	#	#%	\$(000)	%	#	#%	\$(000)	%	
By Revenue									
\$1 Million or Less	4	80.0	446	84.0	43	91.5	2,453	70.2	99.3
Over \$1 Million	1	20.0	86	16.2	4	8.5	1,045	29.9	0.3
Revenue Unknown	0	0.0	0	0.0	0	0.0	0	0.0	0.3
Total	5	100.0	531	100.0	47	100.0	3,498	100.0	100.0
By Loan Size									
\$100,000 or Less	4	80.0	236	44.4	35	74.5	1,261	36.0	
\$100,001 - \$250,000	0	0.0	0	0.0	10	21.3	1,476	42.2	
\$250,001 - \$500,000	1	20.0	295	55.6	2	4.3	762	21.8	
Total	5	100.0	531	100.0	47	100.0	3,498	100.0	
By Loan Size and Revenue \$1 Million or Less									
\$100,000 or Less	3	75.0	151	33.9	35	81.4	1,261	51.4	
\$100,001 - \$250,000	0	0.0	0	0.0	7	16.3	921	37.5	
\$250,001 - \$500,000	1	25.0	295	66.1	1	2.3	272	11.1	
Total	4	100.0	446	100.0	43	100.0	2,454	100.0	
Source: 2024 FFIEC Census Data 2024 Dun & Bradstreet Data 2016-2020 U.S. Census Bureau: American Community Survey Note: Percentages may not total 100.0 percent due to rounding.									

In conclusion, the bank's small farm lending is excellent. The bank actively extended small farm loans to small entities and is very willing to extend small dollar amount loans to its agricultural borrowers.

Residential Real Estate Lending

The borrower distribution of residential real estate lending is excellent. As Table 14 shows, the bank's lending to moderate-income borrowers exceeded the percentage of families (23.2%) that are moderate-income in the AA. Although not as strong as moderate-income lending, the bank's lending to low-income borrowers is very good given the AA characteristics.

According to community contacts, the AA is suffering from an affordable housing shortage. Community contacts noted that demand for housing, particularly affordable housing, greatly

exceeds the supply. Workforce housing is inadequate, with little to no available housing to meet the desires of those working at the area's largest employers. Most small lot, in-a-city homes on the market need improvements, and homes considered affordable require a significant amount of upkeep and modernization. Although there are homes under \$150,000 for sale, the required renovations pose a substantial hurdle to LMI families who might want to acquire such properties. The 2020 U.S. Census data shows that housing stock in the AA has a median age of 50 years, which is higher than the median age of 41 years for non-MSA Minnesota.

As previously discussed, housing cost burden for low-income homeowners and renters in the AA is significant; the burden is less significant for moderate-income owners and renters. Based on FFIEC estimated median family income, low-income people in the AA have incomes of less than \$45,150, and moderate-income people have incomes from \$45,150 to less than \$72,240. As an approximation, low-income families can afford a home that is less than three times their incomes, which is less than \$135,435. For moderate-income families, the figures are from \$135,435 up to, but not including, \$216,720. Given that the median housing value in the AA is \$153,312, according to 2020 census data, it is likely that homes are unaffordable for many low- and some moderate-income individuals.

Table 14 Distribution of 2024 Residential Real Estate Lending By Borrower Income Level					
Borrower Income Level	Bank Loans				Families by Family Income %
	#	#%	\$(000)	%	
Low	5	16.7	542	10.4	23.1
Moderate	9	30.0	1,007	19.4	23.2
Middle	7	23.3	1,095	21.1	22.3
Upper	9	30.0	2,549	49.1	31.3
Unknown	0	0.0	0	0.0	0.0
Total	30	100.0	5,193	100.0	100.0
<i>Source: 2024 FFIEC Census Data</i> <i>2016-2020 U.S. Census Bureau: American Community Survey</i> <i>Note: Percentages may not total 100.0 percent due to rounding.</i>					

In conclusion, the borrower distribution of residential lending is excellent. The bank's lending to moderate-income borrowers is high, and the lending to low-income borrowers is very good given the AA characteristics.

