

PUBLIC DISCLOSURE

August 20, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Charter Bank
1010 West Clairemont Avenue
Eau Claire, Wisconsin 54701
RSSD 160650

**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.

TABLE OF CONTENTS

Institution 1

 Institution’s CRA Rating..... 1

 Scope of Evaluation..... 1

 Description of Institution..... 3

 Description of Assessment Areas..... 4

 Conclusions with Respect to Performance Criteria..... 4

State of Wisconsin – Metropolitan Area..... 9

 CRA Rating 9

 Description of Institution’s Operations in the Eau Claire, Wisconsin MSA – Full Review 9

 Conclusions with Respect to Performance Criteria..... 11

State of Minnesota – Metropolitan Area..... 17

 CRA Rating 17

 Description of Institution’s Operations in the Minneapolis-St. Paul-Bloomington, Minnesota-
 Wisconsin MSA – Full Review..... 17

 Conclusions with Respect to Performance Criteria..... 19

Appendix A – Glossary of Common CRA Terms 24

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

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

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

The Community Reinvestment Act (CRA) performance of Charter Bank, Eau Claire, Wisconsin, demonstrates the bank's responsiveness to the credit needs of its assessment areas and shows adequate responsiveness to the community development needs of its assessment areas.

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

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

The bank's Community Development Test performance is Satisfactory, based on the following criteria:

- Overall, the bank's performance demonstrates adequate responsiveness to the community development needs of its assessment areas. The bank's levels of community development loans, qualified investments (including qualified donations), and community development services are reasonable, considering the bank's capacity and the needs in its assessment areas.

The Federal Deposit Insurance Corporation (FDIC) previously evaluated the bank's performance using the Intermediate Small Bank CRA Examination Procedures (Procedures). The bank received a Satisfactory rating at the previous FDIC evaluation dated May 26, 2015.

SCOPE OF EVALUATION

The evaluation of the bank's CRA performance is based in part on information provided by bank management and community contacts. Information from these sources, the economic and demographic characteristics of the assessment areas, competitive factors, and the size and financial condition of the bank were analyzed to understand the bank's performance. This CRA evaluation covers the period from May 26, 2015, through August 19, 2018.

The bank has designated two assessment areas for CRA purposes, one in Wisconsin and one in Minnesota. The Eau Claire Metropolitan Statistical Area (MSA) assessment area is located in Wisconsin and includes Chippewa and Eau Claire counties, which constitute the Eau Claire, WI MSA. The Chaska MSA assessment area includes a portion of the Minneapolis-St. Paul-Bloomington, MN-WI MSA and consists of Carver County, 13 census tracts in northwestern Scott County, and 31 census tracts in southwestern Hennepin County. For interstate institutions, the Procedures require examiners to evaluate at least one assessment area from each state. Examiners conducted a full-scope review for both assessment areas.

Based on the June 30, 2017, FDIC Deposit Market Share Report and lending data provided by the bank, the majority of the bank's activities take place in the Eau Claire MSA assessment area. The deposits in the Eau Claire MSA assessment area represent 73.2% of the bank's total deposits. The loans in the Eau Claire MSA assessment area account for 94.9% of the bank's lending activity, based on the bank's 2015, 2016, and 2017 Home Mortgage Disclosure Act (HMDA) loans and its 2017 small business loans. Examiners weighted the bank's performance as follows to determine the overall rating:

- For the Lending and Community Development Tests, the bank's activities in the Eau Claire MSA assessment area received the greatest weight. The weighting reflects the bank's concentration of lending and deposit activity in this assessment area.
- For the Lending Test, the bank's small business lending received more weight than residential real estate lending because the bank is primarily a commercial lender.
- For the Lending Test performance criteria, examiners gave the greatest weight to the bank's lending to businesses of different sizes and to borrowers of different income levels and the geographic distribution of loans. Examiners weighted the remaining criteria equally.

Throughout this evaluation, examiners use demographic characteristics in evaluating the bank's record of lending in the individual assessment areas. Sources for demographic information are primarily the 2017 Federal Financial Institutions Examinations Council (FFIEC) adjusted census data and 2017 Dun & Bradstreet data. Assessment area demographics are useful in analyzing the bank's lending because they provide a means of estimating lending opportunities. Examiners use self-reported data collected and published by Dun & Bradstreet regarding the revenue size and location of businesses to evaluate the bank's small business lending. The demographic data does not define an expected level of lending in a particular area or to a particular group of borrowers.

As part of this evaluation, examiners also contacted individuals familiar with economic and demographic characteristics and community development activities in the assessment areas. Examiners used the information obtained to establish a performance context for the CRA evaluation. In the applicable sections of the evaluation for each assessment area, examiners discuss specific and relevant information obtained from community contacts. None of the contacts identified any unmet credit needs or fair lending concerns in the assessment areas.

Lending Test Scope

The scope of the evaluation covers the bank's major product line, small business loans, as shown in Table 1, as well as the bank's HMDA loans. The bank is required to report HMDA data because it has offices in MSAs. Examiners analyzed a statistical sample of 133 small business loans originated between January 1, 2017, and December 31, 2017. They also analyzed the bank's HMDA lending, including home purchase, refinance, home improvement, and multifamily loans, originated in 2017 and 2016 for the Eau Claire MSA assessment area and originated in 2017 for the Chaska MSA assessment area. For the Eau Claire MSA assessment area, examiners also reviewed 2015 HMDA data for consistency with 2017 and 2016 data but did not include a detailed analysis of the 2015 HMDA data in this evaluation. For the Chaska MSA assessment area, examiners reviewed 2016 and 2015 HMDA data for consistency with 2017 data but did not include a detailed analysis of the 2015 and 2016 data in the evaluation. Examiners also reviewed 2016 and 2017 HMDA data reported by aggregate lenders to better assess the bank's performance relative to other HMDA lenders in the bank's assessment areas. The evaluation refers to this loan information as aggregate lending data.

<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	103	8.9	\$33,840,467	10.1
Consumer	109	9.4	1,468,089	0.4
Dealer Loans (Floor Plan)	3	0.3	7,000,000	2.1
Home Equity Lines of Credit	157	13.6	13,563,541	4.1
Letters of Credit	16	1.4	3,913,237	1.2
Residential Real Estate	111	9.6	18,120,998	5.4
Small Business (≤ \$1 million)	607	52.4	113,504,269	33.9
Commercial (> \$1 million)	44	3.8	129,149,791	38.6
Small Farm (≤ \$500,000)	7	0.6	1,483,620	0.4
Tax Exempt	2	0.2	12,676,500	3.8
Total	1,159	100.0	\$334,720,513	100.0

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

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

Community Development Scope

Examiners reviewed the bank’s community development lending, qualified investments, and community development services in its assessment areas or in a larger regional or statewide area. For CRA purposes, community development activities promote affordable housing or economic development, or provide services to low- and moderate-income individuals, or revitalize or stabilize underserved and distressed census tracts or designated disaster areas. Examiners based the Community Development Test rating on the bank’s performance during the period of May 26, 2015, through August 19, 2018.

