

# **PUBLIC DISCLOSURE**

July 9, 2018

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Financial Security Bank  
Certificate Number: 10176

1011 Atlantic Avenue  
Kerkhoven, Minnesota 56252

Federal Deposit Insurance Corporation  
Division of Depositor and Consumer Protection  
Kansas City Regional Office

1100 Walnut Street, Suite 2100  
Kansas City, Missouri 64106

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 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 Rating .....	1
Scope of Evaluation .....	2
Description of Institution .....	3
Description of Assessment Areas .....	5
Conclusions on Performance Criteria .....	9
Discriminatory or Other Illegal Credit Practices Review .....	13
Glossary .....	14

## INSTITUTION RATING

**INSTITUTION'S CRA RATING: This institution is rated: Satisfactory.** An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment areas, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Examiners did not identify any evidence of discriminatory or other illegal credit practices. The following points summarize the bank's performance.

- The loan-to-deposit ratio is more than reasonable given the institution's size, financial condition, and assessment areas' credit needs.
- The bank made a majority of its small business, small farm, and home mortgage loans in the assessment areas.
- The geographic distribution of small business and home mortgage loans reflects reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects reasonable penetration among businesses and farms of different revenue sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

## SCOPE OF EVALUATION

### ***General Information***

This evaluation covers the period from the prior evaluation dated October 22, 2012, to the current evaluation dated July 9, 2018. Examiners used Small Institution Examination Procedures to evaluate Financial Security Bank’s CRA performance. These procedures considered the institution’s performance according to the following criteria.

- Loan-to-deposit ratio
- Assessment area concentration
- Geographic distribution
- Borrower profile
- Response to CRA-related complaints

Interviews with bank management and information obtained through community contacts were used to assess current economic and demographic conditions and credit needs in the assessment areas. Examiners also reviewed pertinent information from D&B and the 2015 American Community Survey (ACS) to provide context for the overall evaluation.

Financial Security Bank has two assessment areas, which will be referred to as the Kerkhoven Assessment Area and the Albertville Assessment Area. Both assessment areas received full-scope reviews; however, they were weighted differently. The Albertville Assessment Area received the most weight in forming conclusions as most commercial loans are originated within this assessment area. Commercial loans represent the bank’s primary lending product. Additional details regarding the assessment areas can be found in the “Description of Assessment Areas” section of this evaluation.

### ***Loan Products Reviewed***

The bank’s major product lines include commercial, agricultural, and home mortgage loans. This conclusion considered the bank’s business strategy and the number and dollar volume of loans originated, extended, renewed, or purchased during the evaluation period. The following table shows the bank’s originations, extensions, renewals, and purchases over the most recent calendar year by loan type.

<b>Loans Originated, Extended, Renewed, or Purchased</b>				
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>	<b>#</b>	<b>%</b>
Construction and Land Development	5,597	14.1	4	1.5
Secured by Farmland	2,108	5.3	7	2.6
1-4 Family Residential	5,420	13.6	58	21.2
Commercial Real Estate	13,484	34.0	30	11.0
Commercial and Industrial	7,952	20.0	79	28.9
Agricultural	4,264	10.7	39	14.3
Consumer	892	2.3	56	20.5
<b>Total Loans</b>	<b>39,717</b>	<b>100.0</b>	<b>273</b>	<b>100.0</b>
<i>Source: Bank Records 1/1/2017 through 12/31/2017</i>				

Bank records indicated that the lending focus and product mix remained consistent throughout the evaluation period. Examiners reviewed a sample of small business and small farm loans and all home mortgage loans originated, renewed, or extended between January 1, 2017, and December 31, 2017. The samples were considered representative of the bank’s performance during the entire evaluation period. While home mortgage loans were reviewed for both assessment areas, small loans were not reviewed in the Albertville Assessment Area as this product is not a primary business focus for this assessment area. A sample of small business loans was taken from both assessment areas; however, only three of the sampled loans were within the Kerkhoven Assessment Area. The small number of loans did not provide for meaningful conclusions; therefore these loans were not reviewed for Geographic Distribution or Borrower Profile. The review did include loans originated and paid off during this time period. D&B data for 2017 was used for comparison purposes in evaluating Financial Security Bank’s small business and small farm lending performance.