Consumer Lending

The borrower distribution of consumer lending is excellent. The bank extended 70.8% of consumer loans to LMI borrowers. Its performance with low-income borrowers is particularly noteworthy at 50.0% for an AA where low-income households are 25.1% of the household population. The bank's performance for moderate-income borrowers, while less noteworthy, is very good. The bank's consumer lending to LMI borrowers is in part attributed to the bank's

willingness to extend loans with small dollar amounts as well as its ability to be flexible with its underwriting standards.

Table 15 Distribution of 2024 Consumer Lending By Borrower Income Level					
Borrower Income Level	Bank Loans				Households by Household Income %
	#	#%	\$(000)	%	
Low	24	50.0	304	44.3	25.1
Moderate	10	20.8	113	16.5	20.8
Middle	8	16.7	96	14.0	19.3
Upper	6	12.5	173	25.2	34.8
Unknown	0	0.0	0	0.0	0.0
Total	48	100.0	686	100.0	100.0
Source: 2024 FFIEC Census Data 2016-2020 U.S. Census Bureau: American Community Survey Note: Percentages may not total 100.0 percent due to rounding.					

The borrower distribution of the bank's consumer lending is excellent. The bank extended 70.8% of consumer loans to LMI borrowers, which is noteworthy.

In conclusion, the distribution of the bank's lending among individuals of different income levels and businesses and farms of different sizes is excellent.

Investments and Services

The bank has engaged in activity that supports an Outstanding rating. The bank made notable and significant qualified investments and provided community development services that enhanced credit availability in its AA as well as the bank's overall CRA rating.

Qualified Investments. In 2024, the bank made significant donations that meet the definition of community development and support improving the moderate-income census tract in Wadena County. The donations total \$310,000, and fund key public-oriented projects including a wellness center, an event center, and school improvements. Particularly noteworthy is the bank's support of a childcare project. Childcare spots are in very short supply in Wadena County, and the need for new childcare providers and spaces is significant. Community contacts confirmed that childcare is a notable need in the AA. The bank's donations support a project that will modify an existing building to provide spaces for four new childcare providers with each offering 12 new childcare spots.

Community Development Services. The bank engaged in a community development service related to the childcare project mentioned above. The Wadena Development Authority is managing the childcare project, and the bank has historically served on its board. Also, notable is that the bank's main office and express banking facility are located in a historically moderate-income area.

