

PUBLIC DISCLOSURE

August 26, 2024

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Grand Marais State Bank
RSSD #945950

211 East Highway 61
Grand Marais, MN 55604

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

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.

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INSTITUTION'S COMMUNITY REINVESTMENT ACT RATING

Grand Marais State Bank (the bank) is rated **Satisfactory**. 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.
- A reasonable 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 of different sizes.
- Neither the bank nor this Reserve Bank received any CRA-related complaints since the previous evaluation.

SCOPE OF EXAMINATION

Examiners utilized The Federal Financial Institutions Examination Council's (FFIEC's) *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 AA demographic and economic characteristics, and credit needs. Lending performance was assessed within the bank's AA. Examiners reviewed the following data:

- The bank's 20-quarter average NLTD ratio.
- Statistical samples of 41 small business loans originated between July 1, 2023, and December 31, 2023, and 51 consumer loans originated between January 1, 2023, and December 31, 2023. Examiners weighted small business loans and consumer loans equally based on lending activity.

Of the five core criteria, examiners placed the greatest weight on bank's lending to businesses of different sizes and borrowers of different income levels, followed by the NLTD, and then lending inside the AA. The geographic distribution of loans received the least weight.

DESCRIPTION OF INSTITUTION

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

- The bank is a wholly owned subsidiary of VH Bancorporation, Inc., Grand Marais, Minnesota.

- Central Bank and Trust, Lander, Wyoming, and CenBank, Buffalo Lake, Minnesota, are affiliated banks through common bank holding company ownership.¹
- The bank has total assets of \$116.5 million as of June 30, 2024.
- In addition to its main office in Grand Marais, the bank has a branch located in Tofte, Minnesota.
- The bank operates cash-dispensing-only ATMs at both offices and two additional cash-dispensing-only ATMs at businesses in Grand Portage, Minnesota.
- As shown in Table 1, the bank's primary business focus is commercial lending, but the bank also actively originates residential real estate and consumer loans. During the COVID-19 pandemic, the bank participated in the Paycheck Protection Program (PPP) through the Federal Reserve System and the Small Business Administration, which helped employers maintain their workforce.

Table 1		
Composition of Loan Portfolio as of June 30, 2024		
Loan Type	\$(000)	%
Commercial	36,222	50.4
Residential Real Estate	32,991	45.9
Consumer	2,631	3.7
Gross Loans	\$71,844	100.0
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>		

The bank was rated Satisfactory under the CRA at its September 16, 2019, 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 has one designated assessment area in Minnesota that includes most of Cook County. The county is in the Arrowhead Region in northeastern Minnesota and borders Canada and Lake Superior (see Appendix A for an AA map and Appendix B for additional demographic data).

- As of 2022, the bank's AA consists of three middle-income census tracts based on census data changes. For 2019 through 2021, the bank's AA consisted of two middle-income census tracts. All tracts were designated as underserved during the evaluation period. The bank's AA omits one census tract in Cook County. This tract is designated as unknown income because it is comprised of a small portion of Lake Superior.
- The Grand Portage Indian Reservation (Reservation) is in the northeastern corner of the county.

¹ Central Trust Company, a bank holding company in Sioux Falls, South Dakota, owns the affiliated banks and VH Bancorporation, Inc.

- According to the June 30, 2024, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, the bank ranked first out of two FDIC-insured institutions with offices in Cook County, with 84.6% of deposits in the county. A community contact stated that a credit union is located on the Reservation, which is not included in FDIC deposit market share information.
- Examiners conducted two community contact interviews during the evaluation. The community contacts were local individuals familiar with the economic and demographic characteristics of the area, including information related to tribal members and the Reservation.

Table 2 Grand Marais AA Population Change			
Area	2015 Population	2020 Population	% Change
Grand Marais AA	5,194	5,600	7.8%
Non-MSA Minnesota	1,243,105	1,259,719	1.3%
Minnesota	5,419,171	5,706,494	5.3%
<i>Source: 2011-2015 U.S. Census Bureau American Community Survey 2020 U.S. Census Bureau Decennial Census</i>			

- According to the 2020 U.S. Census, the population of the Grand Marais AA is 5,600, which is an increase from the 2015 population, as shown in Table 2. The AA population grew by a larger percentage than other nonmetropolitan areas of Minnesota. Grand Marais, the county seat of Cook County, is the most populous community in the county with 1,337 residents.
- The state of Minnesota's population increased slightly less than the AA over the same period.