DESCRIPTION OF INSTITUTION

Offices. Charter Bank is wholly owned by Charter Bankshares, Inc., and operates three full-service branches with drive-up facilities in Eau Claire, Wisconsin; Chaska, Minnesota; and Chanhassen, Minnesota. Each branch has a cash-dispensing-only ATM. The bank’s hours of operation are appropriate for the communities it serves in both assessment areas. The branches are open Monday through Friday, and all have extended drive-up hours during the week. The bank’s Eau Claire office has Saturday morning lobby and drive-up hours. The bank’s Chaska and Chanhassen office have Saturday morning drive-up hours and accommodate Saturday morning branch appointments by request.

Charter Bankshares, Inc., was previously a two-bank holding company, owning Charter Bank and Community Bank Corporation, Chaska (CBC). On October 1, 2015, Charter Bank merged with CBC. Charter Bank was the surviving entity. On September 5, 2017, Charter Bank became a state-chartered bank and a member of the Federal Reserve System.

¹ Note: Some columns or row percentages may not total 100.0% due to rounding to the nearest tenth.

Alternative Delivery Methods. The bank offers online, mobile, and telephone banking. With online banking, customers are able to use bill payment services, review account information, transfer funds, make payments, and view periodic statements.

Loan Portfolio. The bank's assets total \$873.4 million, according to the June 30, 2018, Report of Condition. The bank's \$658.3 million loan portfolio consists of 72.5% commercial, 22.5% residential real estate, 0.7% agricultural, 0.5% consumer, and 3.9% other loans. The composition of the loan portfolio has remained relatively consistent since the previous evaluation. However, the bank's overall assets and loan portfolio grew after it merged with CBC.

Deposit Market Share. The bank ranks first of 24 FDIC-insured financial institutions in the Eau Claire, WI MSA, with 17.2% of the total deposits, according to the June 30, 2017, FDIC Deposit Market Share Report. The bank ranked 27th out of 84 FDIC-insured financial institutions, in Carver, Hennepin, and Scott counties in Minnesota, with 0.2% of the total deposits. The bank also competes with many credit unions in its assessment areas.

Credit Products. The bank offers a variety of loan products to meet the credit needs of the residents and businesses in its assessment areas. Commercial lending is the bank's primary focus. In addition to conventional loan products, the bank actively participates in a variety of U.S. Small Business Administration (SBA) loan programs. For residential real estate loans, the bank offers conventional loans as well as a program to assist first-time homebuyers. The Federal Home Loan Bank of Chicago offers the program, which includes down payment and closing cost assistance for income-eligible borrowers. The bank also offers closed- and open-end consumer loans.

DESCRIPTION OF ASSESSMENT AREAS

Assessment Area Information. The bank has designated two assessment areas for CRA purposes, one in Wisconsin and one in Minnesota. The Eau Claire MSA assessment area includes Chippewa and Eau Claire counties, which constitute the Eau Claire, WI MSA. The Chaska MSA assessment area in Minnesota includes all of Carver County, 13 census tracts in Scott County, and 31 census tracts in southwestern Hennepin County.

In 2017, several changes occurred to census tracts in both assessment areas. In 2015 and 2016, the Eau Claire MSA assessment area consisted of five moderate-income census tracts, 21 middle-income tracts, and five upper-income tracts. In 2017, some census tract designations were changed, and the Eau Claire MSA assessment area now consists of six moderate-income census tracts, 22 middle-income tracts, and three upper-income tracts. In 2015 and 2016, the Chaska MSA assessment area consisted of three moderate-income census tracts, 21 middle-income tracts, and 39 upper-income tracts. In 2017, some census tract designations were changed, and the Chaska MSA assessment area now consists of two moderate-income census tracts, 25 middle-income tracts, and 36 upper-income tracts. Neither assessment area contains any low-income census tracts.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's CRA rating is Satisfactory. The rating is based on a Satisfactory rating for the Lending Test and a Satisfactory rating for the Community Development Test. Community contacts did not identify any unmet credit needs in the assessment areas.

LENDING TEST

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

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

Since the bank has assessment areas in two states, the regulation requires a separate analysis of the bank's performance in each state. Detailed discussions of the bank's lending to businesses of different sizes and to borrowers of different income levels and the geographic distribution of the bank's loans are found in the individual assessment area sections of the evaluation. However, examiners analyzed the net loan-to-deposit ratio and the comparison of lending inside and outside the assessment area at the bank level, as discussed below.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio is reasonable given its asset size, financial condition, and the credit needs of the assessment areas. According to the June 30, 2018, Uniform Bank Performance Report, the bank's net loan-to-deposit ratio is 91.5%, which is higher than the national peer group's net loan-to-deposit ratio at 82.9%. The bank's national peer group includes all insured commercial banks having assets between \$300 million and \$1 billion. The 13-quarter average net loan-to-deposit ratio is 87.8%. The bank's quarterly net loan-to-deposit ratio has ranged from 81.8% to 91.5%.

Table 2 shows the bank's 13-quarter average net loan-to-deposit ratio compared to other institutions operating in its assessment areas. The bank's 13-quarter average net loan-to-deposit ratio is comparable to competitor banks operating in its assessment areas.

<i>Bank Name and Location</i>	<i>Assets as of June 30, 2018 (in thousands)</i>	<i>Average Net Loan-to-Deposit Ratio</i>
Charter Bank Eau Claire, Wisconsin	\$873,386	87.8%
Northwestern Bank Chippewa Falls, Wisconsin	\$450,594	79.3%
Citizens Community Federal, NA Altoona, Wisconsin	\$974,991	97.8%

The bank competes with large national banks, regional banks, other community banks, credit unions, and mortgage companies in its assessment areas. The net loan-to-deposit ratio is reasonable, given the credit needs and opportunities in the assessment areas. In addition, community contacts did not identify any unmet credit needs in the assessment areas.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREAS

The bank originated a majority of its loans within its assessment areas. Overall, 81.4% of loans by number and 66.6% by dollar amount are within the bank’s assessment areas. Table 3 shows lending activity by loan type inside and outside the assessment areas.

Table 3 Distribution of Loans Inside and Outside the Assessment Areas								
Loan Category	Inside				Outside			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Home Improvement	31	75.6	3,409	68.5	10	24.4	1,571	31.5
Home Purchase	261	84.5	39,224	76.6	48	15.5	12,011	23.4
Multi-Family Housing	17	60.7	16,161	42.7	11	39.3	21,643	57.3
Refinance	92	78.0	15,157	72.9	26	22.0	5,629	27.1
Total HMDA	401	80.8	73,951	64.4	95	19.2	40,854	35.6
Small Business	111	83.5	16,328	78.9	22	16.5	4,369	21.1
Total	512	81.4	90,279	66.6	117	18.6	45,223	33.4

Bank management stated that its focus is to provide loans to customers in its assessment areas. However, the bank will originate loans for current customers, even if the customers are no longer in the assessment areas. The bank’s lending shows its commitment to meeting the credit needs of the businesses and residents within its assessment areas.