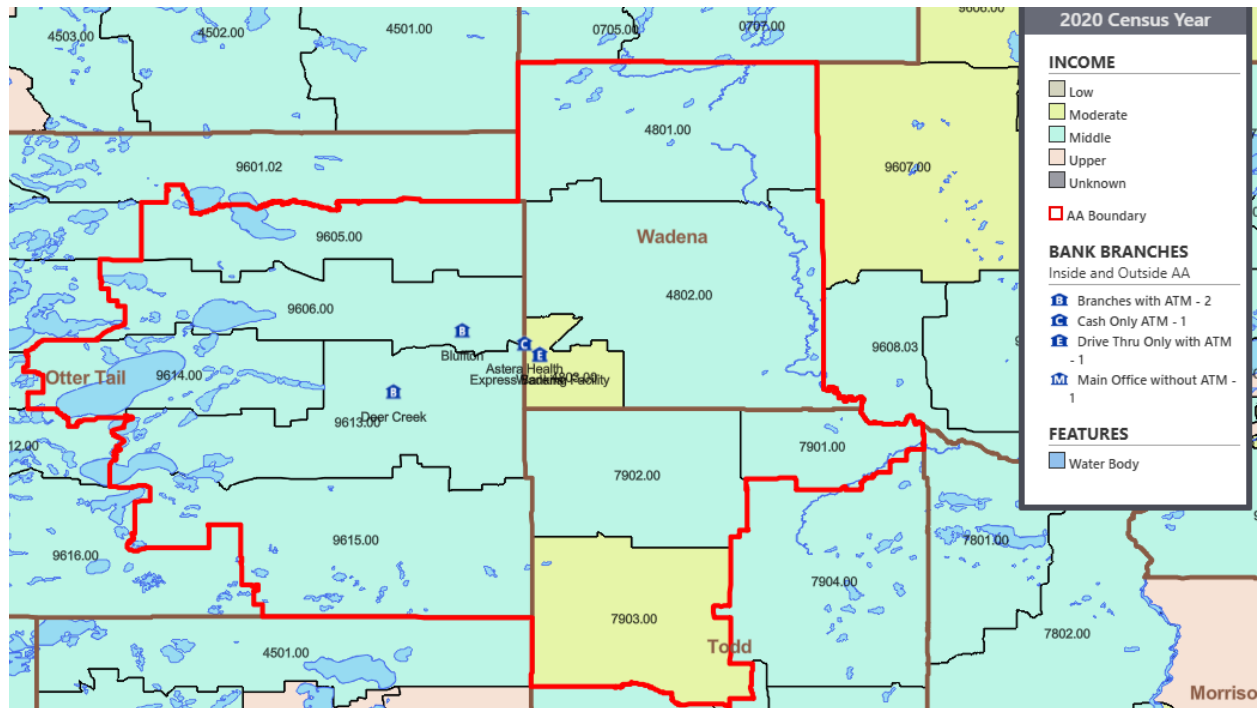
The bank's qualified investment activities and community development services are significant in addressing needs in the Wadena County moderate-income area, which supports the bank's rating of Outstanding.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

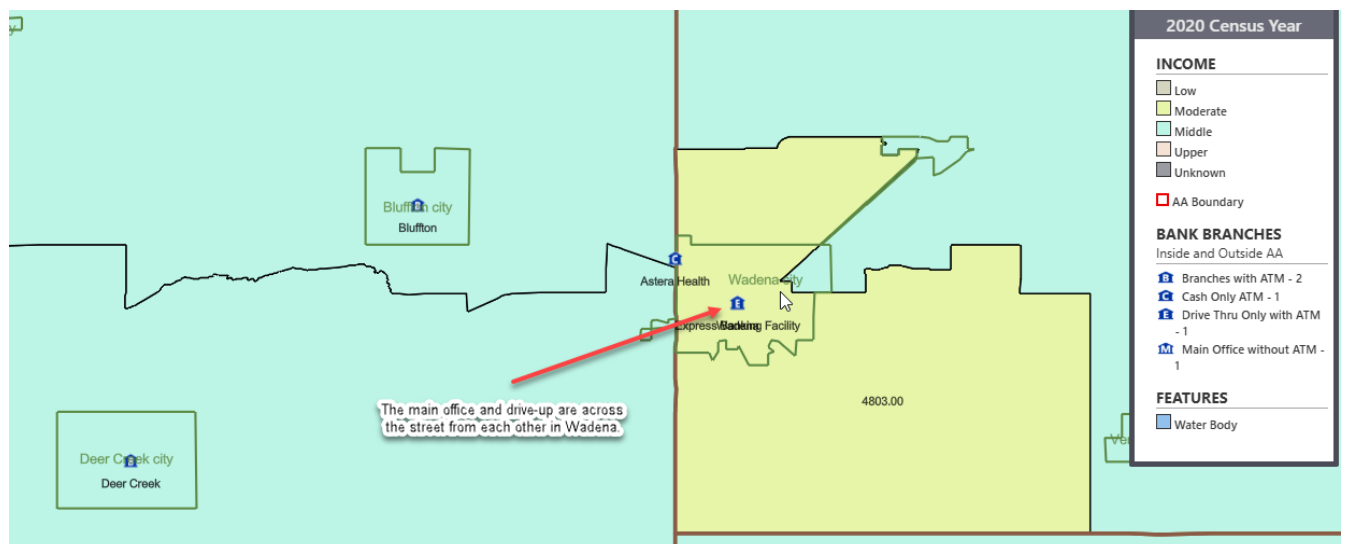
The examination did not reveal any evidence of violations of antidiscrimination laws or regulations (including Regulation B – Equal Credit Opportunity Act and the Fair Housing Act) or other illegal credit practices inconsistent with the bank helping to meet community credit needs.