Table 3 Grand Marais AA Median Family Income Change			
Area	2015 Median Family Income	2020 Median Family Income	% Change
Grand Marais AA	\$70,056	\$71,716	2.4%
Non-MSA Minnesota	\$68,881	\$74,737	8.5%
Minnesota	\$84,188	\$92,692	10.1%
<i>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.</i>			

- The median family income in the bank's AA slightly increased between 2015 and 2020, as shown in Table 3. This increase is below the overall growth for other nonmetropolitan areas of the state and the state of Minnesota.
- A community contact noted the COVID-19 pandemic affected the area residents' personal income due to closures, especially the closure of the Canadian border.

Table 4 Grand Marais AA Unemployment Rates				
Area	2019	2020	2021	2022
Grand Marais AA	4.3%	8.4%	4.8%	3.5%
Non-MSA Minnesota	4.0%	6.0%	3.9%	3.1%
Minnesota	3.3%	6.3%	3.8%	2.7%
Source: Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics				

- Although the unemployment rate increased in 2020 at the onset of the COVID-19 pandemic, the rate has since recovered as shown in Table 4.
- The AA unemployment rate has remained relatively consistent during the evaluation period, with the exception of 2020, as has the rate for the state of Minnesota.
- Tourism is a major industry in the area, and as such, service and hospitality industries play a significant role in the economy. A community contact stated that while the Grand Marais area is economically vibrant during the summer months, the outlying towns attract more visitors during the winter months due to recreational winter activities.
- In addition to tourism-, service-, and hospitality-related entities, the Grand Portage Band of Lake Superior Chippewa tribe, the area hospital system, and city and local government (including the school district) are large employers in the AA. Many jobs in the AA pay competitive wages; however, a community contact stated the wages have not kept pace with the area housing costs.
- According to community contacts, home and rental prices in the AA are expensive. The AA does have some rent-controlled, subsidized tribal housing developments. Many homes in the area are second homes for individuals.
- Overall, according to bank management and contacts, local economic conditions have been relatively stable despite the onset of the pandemic.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Net Loan-to-Deposit Ratio

This performance criterion evaluates the bank's average NLTD ratio to determine the reasonableness of lending in light of performance context, such as the bank's capacity to lend, the availability of lending opportunities, the demographic and economic factors present in the AA, and in comparison to similarly situated FDIC-insured institutions. The similarly situated institution was selected based on asset size, portfolio composition, and location. The bank's NLTD ratio is reasonable.

The bank's 20-quarter average NLTD ratio is 60.2%, which is similar to the 60.5% 16-quarter average NLTD ratio at the previous evaluation. The NLTD ratio fluctuated from a high of 73.1% to a low of 49.1% during those quarters. Various factors impacted the NLTD ratio, including

public deposits, pandemic relief program deposits, and PPP lending. Interest rates also increased at times.

As of June 30, 2024, the bank's NLTD ratio is 69.1%, which is generally comparable to peer at 67.7%. The bank's national peer group includes insured commercial banks that have assets between \$100 million and \$300 million with two or fewer full-service offices and are not located in a metropolitan statistical area. The bank's 20-quarter average NLTD ratio is higher than a similarly situated institution's ratio. Table 5 shows the bank's and the similarly situated institution's asset size as of June 30, 2024, and the 20-quarter average NLTD ratio.

Table 5 Comparative NLTD Ratios as of June 30, 2024			
Institution	Location	Asset Size \$(000)	NLTD Ratio (%)
			20-Quarter Average
Grand Marais State Bank	Grand Marais, Minnesota	\$116,454	60.5%
Similarly Situated Institution			
Security State Bank of Aitkin	Aitkin, Minnesota	\$105,039	49.0%

Assessment Area Concentration

This performance criterion evaluates the percentage of lending extended inside and outside of the AA. The bank originated a majority of the bank's loans, 84.8% by number and 75.2% by dollar, inside the AA as shown in Table 6.