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

Overall, the bank’s lending to businesses of different sizes and to borrowers of different income levels is reasonable. The bank actively lends to businesses with gross annual revenues of \$1 million or less and makes loans to low- and moderate-income individuals. The Conclusions with Respect to Performance Criteria sections for the Eau Claire MSA and Chaska MSA assessment areas include a detailed discussion of the borrower distribution of loans.

GEOGRAPHIC DISTRIBUTION OF LOANS

Overall, the geographic distribution of the bank’s small business and residential real estate loans shows reasonable dispersion of loans throughout the assessment areas. Lending patterns do not reveal any unexplained gaps in lending. The Conclusions with Respect to Performance Criteria sections for the Eau Claire MSA and Chaska MSA assessment areas include a detailed discussion of the geographic distribution of loans.

RECORD OF RESPONSE TO CRA-RELATED COMPLAINTS

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

COMMUNITY DEVELOPMENT TEST

The level and nature of community development activities are adequate, given the availability of opportunities, the responsiveness of the activities, and the bank’s market presence and asset size. The

bank engaged in community development lending and services and made qualified investments in the form of securities and donations during the evaluation period. Based on information obtained from the bank and community contacts, the primary community development needs in the assessment areas are activities that promote small business growth, support economic development, provide affordable housing, and revitalize and stabilize the downtown area of Eau Claire. The bank's community development activities were responsive to these needs.

Community Development Loans. The bank's community development lending is adequate. During the evaluation period, the bank originated 23 community development loans totaling \$11.4 million. The majority (\$8.9 million) of these loans benefited the bank's Eau Claire MSA assessment area. Ten loans supported economic development in the assessment area by allowing businesses to hire more staff or by funding business expansion or operation. Other notable loans in the Eau Claire MSA assessment area include loans to businesses located in the downtown area of Eau Claire. The loans helped revitalize and stabilize areas identified by local government for redevelopment and blight removal.

Since the bank satisfactorily met the credit and community development needs in its assessment areas, the bank is able to qualify community development activity outside of its assessment area. The bank originated five community development loans that benefited other areas of Wisconsin and Minnesota that did not include the bank's assessment areas. The bank originated four loans totaling approximately \$2.4 million that benefited areas of Wisconsin, three loans that support economic development by creating and retaining businesses, and one loan that provides affordable housing for seniors. The fifth loan fostered economic development by financing a business in an area of Minnesota.

Qualified Investments. The bank's level of qualified investments in the form of CRA-eligible securities and donations is excellent. The bank has eight qualified investments in the form of securities, totaling \$2.4 million. During the evaluation period, the bank purchased four investments totaling approximately \$1.4 million: two investments that benefit the Eau Claire assessment area, one that benefits an area of Wisconsin outside of the bank's assessment area, and one that benefits an area of Minnesota outside of the bank's assessment area. The investments in the Eau Claire assessment area total \$655,000, and these investments helped revitalize and stabilize moderate-income census tracts. One investment helped construct a fire station, and the other investment helped develop infrastructure in downtown Eau Claire to support the redevelopment of that area. The bank also holds three prior-period investments that support affordable housing in the Chaska MSA assessment area.

Examiners considered the investments outside the assessment areas because the bank was responsive to the community development needs of and opportunities in its assessment areas. The investments include a new bond supporting a school district in Wisconsin and a bond supporting affordable housing for college students in Minnesota. In addition, the bank holds a prior-period investment that revitalizes and stabilizes a low-income census tract outside the bank's Minnesota assessment area by supporting public education.

The bank made an excellent level of donations during the evaluation period. The bank donated \$517,333 that directly benefited its assessment areas; a significant majority of the donations benefited the Eau Claire MSA assessment area. These donations support organizations that serve low- and moderate-income individuals, promote affordable housing, support economic development, and help revitalize and stabilize moderate-income tracts. Notably, the bank's donation activity included \$250,000 that benefited the revitalization of downtown Eau Claire, an area designated for redevelopment. In addition, the bank donated \$4,700 to organizations that serve low- and moderate-income individuals throughout the state of Wisconsin (including in the bank's assessment area) and in a region of Minnesota that includes the bank's assessment area. Finally, the bank made one donation for \$500 that benefited an area outside of the bank's assessment area in Minnesota.

Community Development Services. The bank's level of community development services is reasonable. During the evaluation period, the bank provided 40 community development services that benefit the bank's assessment areas as well as broader regional areas including the assessment areas. In addition, the bank provided one additional service to an organization serving low- and moderate-income individuals in an area in Minnesota outside of the bank's assessment area. A number of bank employees, including bank management, and board members contributed their financial expertise to 18 organizations by serving on the board of directors or committees and also promoted financial literacy by providing financial education to students. Most of the services were to organizations providing community services to low- and moderate-income individuals, and some were to organizations promoting affordable housing and economic development. Among those services, bank employees provided eight community development services to four organizations serving a regional area that includes the bank's Eau Claire assessment area.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

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

STATE OF WISCONSIN – METROPOLITAN AREA

CRA RATING FOR WISCONSIN: Satisfactory

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

**DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE EAU CLAIRE MSA
ASSESSMENT AREA – FULL REVIEW**

Bank Information. The bank’s main office is in the Eau Claire MSA assessment area. This location offers Saturday morning lobby and drive-up hours as well as extended drive-up hours on the weekdays. The hours of operation are reasonable. With 17.2% of the total deposits, the bank ranks first of 24 FDIC-insured financial institutions in the Eau Claire, WI MSA, according to the June 30, 2017, FDIC Deposit Market Share Report.

Assessment Area. The Eau Claire MSA assessment area includes Chippewa and Eau Claire counties, which constitute the Eau Claire, WI MSA. In 2015 and 2016, the Eau Claire MSA assessment area consisted of five moderate-income census tracts, 21 middle-income tracts, and five upper-income tracts. In 2017, some census tract designations were changed, and the Eau Claire MSA assessment area now consists of six moderate-income census tracts, 22 middle-income tracts, and three upper-income tracts.

Table 4 shows the demographic characteristics of the assessment area based on 2017 FFIEC census data² and 2017 Dun & Bradstreet data.

TABLE 4								
Eau Claire MSA Assessment Area Demographics								
<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	0	0.0	0	0.0	0	0.0	7,454	18.6
Moderate Income	6	19.4	5,193	13.0	874	16.8	7,431	18.5
Middle Income	22	71.0	30,201	75.3	1,837	6.1	9,689	24.2
Upper Income	3	9.7	4,706	11.7	169	3.6	15,526	38.7
Total Assessment Area	31	100.0	40,100	100.0	2,880	7.2	40,100	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	0	0	0.0	0.0	0	0.0	0	0.0
Moderate Income	12,620	4,865	11.4	38.5	6,263	49.6	1,492	11.8
Middle Income	50,019	33,027	77.3	66.0	13,340	26.7	3,652	7.3
Upper Income	7,599	4,810	11.3	63.3	2,461	32.4	328	4.3
Total Assessment Area	70,238	42,702	100.0	60.8	22,064	31.4	5,472	7.8

² The FFIEC adjusted census data is based on decennial U.S. Census data and American Community Survey five-year estimate data. It also reflects the Office of Management and Budget’s metropolitan statistical area revisions.