APPENDIX A – MAPS OF THE ASSESSMENT AREA FOR 2023 AND 2024

Wadena AA



Branch Detail



APPENDIX B – DEMOGRAPHIC INFORMATION

2023 Wadena AA Demographics								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	2,698	23.2
Moderate	2	18.2	2,068	17.8	325	15.7	2,708	23.2
Middle	9	81.8	9,582	82.2	671	7.0	2,597	22.3
Upper	0	0.0	0	0.0	0	0.0	3,647	31.3
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	11	100.0	11,650	100.0	996	8.5	11,650	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	3,950	2,438	17.7	61.7	1,084	27.4	428	10.8
Middle	19,348	11,347	82.3	58.6	2,620	13.5	5,381	27.8
Upper	0	0	0.0	0.0	0	0.0	0	0.0
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	23,298	13,785	100.0	59.2	3,704	15.9	5,809	24.9
	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	441	20.3	395	19.9	35	25.7	11	22.0
Middle	1,733	79.7	1,593	80.1	101	74.3	39	78.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	2,174	100.0	1,988	100.0	136	100.0	50	100.0
Percentage of Total Businesses:				91.4		6.3		2.3

2023 Wadena AA Demographics								
	Total Farms by Tract		Farms by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	51	16.3	50	16.1	1	100.0	0	0.0
Middle	262	83.7	261	83.9	0	0.0	1	100.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	313	100.0	311	100.0	1	100.0	1	100.0
Percentage of Total Farms:				99.4		0.3		0.3
Source: 2023 FFIEC Census Data 2023 Dun & Bradstreet Data 2016-2020 U.S. Census Bureau: American Community Survey Note: Percentages may not total 100.0 percent due to rounding.								

2024 Wadena AA Demographics								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	2,696	23.1
Moderate	2	18.2	2,068	17.8	325	15.7	2,707	23.2
Middle	9	81.8	9,582	82.2	671	7.0	2,597	22.3
Upper	0	0.0	0	0.0	0	0.0	3,650	31.3
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	11	100.0	11,650	100.0	996	8.5	11,650	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	3,950	2,438	17.7	61.7	1,084	27.4	428	10.8
Middle	19,348	11,347	82.3	58.6	2,620	13.5	5,381	27.8
Upper	0	0	0.0	0.0	0	0.0	0	0.0
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	23,298	13,785	100.0	59.2	3,704	15.9	5,809	24.9

2024 Wadena AA Demographics								
	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	415	20.0	372	19.6	32	24.8	11	22.9
Middle	1,657	80.0	1,523	80.4	97	75.2	37	77.1
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	2,072	100.0	1,895	100.0	129	100.0	48	100.0
Percentage of Total Businesses:				91.5		6.2		2.3
	Total Farms by Tract		Farms by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	46	15.2	45	15.0	1	100.0	0	0.0
Middle	257	84.8	256	85.0	0	0.0	1	100.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	303	100.0	301	100.0	1	100.0	1	100.0
Percentage of Total Farms:				99.3		0.3		0.3
Source: 2024 FFIEC Census Data 2024 Dun & Bradstreet Data 2016-2020 U.S. Census Bureau: American Community Survey Note: Percentages may not total 100.0 percent due to rounding.								

APPENDIX C – GLOSSARY

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

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

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

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

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

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

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

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

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and 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 (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

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

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

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

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

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

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

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

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

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

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

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

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

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