This evaluation also considered all home mortgage loans reported on Financial Security Bank’s 2016 Home Mortgage Disclosure Act (HMDA) Loan Application Register (LAR). The 2016 HMDA LAR shows that only 14 home mortgage loans, totaling \$2,757,000, were originated during that time. While this HMDA data was analyzed, it did not impact the CRA rating and is not presented, as the small universe did not provide for meaningful conclusions. The bank was not required to report HMDA data for 2017 or 2018. No other lending product was identified that was a lending focus of the bank or made up a significant portion of the loan portfolio.

Small business lending received the most weight in developing overall conclusions, followed by small farm lending, and finally, home mortgage lending. The determination was based on the bank’s lending focuses as well as the loan portfolio distribution. The bank does not have any lending affiliates that were considered as part of the evaluation. The following table presents the number and dollar volume of the universe and samples sizes considered in this evaluation.

<b>Loan Products Reviewed</b>				
<b>Loan Category</b>	<b>Universe</b>		<b>Reviewed</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Small Business Loans	103	15,536	31	5,566
Small Farm Loans	43	4,232	21	1,881
Home Mortgage	40	3,715	40	3,715
<i>Source: Bank Records 1/1/2017 through 12/31/2017</i>				

While both number and dollar volume of loans are presented, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of businesses, farms, and individuals served.

**DESCRIPTION OF INSTITUTION**

***Background***

Financial Security Bank is headquartered in Kerkhoven, Minnesota, and is controlled by Kerkhoven Bancshares, Inc., a one-bank holding company also located in Kerkhoven. The

institution received a Satisfactory rating at its previous FDIC Performance Evaluation, dated October 22, 2012, using Small Institution Examination Procedures.

### ***Operations***

Financial Security Bank operates its main office in Kerkhoven, Minnesota, and one branch office in Albertville, Minnesota. The institution provides a variety of traditional deposit services including checking, savings, money market deposit accounts, and certificates of deposit. Alternative banking services include internet banking, mobile banking, electronic bill pay, and two cash-dispensing automated teller machines. Bank staff also teaches financial literacy at both the Kerkhoven and Albertville high schools using a self-developed curriculum.

The bank offers loan products including commercial, agricultural, home mortgage, and consumer loans. Management stated that the bank’s primary lending focus is commercial lending in the Albertville Assessment Area and agricultural lending in the Kerkhoven Assessment Area. In addition to in-house home mortgage loans, the bank has referral arrangements to offer customers secondary market loan options. The bank also offers loans with guarantees from the Small Business Administration (SBA) and the Farm Service Agency. Financial Security Bank is particularly active with the SBA and was named Minnesota SBA Lender of the Year in 2014 and 2017 for banks with assets under \$100 million. Financial Security Bank currently has 75 SBA loans on its books totaling approximately \$11,750,000. These credit products are consistent with the institution’s size, financial capacity, and geographic location. The bank did not open or close any branches, and no merger or acquisition activities occurred since the previous evaluation.

### ***Ability and Capacity***

As of the March 31, 2018 Reports of Condition and Income, Financial Security Bank reported total assets of \$88,003,000, net loans of \$73,979,000, and total deposits of \$71,048,000. Since December 31, 2012, total assets have increased by 59.4 percent, net loans have increased by 60.9 percent, and total deposits have increased by 60.9 percent. The bank’s loan portfolio is illustrated in the following table.

<b>Loan Portfolio Distribution as of 3/31/2018</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction and Land Development	942	1.3
Secured by Farmland	8,958	12.0
1-4 Family Residential	9,727	13.0
Multi-family (5 or more) Residential	966	1.3
Commercial Real Estate	35,126	47.1
<b>Total Real Estate Loans</b>	<b>55,719</b>	<b>74.7</b>
Commercial and Industrial	12,450	16.7
Agricultural	5,549	7.4
Consumer	826	1.1
Other	73	0.1
Less: Unearned Income	0	0.0
<b>Total Loans</b>	<b>74,617</b>	<b>100.0</b>
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that affect the bank’s ability to meet the credit needs of the assessment areas.