<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	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	1,128	18.8	989	18.5	131	21.0	8	16.0
Middle Income	4,242	70.6	3,774	70.8	430	68.9	38	76.0
Upper Income	637	10.6	570	10.7	63	10.1	4	8.0
Total Assessment Area	6,007	100.0	5,333	100.0	624	100.0	50	100.0
Percentage of Total Businesses:				88.8		10.4		0.8
<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	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	65	12.2	64	12.2	1	14.3	0	0.0
Middle Income	430	80.7	424	80.6	6	85.7	0	0.0
Upper Income	38	7.1	38	7.2	0	0.0	0	0.0
Total Assessment Area	533	100.0	526	100.0	7	100.0	0	0.0
Percentage of Total Farms:				98.7		1.3		0.0

Income. For purposes of classifying borrower income, this evaluation uses the FFIEC estimated median family income for the Eau Claire MSA, for the year of loan origination. This figure is \$65,900 for 2015, \$68,800 for 2016, and \$67,400 for 2017. For purposes of classifying census tracts by income level, this evaluation uses the FFIEC census data median family income for the Eau Claire MSA, which is \$62,064 for 2015 and 2016 and \$66,688 for 2017.

Population. According to 2017 FFIEC census data, the population of the assessment area is 164,490. More than 61.6% of the assessment area population lives in Eau Claire County. In this assessment area, 50.7% of the population is 25 to 64 years of age, 21.5% is 17 years and younger, 13.4 % is 18 to 24 years of age, and 14.4% is 65 and older.

Economy. Bank management and community contacts described the local economy as robust. Business development in the area is thriving, businesses are expanding as well as moving into the area, and hiring has accelerated during the evaluation period. The local economy is very diverse, with the largest employers being health-care providers, technology companies, manufacturers, and the service industry. Employment levels are very high, and demand for labor is strong. The tight labor supply has strained business development and growth. Many businesses, including entry-level retail and service businesses, are offering sign-on bonuses and other incentives and benefits to attract and retain prospective employees. Community contacts noted that many employers have a difficult time retaining employees as some move to new jobs for higher wages, better benefits, or more work/life flexibility. Current initiatives of local technical colleges and economic development agencies include workforce training and career development directly out of high school. Local leaders hope this initiative will address the labor shortages in the local economy.

According to the Bureau of Labor Statistics, the July 2018 nonseasonally adjusted unemployment rate was 2.9% for the Eau Claire MSA, which is lower than the 3.2% unemployment rate for the state of Wisconsin.

Housing. According to bank management and community contacts, housing availability, especially affordable housing, is a major concern in the assessment area. Single-family homes sell quickly and typically above the asking price. According to community contacts, the affordable housing for sale, which may have only two bedrooms, is typically too small for many families. Many homes in the area are rental properties, mostly student rentals, because of the proximity to the University of Wisconsin–Eau Claire. The student rental housing limits the rental housing available for other individuals and families in parts of the assessment area. Accordingly, affordable rental properties are difficult to find. Community contacts noted the labor shortage impacts residential construction of all types; builders are having difficulty finding labor. According to contacts, another reason that housing construction is limited is a shortage of land available for development. The shortage of housing units and land for development further exacerbates the affordable housing issue in the assessment area.

According to 2017 FFIEC census data, this assessment area has 70,238 housing units: 60.8% are owner occupied, 31.4% are rental units, and 7.8% are vacant. The median age of the housing stock is 46 years. The median age of the housing stock in the state of Wisconsin is 43 years. The median housing value for the assessment area is \$150,591 and the affordability ratio is 33.6, compared to \$165,800 and 32.2 for the state, respectively. The affordability ratio is the median household income divided by the median housing value. A higher ratio indicates greater affordability. This assessment area ratio suggests that housing in this assessment area is as affordable as in other areas of the state.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank’s Lending Test performance in the Eau Claire MSA assessment area is Satisfactory. The bank’s Community Development Test performance is also Satisfactory and demonstrates adequate responsiveness to the community development needs of the assessment area.

LENDING TEST

Overall, the bank’s lending shows a reasonable distribution of loans among businesses of different sizes and a reasonable distribution among individuals of different income levels. The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area.

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

Small Business Lending. The bank’s lending to small businesses is reasonable. Table 5 shows the bank’s small business lending.

Table 5				
Small Business Lending				
Eau Claire MSA Assessment Area				
<i>Small Business Loans</i>	$\leq \$100,000$	$> \$100,000$ to $\leq \$250,000$	$> \$250,000$ to $\leq \$1,000,000$	<i>Total Originations</i>
Percentage of All Small Business Loans	54.0%	34.0%	12.0%	100.0%
Percentage of Loans to Businesses with Revenues of \$1 Million or Less	54.3%	32.9%	12.9%	70.0%

The bank originated 70.0% of its small business loans to entities with gross annual revenues of \$1 million or less. According to 2017 Dun & Bradstreet data, 88.8% of businesses in the assessment area are small businesses. The bank’s performance is lower than demographics; however, the performance is reasonable

given the performance context. The bank is a known commercial lender, and it makes loans to large businesses as well as small businesses. The bank originated a majority of its loans to small businesses (54.3%) for amounts under \$100,000, which shows the bank’s willingness to originate smaller-dollar loans for small businesses. Bank management commented that there is high competition for small business loans in the Eau Claire MSA assessment area. The high competition, coupled with the bank’s willingness to originate small-dollar loans, makes its performance in originating small business loans reasonable.

Residential Real Estate Lending. The bank’s HMDA lending to low- and moderate-income borrowers is reasonable. Table 6 shows the bank’s HMDA lending by borrower income levels for 2017 and 2016.

Table 6										
Eau Claire MSA Assessment Area										
2017 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	4	7.1	2	3.6	7	12.5	17	30.4	26	46.4
Refinance	0	0.0	3	14.3	3	14.3	8	38.1	7	33.3
Home Improvement	2	16.7	0	0.0	1	8.3	2	16.7	7	58.3
Multi-family	0	0.0	0	0.0	0	0.0	0	0.0	3	100.0
Total 2017 HMDA Loans	6	6.5	5	5.4	11	12.0	27	29.3	43	46.7
2016 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	6	6.7	6	6.7	9	10.1	21	23.6	47	52.8
Refinance	1	2.9	3	8.6	5	14.3	12	34.3	14	40.0
Home Improvement	0	0.0	3	30.0	1	10.0	4	40.0	2	20.0
Multi-family	0	0.0	0	0.0	0	0.0	0	0.0	7	100.0
Total 2016 HMDA Loans	7	5.0	12	8.5	15	10.6	37	26.2	70	49.6

The bank’s HMDA lending in the assessment area is relatively limited, as the bank is largely a commercial lender. The bank does not report income information for loans originated to commercial borrowers, and they are not considered in the borrower distribution analysis. Therefore, the bank’s percentage of HMDA loans to low- and moderate-income borrowers is based on a relatively small number of loans.