Table 6 Lending Inside and Outside the AA								
Loan Type	Inside				Outside			
	#	#%	\$(000)	%	#	#%	\$(000)	%
Total Consumer related	46	90.2	810	80.7	5	9.8	194	19.3
Total Small Bus. related	32	78.0	4,625	74.3	9	22.0	1,599	25.7
TOTAL LOANS	78	84.8	5,435	75.2	14	15.2	1,794	24.8
Note: Percentages may not total 100.0 percent due to rounding.								

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. The bank's geographic distribution of loans reflects reasonable distribution among the different census tracts and dispersion throughout the AA. The bank made loans in all three middle-income tracts that comprise the AA. No further analysis was conducted given the bank's assessment area does not contain any low- and moderate-income census tracts.

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

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

Small Business Lending

The borrower distribution of small business lending is excellent. As shown in Table 7, demographic data indicates that 90.0% of businesses in the AA have revenues of \$1 million or less. The bank originated 78.1% of its small business loans to businesses with gross annual revenues of \$1 million or less. Of the bank's small business loans, 59.4% are for \$100,000 or less, which indicates a willingness to serve the credit needs of small businesses. Bank management stated they face competition from a local credit union.

Table 7 Distribution of 2023 Small Business Lending By Revenue Size of Businesses Grand Marais AA					
	Bank Loans				Total Businesses %
	#	#%	\$(000)	%	
By Revenue					
\$1 Million or Less	25	78.1	2,432	52.6	90.0
Over \$1 Million	7	21.9	2,194	47.4	6.5
Revenue Unknown	0	0.0	0	0.0	3.6
Total	32	100.0	4,625	100.0	100.0
By Loan Size					
\$100,000 or Less	19	59.4	753	16.3	
\$100,001 - \$250,000	7	21.9	1,029	22.2	
\$250,001 - \$1 Million	6	18.8	2,843	61.5	
Total	32	100.0	4,625	100.0	
By Loan Size and Revenues \$1 Million or Less					
\$100,000 or Less	17	68.0	648	26.6	
\$100,001 - \$250,000	5	20.0	629	25.9	
\$250,001 - \$1 Million	3	12.0	1,155	47.5	
Total	25	100.0	2,432	100.0	
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.					

In addition, the bank actively extended PPP loans in its AA. In 2020 and 2021, the bank originated over 230 PPP loans in amounts of \$1 million or less in the AA, totaling approximately \$11.0 million. Of these loans, 55.2% were for \$25,000 or less. This level of responsiveness to credit needs enhances the bank's small business lending.