## DESCRIPTION OF ASSESSMENT AREAS

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. The following sections discuss economic and demographic information for the bank’s two non-contiguous assessment areas.

### Kerkhoven Assessment Area

#### *Economic and Demographic Data*

The Kerkhoven Assessment Area is comprised of portions of Swift, Kandiyohi, and Chippewa counties in central Minnesota. Specifically, the assessment area consists of Census Tract 9601 in Swift County, Census Tracts 7802 and 7806 in Kandiyohi County, and Census Tract 9505 in Chippewa County. Based on 2015 ACS data, the assessment area consists of three middle-income census tracts and one upper-income census tract. The bank’s main office in Kerkhoven is located in middle-income Census Tract 9601 in Swift County. The following table provides demographic data for the Kerkhoven Assessment Area.

<b>Demographic Information of the Assessment Area</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	4	0.0	0.0	75.0	25.0	0.0
Population by Geography	11,896	0.0	0.0	58.1	41.9	0.0
Housing Units by Geography	5,572	0.0	0.0	64.8	35.2	0.0
Owner-Occupied Units by Geography	3,995	0.0	0.0	59.0	41.0	0.0
Occupied Rental Units by Geography	604	0.0	0.0	70.2	29.8	0.0
Vacant Units by Geography	973	0.0	0.0	85.4	14.6	0.0
Businesses by Geography	747	0.0	0.0	54.9	45.1	0.0
Farms by Geography	304	0.0	0.0	78.3	21.7	0.0
Family Distribution by Income Level	3,571	12.4	14.8	22.2	50.6	0.0
Household Distribution by Income Level	4,599	13.7	14.1	18.9	53.4	0.0
Median Family Income Non-Metropolitan Minnesota		\$63,182	Median Housing Value			\$190,688
			Median Gross Rent			\$711
			Families Below Poverty Level			4.6%
<i>Source: 2015 ACS Census and 2017 D&amp;B Data            Due to rounding, totals may not equal 100.0            (*) The NA category consists of geographies that have not been assigned an income classification.</i>						

The services industry represents the largest portion of businesses in the assessment area at 29.7 percent; followed by agriculture, forestry, and fishing at 28.9 percent and construction at 10.0

percent. According to bank management, the major employers in the area include Carlson Manufacturing, Freetly Electric, and Don’s Building Center. Management further stated that many people in the area commute to the larger communities of Benson and Willmar, Minnesota.

According to 2017 D&B data, there are 304 farms operating in the assessment area with reported gross annual revenues as follows:

- 97.4 percent have \$1 million or less.
- 2.3 percent have more \$1 million.
- 0.3 percent have unknown revenues.

Management indicated that the average size of farm operations, by acreage, in the Kerkhoven Assessment Area is 1,200 acres and the primary crops grown include corn and soybeans. Both bank management and the community contact stated that the area economy is strongly tied to agriculture. The community contact stated the area economy was unstable, while management noted that it was flat. Both bank management and the community contact noted that area farms rely on off-farm sources of income.

The U.S. Bureau of Labor Statistics reports that as of April 2018, the unemployment for Swift, Kandiyohi, and Chippewa counties were 4.5 percent, 3.3 percent, and 3.8 percent, respectively. Comparable figures for the State of Minnesota and the U.S. were 3.1 percent and 3.7 percent, respectively.

The 2017 FFIEC-updated median family income level is used to analyze home mortgage loans under the Borrower Profile criterion. The low, moderate, middle, and upper income categories are presented in the following table. These categories are based on the 2017 FFIEC-updated median family income amount of \$65,300 for non-metropolitan Minnesota.