The bank ranked 13th out of 227 HMDA reporters in 2017 and 7th out of 232 HMDA reporters in 2016. The bank’s HMDA lending is a small percentage of all HMDA loans reported in the assessment area: approximately 2.1% in 2017 and 2.8% in 2016. The leading HMDA reporters are primarily credit unions and regional and national banks, but they also include community banks and mortgage loan companies.

In 2017, the bank originated 6.5% of its HMDA loans to low-income borrowers and 5.4% to moderate-income borrowers. According to 2017 FFIEC census data, 18.6% of the families in the assessment area are low income and 18.5% are moderate income. Aggregate lenders extended 8.2% of their HMDA loans to low-income borrowers and 20.1% to moderate-income borrowers. The bank’s performance is lower than demographics for low- and moderate-income borrowers and lower than aggregate lenders for moderate-income borrowers. The bank’s performance is relatively comparable to aggregate lenders for low-income borrowers.

In 2016, the bank originated 5.0% of its HMDA loans to low-income borrowers and 8.5% to moderate-income borrowers. According to FFIEC census data for 2016, 19.0% of the families in the assessment area are low income and 19.1% are moderate income. Aggregate lenders extended 9.3% of their HMDA loans to low-income borrowers and 22.3% to moderate-income borrowers. The bank’s performance is lower than demographics and aggregate lenders for low- and moderate-income borrowers.

Using the assumption that a borrower can obtain a loan for approximately three times the borrower’s annual income, based on the 2017 FFIEC estimated median family income of \$67,400 for the Eau Claire MSA, an individual with the highest income in the low-income bracket (\$33,699) could afford a \$101,097 home. Using the same assumption for borrowers with the highest income in the moderate-income bracket (\$53,919), a borrower could afford a \$161,757 home. According to 2017 FFIEC census data, the median housing value in the Eau Claire MSA is \$150,591. This data suggests that homeownership would not be affordable for many low-income and some moderate-income residents in the assessment area.

Although the bank’s performance is below demographics and generally below aggregate lenders, its performance is reasonable given the performance context. The bank is primarily a commercial lender and operates in a competitive banking environment. Notably, the bank works with the Federal Home Loan Bank of Chicago to administer grants to homeowners who need down-payment assistance.

Examiners also evaluated the bank’s 2015 HMDA lending activities. The distribution of HMDA loans by borrower income level for 2015 is generally comparable to 2017 and 2016 performance. In 2015, the bank originated 6.5% and 5.9% of its HMDA loans to low- and moderate-income borrowers, respectively, while aggregate lenders originated 8.8% and 21.2%, respectively.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution and dispersion of the bank’s small business and HMDA loans in the assessment area is reasonable and does not reveal any unexplained gaps in lending.

Small Business Lending. The geographic distribution and dispersion of the bank’s small business loans throughout the assessment area is reasonable. Table 7 shows the geographic distribution of the bank’s small business lending by census tract income level for 2017.

Table 7						
Geographic Distribution of Small Business Loans in the Eau Claire MSA Assessment Area by Income Level of Census Tract*						
<i>Loan Type Sample</i>	<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>	
	#	\$	#	\$	#	\$
Small Business	12.0%	22.8%	75.0%	65.7%	13.0%	11.5%
<i>Demographic Data</i>						
Number of Census Tracts	6		22		3	
Percentage of Census Tracts	19.4%		71.0%		9.7%	
Percentage of Businesses	18.8%		70.6%		10.6%	
*Income classification of census tracts is based on 2017 FFIEC census data.						
**Percentages are based on 2017 Dun & Bradstreet data.						

As indicated in Table 7, 18.8% of businesses are located in the moderate-income census tracts, according to 2017 Dun & Bradstreet data. The bank’s lending in the moderate-income census tracts is below demographics by number volume (12.0%) and exceeds demographics by total dollars (22.8%). The

majority of the bank’s lending is in the middle-income tracts, which is reasonable because the majority of small businesses are located in these tracts.

The bank’s lending is reasonably dispersed throughout the assessment area. While the bank did not originate small business loans in all of the moderate- and middle-income census tracts in the assessment area, this is reasonable given the performance context. Two of the moderate-income census tracts with no loans are outside the city limits of Eau Claire in rural areas and are closer to other financial institutions. The remaining moderate-income census tract with no loans is located in Eau Claire near other financial institutions and includes a significant percentage (73.7%) of rental housing because it is near the University of Wisconsin–Eau Claire. In addition, there are numerous financial institutions in the assessment area, which makes the lending environment competitive for small business loans.

Residential Real Estate Lending. The bank’s geographic distribution and dispersion of 2017 and 2016 HMDA loans throughout the assessment area is excellent. Table 8 shows the geographic distribution of the bank’s HMDA loans by census tract income level for 2017 and 2016.

Table 8						
Eau Claire MSA Assessment Area						
2017 HMDA Loans by Census Tract Income Level						
<i>Loan Type</i>	<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	#	%	#	%	#	%
Home Purchase	9	16.1	44	78.6	3	5.4
Refinance	5	23.8	13	61.9	3	14.3
Home Improvement	7	58.3	5	41.7	0	0.0
Multifamily	2	66.7	1	33.3	0	0.0
Total 2017 HMDA Loans	23	25.0	63	68.5	6	6.5
2016 HMDA Loans by Census Tract Income Level						
<i>Loan Type</i>	<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	#	%	#	%	#	%
Home Purchase	18	20.2	56	62.9	15	16.9
Refinance	3	8.6	25	71.4	7	20.0
Home Improvement	2	20.0	8	80.0	0	0.0
Multifamily	0	0.0	4	57.1	3	42.9
Total 2016 HMDA Loans	23	16.3	93	66.0	25	17.7

In 2017, the bank originated 25.0% of its HMDA loans in moderate-income census tracts. According to 2017 FFIEC census data, 13.0% of families in the assessment area reside in the moderate-income census tracts. In 2016, the bank originated 16.3% of its HMDA loans in the moderate-income tracts. According to 2016 FFIEC census data, 11.8% of families in the assessment area reside in the moderate-income census tracts. The bank’s performance exceeds moderate-income demographics in 2017 and 2016. Aggregate lenders made 13.0% and 11.1% of loans in the moderate-income tracts in 2017 and 2016, respectively. The bank’s performance is higher than aggregate lenders in both years.

The bank did not originate HMDA loans in all of the moderate- and middle-income census tracts in the assessment area; however, this dispersion of loans is reasonable based on the performance context. The bank did not originate HMDA loans in the one of the two rural moderate-income census tracts. This tract is not close to the bank’s Eau Claire location, and there are other banks in the area. Also, given that these

tracts are rural areas, there are few opportunities for HMDA lending. Finally, as previously mentioned, the banking environment is competitive in the assessment area.