Consumer Lending

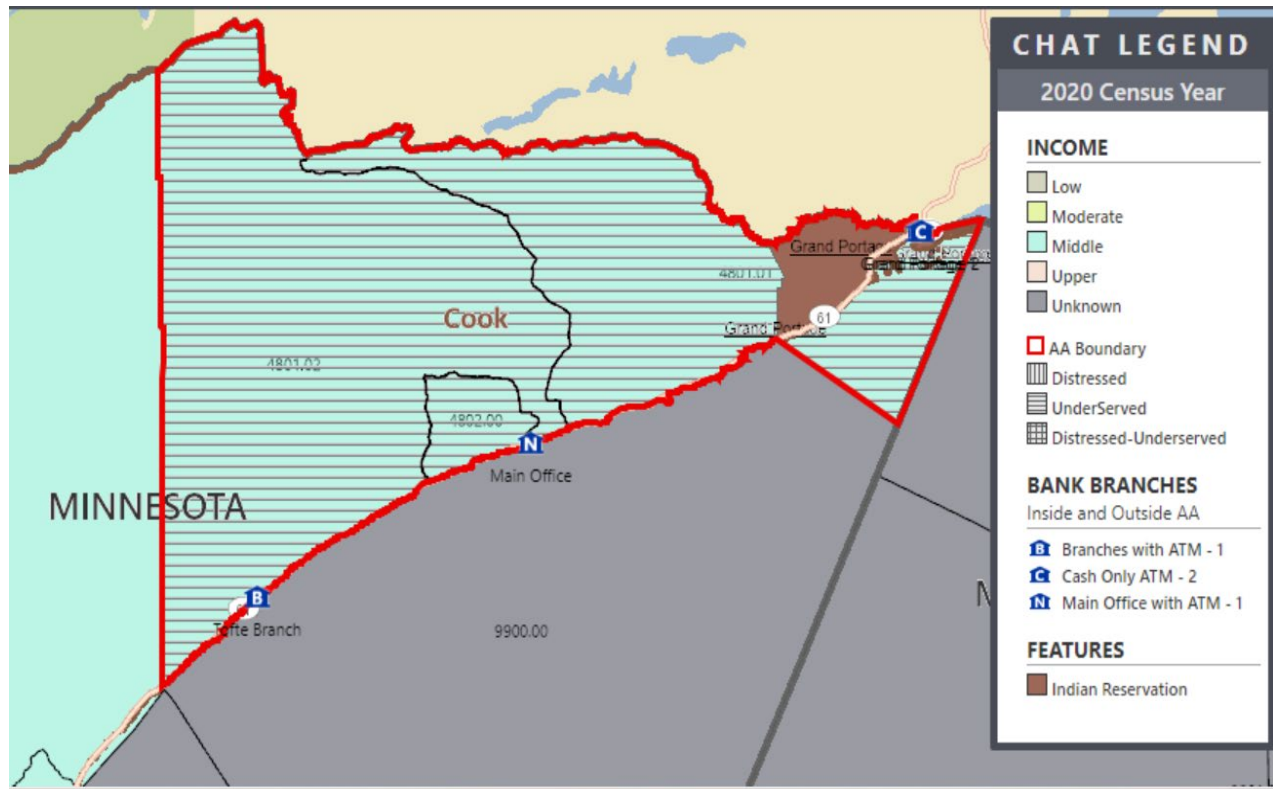
The borrower distribution of consumer lending is excellent. As shown in Table 8, the bank's lending performance exceeds demographic data. Overall, the bank originated 69.6% of its consumer loans to low- and moderate-income borrowers. According to demographic data, overall, 36.3% of households in the AA are low or moderate income. Furthermore, the bank is meeting the credit needs of the community by originating small dollar loans. Of the bank's consumer loans, 6.5% were in amounts of \$3,000 or less made to borrowers of all incomes, and 66.7% of these loans were to low- and moderate-income borrowers.

Table 8 Distribution of 2023 Other Loan Data Lending By Borrower Income Level Grand Marais AA					
Borrower Income Level	Bank Loans				Households by Household Income %
	#	#%	\$(000)	%	
Low	17	37.0	199	24.6	18.6
Moderate	15	32.6	329	40.6	17.7
Middle	8	17.4	131	16.2	24.3
Upper	2	4.3	70	8.6	39.4
Unknown	4	8.7	82	10.1	0.0
Total	46	100.0	810	100.0	100.0
<i>Source: 2023 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>					

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 – MAP OF THE ASSESSMENT AREA



APPENDIX B – 2023 DEMOGRAPHIC INFORMATION

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	230	14.0
Moderate-income	0	0.0	0	0.0	0	0.0	366	22.3
Middle-income	3	100.0	1,644	100.0	76	4.6	419	25.5
Upper-income	0	0.0	0	0.0	0	0.0	629	38.3
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	3	100.0	1,644	100.0	76	4.6	1,644	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	0	0	0.0	0.0	0	0.0	0	0.0
Middle-income	6,169	2,012	100.0	32.6	596	9.7	3,561	57.7
Upper-income	0	0	0.0	0.0	0	0.0	0	0.0
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	6,169	2,012	100.0	32.6	596	9.7	3,561	57.7
	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0
Middle-income	478	100.0	430	100.0	31	100.0	17	100.0
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	478	100.0	430	100.0	31	100.0	17	100.0
	Percentage of Total Businesses:			90.0		6.5		3.6

	Total Farms by Tract		Farms by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0
Middle-income	11	100.0	11	100.0	0	0.0	0	0.0
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	11	100.0	11	100.0	0	0.0	0	0.0
	Percentage of Total Farms:			100.0		0.0		0.0
Source: 2023 FFIEC Census Data and 2023 D&B Information								

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.