<b>Median Family Income Ranges</b>				
<b>Median Family Incomes</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
2017 (\$65,300)	<\$32,650	\$32,650 to <\$52,240	\$52,240 to <\$78,360	≥\$78,360
<i>Source: FFIEC</i>				

***Competition***

Swift, Kandiyohi, and Chippewa counties have a competitive market for financial services. According to FDIC Deposit Market Share data as of June 30, 2017, 22 FDIC-insured institutions operated 35 offices in the area. Financial Security Bank has the 18<sup>th</sup> largest deposit market share at approximately 1.7 percent. Bremer Bank, National Association, has the largest deposit market share with approximately 16.9 percent; followed by Citizens Alliance Bank with 15.0 percent; and Heritage Bank, National Association, with 10.3 percent. Management stated that the bank’s primary competitors are Farm Credit Services and Citizens Alliance Bank.

***Community Contact***

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit needs of the area. This information helps determine whether local financial institutions are responsive to these needs. It also demonstrates available credit opportunities. For this evaluation, examiners relied on an existing contact with a representative of an agricultural-related organization that serves the assessment area.

The community contact stated agricultural loans are the primary credit need of the area. The contact stated that the overall economy is unstable and dependent on agriculture and agriculture-related industries. The contact noted there has been a decline in all industry sectors and that the community was notified that an area fabrication company would be closing in 2018 impacting approximately 100 individuals. The contact indicated that there are few new farms in the area due to high start-up costs and that family farms are being taken over by larger corporate operations. Finally, the contact stated that area financial institutions are meeting the credit needs of the area.

**Albertville Assessment Area**

***Economic and Demographic Data***

The Albertville Assessment Area is comprised of the northwestern portion of the Minneapolis-St. Paul-Bloomington, MN-WI Metropolitan Statistical Area. The table below details the specific census tracts in each county that encompass the assessment area.

<b>County</b>	<b>Census Tract</b>
Anoka County	501.16; 502.18; 502.19; 502.23; 502.24; 502.25; 502.26; 502.27; 502.28; 504.01; 504.02; 505.01; 505.04; and 505.04
Hennepin County	267.02; 267.06; 267.07; 267.08; 267.10; 267.11; 267.12; 267.13; 267.14; 267.15; 267.16; 269.03; 269.07; 269.09; 269.10; and 271.02
Wright County	1001; 1002.02; 1002.03; 1002.04; 1007.01; 1007.02; 1008.01; 1008.02; and 1009
Sherburne County	305.02; 305.03; and 305.04

Based on 2015 ACS data, the assessment area consists of 5 moderate-income census tracts, 31 middle-income census tracts, and 6 upper-income census tracts. The bank’s office in Albertville is located in a middle-income census tract in Wright County. The following table provides demographic data for the Albertville Assessment Area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	42	0.0	11.9	73.8	14.3	0.0
Population by Geography	256,042	0.0	6.7	71.4	21.9	0.0
Housing Units by Geography	95,353	0.0	7.9	71.7	20.4	0.0
Owner-Occupied Units by Geography	74,476	0.0	5.0	72.7	22.3	0.0
Occupied Rental Units by Geography	17,731	0.0	19.6	66.0	14.4	0.0
Vacant Units by Geography	3,146	0.0	9.5	78.9	11.6	0.0
Businesses by Geography	18,237	0.0	6.6	73.3	20.1	0.0
Farms by Geography	611	0.0	2.1	82.3	15.5	0.0
Family Distribution by Income Level	69,655	15.4	16.8	24.0	43.9	0.0
Household Distribution by Income Level	92,207	16.9	14.2	19.4	49.5	0.0
Median Family Income- Minneapolis-St. Paul-Bloomington, MN-WI MSA	\$85,636	Median Housing Value				\$222,517
		Median Gross Rent				\$1,048
		Families Below Poverty Level				4.3%
<i>Source: 2015 ACS Census and 2017 D&amp;B Data</i> <i>Due to rounding, totals may not equal 100.0</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

According to 2017 D&B data, there are 18,237 businesses in the assessment area with reported gross annual revenues as follows:

- 85.3 percent have \$1 million or less.
- 6.1 percent have more than \$1 million.
- 8.6 percent have unknown revenues.