Examiners also evaluated the bank's 2015 HMDA lending activities. The distribution of HMDA loans by census tract for 2015 is generally consistent with 2017 and 2016 performance. In 2015, the bank originated 9.8% of its HMDA loans in moderate-income census tracts, while aggregate lenders originated 10.9%.

COMMUNITY DEVELOPMENT TEST

Overall, the bank's level of community development activities in the Eau Claire MSA assessment area is reasonable. The bank engaged in community development activities, including community development loans and services, and made qualified investments in the form of securities and donations. The bank's community development activities demonstrate adequate responsiveness to community needs.

Community Development Loans. The bank's community development lending is adequate. During the evaluation period, the bank originated 18 community development loans in the assessment area, totaling \$8.9 million. The bank originated 11 loans totaling \$2.4 million for economic development purposes, which helped small businesses create and retain low- and moderate-income jobs in the assessment area. The other seven loans in the assessment area, totaling \$6.5 million, focus on revitalizing and stabilizing moderate-income census tracts in and near downtown Eau Claire. These loans have a significant impact since the local government has focused intensively on redeveloping the downtown area to attract residents and businesses. Businesses used the loan proceeds for a variety of purposes, such as purchasing or constructing facilities.

The bank also originated community development loans outside of its assessment area. The bank originated four loans totaling \$2.4 million to three businesses in Wisconsin. Three of the loans were for economic development, which helped several entrepreneurs purchase businesses. The fourth loan helped finance a living facility that provides affordable housing for seniors receiving public assistance.

Qualified Investments. The bank's level of qualified investments in the form of CRA-eligible securities and donations is excellent. The qualified investments in the form of bonds that benefit the assessment area total \$655,000, and donations total \$506,583.

The bank's qualifying bond portfolio includes two bonds purchased during the evaluation period that support efforts to revitalize and stabilize moderate-income census tracts. One bond supports the construction of a needed fire station in the southern portion of Chippewa Falls, and the other bond helped develop critical infrastructure projects as part of the redevelopment of downtown Eau Claire.

The bank also purchased a bond that supports community service efforts in outside of the bank's assessment area in Wisconsin. The \$350,000 bond supports a school district's efforts to restructure debt.

The bank's donation activity during the evaluation period was excellent. The bank donated \$506,583 that directly benefited the Eau Claire assessment area. The bank's most notable donation activity was \$250,000 that benefited the revitalization of downtown Eau Claire. The money helped complete the construction of a performing arts center. The other donations were primarily to organizations that serve low- and moderate-income individuals, as well as to organizations that promote affordable housing and economic development. Finally, the bank made a \$500 donation that to an organization that provides dental care to low- and moderate-income individuals throughout the state of Wisconsin, including the bank's assessment area.

Community Development Services. The bank's level of community development services in the assessment area is adequate. The bank provided 30 community development services in the Eau Claire MSA assessment area during the evaluation period. A number of bank employees, including bank management, contributed their financial expertise to 12 organizations by serving on the board of directors or committees as well as by providing financial education. The bank's services were primarily to organizations that focus on community services to low- and moderate-income individuals but also included services to organizations that focus on affordable housing and economic development.

In addition, the bank provided eight community development services to four organizations that serve regional areas in Wisconsin that include the bank's assessment area. These services were to organizations that focus on community services to low- and moderate-income individuals and economic development.

STATE OF MINNESOTA – METROPOLITAN AREA

CRA RATING FOR MINNESOTA: Satisfactory

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE CHASKA MSA ASSESSMENT AREA – FULL REVIEW

Bank Information. The bank has two full-service branches in the Chaska MSA assessment area, one in Chanhassen and one in Chaska, both of which are in Carver County. Both locations offer extended drive-up hours on weekdays and on Saturday morning. These offices accommodate Saturday morning branch appointments by request. The hours of operation are reasonable. With 0.2% of total deposits, the bank ranks 27th of 84 FDIC-insured financial institutions in the Chaska MSA assessment area, according to the June 30, 2017, FDIC Deposit Market Share Report.

The Chaska MSA assessment area accounts for a very small percentage of loan originations compared to the bank’s Eau Claire MSA assessment area. During the evaluation period, the bank originated only 5.1% of its 2017 small business loans and 2015, 2016, and 2017 HMDA loans in the Chaska MSA assessment area.

Assessment Area. The Chaska MSA assessment area includes all of Carver County and portions of southwestern Hennepin County and northwestern Scott County. In 2017, changes occurred to census tracts in the assessment area. In 2015 and 2016, the Chaska MSA assessment area consisted of three moderate-income census tracts, 21 middle-income tracts, and 39 upper-income tracts. In 2017, some census tract designations were changed, and the Chaska MSA assessment area now consists of two moderate-income census tracts, 25 middle-income tracts, and 36 upper-income tracts.

Table 9 shows the demographic characteristics of the assessment area based on 2017 FFIEC census data³ and 2017 Dun & Bradstreet data.

TABLE 9								
Chaska MSA Assessment Area Demographics								
<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	0	0.0	0	0.0	0	0.0	11,271	12.8
Moderate Income	2	3.2	1,364	1.5	174	12.8	12,824	14.6
Middle Income	25	39.7	35,641	40.5	1,554	4.4	17,547	19.9
Upper Income	336	57.1	51,106	58.0	1,377	2.7	46,469	52.7
Total Assessment Area	63	100.0	88,111	100.0	3,105	3.5	88,111	100.0

³ The FFIEC adjusted census data is based on decennial U.S. Census data and American Community Survey five-year estimate data. It also reflects the Office of Management and Budget’s metropolitan statistical area revisions.

<i>Income Categories</i>	<i>Housing Units by Tract</i>	<i>Housing Types by Tract</i>						
		<i>Owner-Occupied</i>		<i>Rental</i>		<i>Vacant</i>		
		<i>#</i>	<i>%</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Low Income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate Income	2,509	1,305	1.4	52.0	995	39.7	209	8.3
Middle Income	55,923	36,859	38.6	65.9	16,391	29.3	2,673	4.8
Upper Income	69,017	57,439	60.1	83.2	8,902	12.9	2,676	3.9
Total Assessment Area	127,449	95,603	100.0	75.0	26,288	20.6	5,558	4.4
<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>	
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	257	1.5	225	1.5	26	1.6	6	3.0
Middle Income	6,721	39.7	6,008	39.8	622	38.3	91	45.5
Upper Income	9,955	58.8	8,875	58.7	977	60.1	103	51.5
Total Assessment Area	16,933	100.0	15,108	100.0	1,625	100.0	200	100.0
Percentage of Total Businesses:				89.2		9.6		1.2
<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>	
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	1	0.2	1	0.2	0	0.0	0	0.0
Middle Income	262	58.0	260	58.7	2	22.2	0	0.0
Upper Income	189	41.8	182	41.1	7	77.8	0	0.0
Total Assessment Area	452	100.0	443	100.0	9	100.0	0	0.0
Percentage of Total Farms:				98.0		2.0		0.0

Income. For purposes of classifying borrower income, this evaluation uses the FFIEC estimated median family income for the Minneapolis-St. Paul-Bloomington, MN-WI MSA for the year of loan origination. This figure is \$85,700 for 2015, \$85,200 for 2016, and \$89,800 for 2017. For purposes of classifying census tracts by income level, this evaluation uses the FFIEC census data median family income for the Minneapolis-St. Paul-Bloomington, MN-WI MSA, which is \$79,301 for 2015 and 2016, and \$85,636 for 2017.

Population. According to 2017 FFIEC census data, the population of the assessment area is 313,107. Approximately 29.1% of the population lives in Carver County, where the bank’s two branches are located. In this assessment area, 55.5% of the population is 25 to 64 years of age, 26.6% is 17 years and younger, 6.9% is 18 to 24 years of age, and 11.1% is 65 and older.

Economy. Bank management and community contacts describe the local economy as strong and diverse. Businesses in the assessment area are doing well, and employment is robust. Many employers in the area are health-care providers, educational institutions, manufacturers, and service businesses. The assessment area includes large corporations and retail chains as well as small boutique stores and restaurants. According to a community contact, tourism is a burgeoning sector of the assessment area’s economy. The contact said that labor demand is strong and the available labor supply is low. Businesses are offering sign-on bonuses to attract and retain prospective employees. The contact also noted that current

workforce initiatives include training and career development directly out of high school for skilled trades or other fields requiring a technical degree.

According to the Bureau of Labor Statistics, the July 2018 nonseasonally adjusted unemployment rate was 2.4% for Carver County, 2.6% for Hennepin County, and 2.3% for Scott County, which are all slightly lower than the 2.7% unemployment rate for the state of Minnesota.

Housing. According to bank management and community contacts, housing availability varies at different price levels. The availability of affordable housing is a major concern in the assessment area. Many new developments in the assessment area are market-rate rental units. Housing in the assessment area is quite expensive. According to the community contact, most of the land zoned for housing development in the assessment area is in higher-priced areas, such as the towns of Carver and Victoria, in Carver County, which significantly limits the development of affordable housing. The community contact noted that some new housing options considered more affordable are priced starting at \$350,000. Builders have constructed some affordable housing complexes in the area, but they have not met the large need for affordable housing.

According to 2017 FFIEC census data, this assessment area has 120,442 housing units: 77.5% are owner occupied, 17.3% are rental units, and 5.2% are vacant. The median age of the housing stock is 25 years. The median age of the housing stock in the state as a whole is 36 years. The median housing value for the assessment area is \$308,553 and the affordability ratio is 27.0, compared to \$206,200 and 27.8, respectively, for the state. The affordability ratio is the median household income divided by the median housing value. A higher ratio indicates greater affordability. This assessment area ratio suggests that housing in this assessment area is as affordable as in other areas of the state.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's Lending Test performance in the Chaska MSA assessment area is Satisfactory. The bank's Community Development Test performance is also Satisfactory and demonstrates adequate responsiveness to the community development needs of the assessment area.

LENDING TEST

Overall, the bank's lending shows a reasonable distribution of loans among businesses of different sizes and reasonable distribution among individuals of different income levels. The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area.

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

Small Business Lending. The bank's lending to small businesses is reasonable. Table 10 shows the bank's small business lending.

<i>Small Business Loans</i>	$\leq \$100,000$	$> \$100,000$ to $\leq \$250,000$	$> \$250,000$ to $\leq \$1,000,000$	<i>Total Originations</i>
Percentage of All Small Business Loans	36.4%	18.2%	45.5%	100.0%
Percentage of Loans to Businesses with Revenues of \$1 Million or Less	50.0%	33.3%	16.7%	54.5%

The bank’s small business lending in the assessment area is very limited; this analysis is based on 11 loans. Although the bank is primarily a commercial lender, as mentioned previously, the Chaska MSA assessment area accounts for a very small percentage of loan originations compared to the bank’s Eau Claire MSA assessment area.

The bank originated 54.5% of its small business loans to entities with gross annual revenues of \$1 million or less. According to 2017 Dun & Bradstreet data, 89.2% of businesses in the assessment area are small businesses. The bank’s performance is lower than demographics; however, the performance is reasonable given the performance context. The bank originated 50.0% of its loans to small businesses for amounts under \$100,000, which shows the bank’s willingness to originate smaller-dollar loans for small businesses. Bank management commented that there is a high level of competition for small business loans in the Chaska MSA assessment area. The high level of competition, coupled with the bank’s willingness to originate small-dollar loans, makes its performance in originating small business loans reasonable.

Residential Real Estate Lending. The bank’s HMDA lending to low- and moderate-income borrowers is reasonable. Table 11 shows the bank’s HMDA lending by borrower income levels for 2017.

2017 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	1	16.7	2	33.3	3	50.0
Refinance	0	0.0	0	0.0	0	0.0	3	100.0	0	0.0
Home Improvement	0	0.0	0	0.0	0	0.0	1	100.0	0	0.0
Multifamily	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Total 2017 HMDA Loans	0	0.0	0	0.0	1	10.0	6	60.0	3	30.0

The bank’s HMDA lending in the assessment area is very limited; this analysis is based on seven loans. As noted above, the bank is primarily a commercial lender. The bank also made the majority of its loans in the Eau Claire MSA assessment area. In addition, HMDA loan originations were not a focus of the bank’s business strategy in the assessment area during most of the evaluation period. Also, the bank does not report incomes for certain HMDA loans, such as HMDA loans originated to commercial borrowers. Loans with unknown income are not included in the borrower distribution analysis. For all these reasons, the bank’s percentage of HMDA loans to low- and moderate-income borrowers is based on a very small number of loans.

The bank ranked 78th out of 405 HMDA reporters in 2017. The bank’s HMDA lending is less than 0.1% of all HMDA loans reported by aggregate lenders in the assessment area in 2017. The leading HMDA reporters include credit unions, community banks, regional and national banks, and mortgage loan companies.

In 2017, the bank did not originate any HMDA loans to low- or moderate-income borrowers. According to 2017 FFIEC census data, 12.8% of the families in the assessment area are low income and 14.6% are moderate income. Aggregate lenders extended 5.5% of their HMDA loans to low-income borrowers and 16.8% to moderate-income borrowers. The bank’s performance is lower than demographics and aggregate lenders for low- and moderate-income borrowers, but comparisons are not meaningful because of the bank’s low volume of HMDA originations.