The services industry represents the largest portion of businesses in the assessment area at 43.3 percent, followed by construction at 12.4 percent, and retail trade at 11.5 percent. In addition, 73.1 percent of area businesses have four or fewer employees and 90.7 percent operate from a single location. According to various online publications, major employers in Anoka, Wright, Hennepin, and Sherburne counties include those in manufacturing, healthcare, energy, food wholesale and processing, and retail industries. Both bank management and the community contact noted that the retail industry is not doing as well as other industries and that retail centers have experienced higher vacancy rates.

The U.S. Bureau of Labor Statistics reports that as of April 2018, the unemployment rate for Wright, Anoka, Hennepin, and Sherburne counties were 3.4 percent, 2.9 percent, 2.5 percent, and 3.5 percent, respectively. As noted previously, comparable figures for the State of Minnesota and the U.S. were 3.1 and 3.7 percent, respectively.

The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units. Based on 2015 ACS data, there are 95,353 housing units in the Albertville Assessment Area. Of these, 78.1 percent are owner occupied, 18.6 percent are occupied rental units, and 3.3 percent are vacant.

FFIEC-estimated median family income for the Minneapolis-St. Paul-Bloomington, MN-WI MSA is presented in the following table.

<b>Median Family Income Ranges</b>				
<b>Median Family Incomes</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
2017 (\$89,800)	<\$44,900	\$44,900 to <\$71,840	\$71,840 to <\$107,760	≥\$107,760
<i>Source: FFIEC</i>				

### ***Competition***

Wright, Anoka, Hennepin, and Sherburne counties in Minnesota have competitive financial services markets. According to FDIC Deposit Market Share data as of June 30, 2017, 93 FDIC-insured institutions operated 16,865 offices in the assessment area. Financial Security Bank has the 67<sup>th</sup> largest deposit market share with less than 0.1 percent. Wells Fargo Bank, National Association, has the largest deposit market share with approximately 58.5 percent; followed by U.S. Bank, National Association, with approximately 21.7 percent.

### ***Community Contact***

For this evaluation, examiners relied on an existing contact with a representative of an economic development-related organization serving the assessment area. The community contact stated that there is a need for small business and affordable housing loans. Further, the contact indicated that the area economy is on a steady upward trend for most industries; however, the retail industry is not doing as well and retail centers, particularly in historic malls, have high vacancy rates. The contact stated that Minneapolis and St. Paul are experiencing an affordable housing crisis, with land in both cities being expensive and housing being rehabbed and sold at an unaffordable price. As such, the contact stated that demographics are changing with poverty moving out into the suburbs due to the availability of more affordable housing options. Finally, the contact indicated that area financial institutions are filling the need for small business lending by proving home equity and credit card products for start-up businesses.

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

The loan-to-deposit ratio is more than reasonable given the institution’s size, financial condition, and the credit needs of the assessment areas. The bank’s loan-to-deposit ratio, calculated from Reports of Condition and Income data, averaged 98.4 percent over the past 22 calendar quarters from December 31, 2012, to March 31, 2018. The ratio ranged from a low of 89.2 percent as of June 30, 2014, to a high of 105.5 percent as of September 30, 2017. Examiners selected comparable institutions based on their asset size, branching structure, and lending focus.

<b>Loan-to-Deposit Ratio Comparison</b>		
<b>Bank</b>	<b>Total Assets as of 3/31/2018 \$(000s)</b>	<b>Average Net Loan-to-Deposit Ratio (%)</b>
<b>Financial Security Bank Kerkhoven, Minnesota</b>	<b>88,003</b>	<b>98.4</b>
Prime Security Bank Karlstad, Minnesota	73,288	87.5
Kensington Bank Kensington, Minnesota	173,342	90.2
First State Bank of Sauk Centre Sauk Centre, Minnesota	106,215	62.7
<i>Source: Reports of Condition and Income 12/31/2012 through 3/31/2018</i>		

### **Assessment Area Concentration**

The majority of loans reviewed, by both number and dollar, were originated within the bank’s assessment areas. More specifically, Financial Security Bank made a majority of its small business and small farm loans, by number, within its assessment areas. However, a majority of its home mortgage loans were originated outside of the bank’s assessment areas.

Discussions with management revealed that a majority of the loans classified as 1-4 family home mortgage loans are loans originated to borrowers for business purposes associated with rental property. This was supported by the fact that of the 40 loans in the universe, only 13 had reported incomes, with the remaining 27 having “NA” incomes. Bank management stated that these loans were often associated with properties purchased as foreclosures, renovated, and rented out as investment properties; many of which are located outside of the bank’s assessment area but within the greater Minneapolis metropolitan area. These loans tie closely with the bank’s commercial lending focus, with more traditional long-term home mortgage loans being referred through one of the bank’s secondary market referral arrangements. Therefore, the bank’s performance is considered reasonable. The following table presents the sampled small business, small farm, and home mortgage loans reviewed.

<b>Lending Inside and Outside of the Assessment Areas</b>										
<b>Loan Category</b>	<b>Number of Loans</b>				<b>Total</b>	<b>Dollar Amount of Loans \$(000s)</b>				<b>Total</b>
	<b>Inside</b>		<b>Outside</b>			<b>Inside</b>		<b>Outside</b>		
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
Home Mortgage	11	27.5	29	72.5	40	809	21.8	2,910	78.2	3,719
Small Business	19	61.3	12	38.7	31	3,400	61.1	2,167	38.9	5,567
Small Farm	21	100.0	0	0.0	21	1,881	100.0	0	0.0	1,881
<b>Total</b>	<b>51</b>	<b>55.4</b>	<b>41</b>	<b>44.6</b>	<b>92</b>	<b>6,090</b>	<b>54.5</b>	<b>5,077</b>	<b>45.5</b>	<b>11,167</b>
<i>Source: Evaluation Period: 1/1/2017 - 12/31/2017 Bank Data Due to rounding, totals may not equal 100.0</i>										

## Geographic Distribution

Loans in the aforementioned analysis that were originated to borrowers located within the assessment areas were further analyzed to determine whether the institution's lending activity is satisfactorily dispersed throughout areas. The bank's performance for this criterion is based solely on the dispersion of loans in the Albertville Assessment Area as it contains some moderate-income census tracts. Based on the analysis, Financial Security Bank's geographic distribution of loans reflects reasonable dispersion when considering the location of the bank office and comparisons to demographic data. Examiners focused on the percentage by number of loans in moderate-income census tracts.

### *Small Business Loans*

The bank's geographic distribution of small business loans reflects reasonable dispersion throughout the Albertville Assessment Area. The following table illustrates that the bank has not originated any loans to businesses located in the moderate-income geographies. However, 2017 D&B data revealed that only 6.6 percent of businesses within the assessment area are located in these tracts. Further, the moderate-income census tracts are located on the eastern edge of the bank's assessment area, within the City of Anoka, which is approximately 11.6 air miles from the Albertville branch. Finally, there is significant competition from other financial institutions in closer proximity to the moderate-income geographies for small business loans from customers in those areas. Given that information, the bank's performance is deemed reasonable.

<b>Geographic Distribution of Small Business Loans</b>					
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low	0.0	0	0.0	0	0.0
Moderate	6.6	0	0.0	0	0.0
Middle	73.3	13	81.3	2,421	74.7
Upper	20.1	3	18.8	818	25.3
Not Available	0.0	0	0.0	0	0.0
<b>Totals</b>	<b>100.0</b>	<b>16</b>	<b>100.0</b>	<b>3,239</b>	<b>100.0</b>

*Source: 2017 D&B Data; 1/1/2017 - 12/31/2017 Bank Data  
Due to rounding, totals may not equal 100.0*

### *Home Mortgage Loans*

Only five of the home mortgage loans were originated in the Albertville Assessment Area. Of these five loans, three were originated in middle-income census tracts and two were originated in upper-income census tracts. While none of the home mortgage loans were originated in the moderate-income census tracts, 2015 ACS data revealed that only 5.0 percent of owner-occupied housing units are located in the moderate-income census tracts within the Albertville Assessment Area. Further, as mentioned previously, the moderate-income census tracts are located on the eastern edge of the bank's assessment area. There are numerous other financial institutions in

closer proximity to the moderate-income census tracts that would serve as competition for any home mortgage loans. Given this information, the bank’s performance is considered reasonable.