Using the assumption that a borrower can obtain a loan for approximately three times the borrower’s annual income, based on the 2017 FFIEC estimated median family income of \$89,800 for the Chaska MSA, an individual with the highest income in the low-income bracket (\$44,899) could afford a \$134,697 home. Using the same assumption for borrowers with the highest income in the moderate-income bracket (\$71,839), a borrower could afford a \$215,517 home. According to 2017 FFIEC census data, the median housing value in the Chaska MSA is \$284,455. This data suggests that homeownership would not be affordable for many low-income and some moderate-income residents in the assessment area, which is consistent with information provided by community contacts. In addition, the bank operates in a competitive environment. Although the bank’s performance is below demographics and aggregate lenders, its performance is reasonable given the performance context.

Examiners also evaluated the bank’s 2016 and 2015 HMDA lending activities. The bank’s 2016 and 2015 HMDA lending is also limited and is generally consistent with 2017 lending performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

Small Business Lending. The geographic distribution and dispersion of the bank’s small business loans throughout the assessment area is reasonable, given the performance context. Table 12 shows the geographic distribution of the bank’s small business lending by census tract income level for 2017.

Table 12						
Geographic Distribution of Small Business Loans						
in the Chaska MSA Assessment Area by Income Level of Census Tract*						
<i>Loan Type Sample</i>	<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>	
	#	\$	#	\$	#	\$
Small Business	0.0%	0.0%	18.2%	21.7%	81.8%	78.3%
<i>Demographic Data</i>						
Number of Census Tracts	2		25		36	
Percentage of Census Tracts	3.2%		39.7%		57.1%	
Percentage of Businesses**	1.5%		39.7%		58.8%	
*Income classification of census tracts is based on 2017 FFIEC census data.						
**Percentages are based on 2017 Dun & Bradstreet data.						

The bank did not originate small business loans in all census tracts in the assessment area, including the moderate-income census tracts, which is reasonable given the performance context. As previously mentioned, the bank’s small business lending in the assessment area is very limited; this analysis is based

on only 11 loans. Also, only 1.5% of businesses are located in the moderate-income census tracts, according to 2017 Dun & Bradstreet data. In addition, there are numerous financial institutions in the assessment area, and the lending environment is competitive for small business loans. Finally, the bank has a small presence in the assessment area based on its deposit market share in the Chaska MSA assessment area in comparison to competitors.

Residential Real Estate Lending. The bank’s geographic distribution and dispersion of 2017 HMDA loans throughout the assessment area is reasonable, given the performance context. Table 13 shows the geographic distribution of the bank’s HMDA loans by census tract income level for 2017.

TABLE 13						
HMDA Lending						
Chaska MSA Assessment Area						
2017 HMDA Loans by Census Tract Income Level						
<i>Loan Type</i>	<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Home Purchase	0	0.0	3	50.0	3	50.0
Refinance	0	0.0	0	0.0	3	100.0
Home Improvement	0	0.0	0	0.0	1	100.0
Multifamily	0	0.0	0	0.0	0	0.0
Total 2017 HMDA Loans	0	0.0	3	30.0	7	70.0

The bank did not originate HMDA loans in all census tracts in the assessment area, including the moderate-income census tracts, which is reasonable given the performance context. As previously mentioned, the bank’s lending in the assessment area is very limited, and this analysis is based on only six loans; the bank focuses primarily on commercial lending. Also, only 1.5% of families live in the moderate-income census tracts, according to 2017 FFIEC census data, and, in 2017, aggregate lenders made only 1.2% of loans in the moderate-income tracts. Finally, the bank operates in a competitive environment with numerous financial institutions.

Examiners also evaluated the bank’s 2016 and 2015 HMDA lending activities. The bank’s 2016 and 2015 HMDA lending is also limited and is generally consistent with 2017 lending performance.

COMMUNITY DEVELOPMENT TEST

Overall, the level of community development activities in the Chaska MSA assessment area is reasonable. The bank engaged in community development services, held qualified investments in the form of securities, and made qualified donations. The bank’s community development activities demonstrate adequate responsiveness to community needs.

Community Development Loans. The bank’s level of community development lending demonstrates adequate responsiveness to community needs. The bank did not originate any loans inside the assessment area during the evaluation period. However, the bank did originate a community development loan that benefited an area outside the bank’s assessment area in the state of Minnesota. The bank originated a loan with an economic development purpose to a business located in a moderate-income census tract in Bloomington, Minnesota. The bank’s community development loan activity is adequate given the bank’s small presence in the market and the competitive banking environment.

Qualified Investments. The bank's level of qualified investments in the form of CRA-eligible securities and donations is adequate. The qualified investments that benefit the assessment area in the form of bonds total \$755,000 and donations total \$10,750.

The bank did not purchase any new qualifying investments benefiting the assessment area during the evaluation period. However, the bank holds three existing bonds in its portfolio, totaling \$755,000, that support affordable housing, which is a critical need in the assessment area.

The bank's qualified investments also benefit areas in Minnesota that are outside of the bank's assessment area. The bank purchased one bond for \$375,000 during the evaluation period that provides affordable housing for college students in Minneapolis, Minnesota. The bank also holds one bond that benefits the regional area by revitalizing and stabilizing a low-income census tract in northern Hennepin County. This bond supports the construction of a public school building.

The bank's donation activity during the evaluation period was adequate. The bank donated \$10,750 that directly benefited the Chaska MSA assessment area. The donations were primarily to organizations that serve low- and moderate-income individuals, as well as one donation to an organization that promotes affordable housing.

The bank's donation activity also benefited a larger, regional area that includes the bank's assessment area. The bank donated \$4,200 that benefited an organization that helps provide critical community services for low- and moderate-income individuals throughout the metropolitan area. The bank also made a \$500 donation that to an organization outside of the bank's assessment area that provides education to low- and moderate-income individuals.

Community Development Services. The bank's level of community development services in the assessment area is adequate. The bank provided two community development services in the Chaska MSA assessment area to one organization during the evaluation period. A board member contributed financial expertise by serving on the board of directors for an organization that provides community services to low- and moderate-income homeowners. Finally, a board member provided financial expertise by serving an organization outside of the bank's assessment area that provides education to low- and moderate-income individuals.

Appendix A

Glossary of Common CRA Terms

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

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

Community development: An activity associated with one of the following five descriptions: (1) affordable housing (including multifamily rental housing) for low- or moderate-income individuals; (2) community services targeted to low- or moderate-income individuals; (3) activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 C.F.R. 121.301) or have gross annual revenues of \$1 million or less; (4) activities that revitalize or stabilize low- or moderate-income census tracts, designated disaster areas, or distressed or underserved nonmetropolitan middle-income census tracts; or (5) Neighborhood Stabilization Program (NSP)-eligible activities in areas with HUD-approved NSP plans, which are conducted within two years after the date when NSP program funds are required to be spent and benefit low-, moderate-, and middle-income individuals and census tracts.

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

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

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

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

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

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

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

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

Middle income: Individual income that is at least 80 percent and less than 120 percent of the area median income or a median family income that is at least 80 percent and less than 120 percent, in the case of 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 MSA. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate MSA, the institution will receive a rating for the multistate metropolitan area.

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

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

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

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

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