**Borrower Profile**

The sampled small business, small farm, and home mortgage loans located within the assessment areas were also analyzed to determine Financial Security Bank’s record of lending to businesses and farms of different sizes and individuals of different income levels. Based on the analysis, the distribution of borrowers reflects reasonable penetration of loans among businesses and farms of different sizes. Examiners focused on the percentage, by number, of small business and small farm loans to businesses and farms with gross annual revenues of \$1 million or less.

Regarding lending to individuals of different income levels, all five of the home mortgage loans located in the Albertville Assessment Area and all six of the home mortgage loans located in the Kerkhoven Assessment Area had incomes of “NA.” These loans were originated for business purpose and discussions with bank management revealed that the loans were classified as 1-4 family home mortgage loans as they are associated with rental properties. Given the lack of identified incomes, meaningful conclusions regarding borrower income distribution could not be formed.

***Small Business Loans***

The distribution of small business loans reflects reasonable penetration among businesses of different sizes within the Albertville Assessment Area. As indicated in the following table, the bank’s lending to businesses with gross annual revenues of \$1 million or less is lower than comparable D&B data. However, two of the five loans with revenues exceeding \$1 million were to the same borrower. In addition, the bank works to meet the needs of small businesses by actively working with the SBA. Given this information, the bank’s performance is considered reasonable.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
≤\$1,000,000	85.3	11	68.8	1,370	42.3
>\$1,000,000	6.1	5	31.3	1,869	57.7
Revenue Not Available	8.6	0	0.0	0	0.0
<b>Totals</b>	<b>100.0</b>	<b>16</b>	<b>100.0</b>	<b>3,239</b>	<b>100.0</b>
<i>Source: 2017 D&amp;B Data; 1/1/2017 - 12/31/2017 Bank Data Due to rounding, totals may not equal 100.0</i>					

***Small Farm Loans***

The distribution of borrowers reflects excellent penetration of loan to farms of different revenue sizes in the Kerkhoven Assessment Area. The institution extended all of its small farm loans to farms that reported gross annual revenue of \$1 million or less. As such, the bank’s performance

exceeds the comparable D&B data, which reports that 97.4 percent of farms in the assessment area had gross annual revenues of \$1 million or less.

### **Response to Complaints**

The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the rating.

## **DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution's overall CRA rating.

## 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.

**Area Median Income:** The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

**Assessment Area:** A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

**Census Tract:** A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

**Combined Statistical Area (CSA):** A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

**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, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Core Based Statistical Area (CBSA):** The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

**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 non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family 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).

**Family Income:** Includes the income of all members of a family that are age 15 and older.

**FFIEC-Estimated Income Data:** The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

**Full-Scope Review:** A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower profile, 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 applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

**Home Mortgage Disclosure Loan Application Register (HMDA LAR):** The HMDA LARs record all applications received for residential purchase, refinance, home improvement, and temporary-to-permanent construction loans.

**Home Mortgage Loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans to purchase 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.

**Household Income:** Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households are only one person, median household income is usually less than median family income.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

**Limited-Scope Review:** A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (for example, geographic distribution, borrower profile, 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.

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

**Metropolitan Division (MD):** A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area (MSA):** CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**Micropolitan Statistical Area:** CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

**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 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 and less than 80 percent in the case of a geography.

**Multi-family:** Refers to a residential structure that contains five or more units.

**Nonmetropolitan Area:** All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

**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.

**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.

**Rural Area:** Territories, populations, and housing units that are not classified as urban.

**Small Business Loan:** A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** 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, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

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

**Urban Area:** All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.