

PUBLIC DISCLOSURE

April 10, 2024

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

North Star Bank
Certificate Number: 16733

1820 Lexington Avenue N
Roseville, Minnesota 55113

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

1100 Walnut St, 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
DESCRIPTION OF INSTITUTION	2
DESCRIPTION OF ASSESSMENT AREA.....	3
SCOPE OF EVALUATION.....	5
CONCLUSIONS ON PERFORMANCE CRITERIA.....	6
DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW	9
APPENDICES	10
SMALL BANK PERFORMANCE CRITERIA.....	10
GLOSSARY.....	11

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 area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

North Star Bank's Community Reinvestment Act (CRA) performance under the applicable performance criteria supports the overall rating. The following points summarize the bank's performance.

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- A majority of the small business loans reviewed were located inside the assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects poor penetration among businesses of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

DESCRIPTION OF INSTITUTION

North Star Bank is a privately owned financial institution chartered in Roseville, Minnesota. In addition to its main office in Roseville, the bank operates one full-service branch in White Bear Lake, Minnesota. In March 2023, North Star Bank opened a loan production office in Monticello, Minnesota and added a deposit-taking interactive teller machine (ITM) at this location. The institution received a Satisfactory rating at its previous FDIC Performance Evaluation dated April 5, 2021, based on Interagency Small Institution Examination Procedures.

North Star Bank offers a wide range of loan products, including commercial, home mortgage, and consumer loans. North Star Bank’s business focus continues to be commercial lending. Home mortgage and consumer loans are offered; however, to a much lesser degree. The bank also offers commercial loans through the Small Business Administration.

The institution provides a variety of deposit services including checking, savings, health savings accounts, individual retirement accounts, and certificates of deposit. In addition to traditional banking services, customers have access to ATMs, one ITM, online banking, including electronic bill pay and periodic statements, and mobile banking, including mobile deposit. The bank also offers investment advisory services through a nonaffiliated entity.

As of December 31, 2023, assets totaled approximately \$352,077,000, loans totaled \$248,328,000, and deposits totaled \$321,650,000. The bank’s loan portfolio distribution is illustrated in the following table.

Loan Portfolio Distribution as of December 31, 2023		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	15,488	6.2
Secured by Farmland	371	0.1
Secured by 1-4 Family Residential Properties	22,519	9.1
Secured by Multifamily (5 or more) Residential Properties	16,925	6.8
Secured by Nonfarm Nonresidential Properties	109,884	44.3
Total Real Estate Loans	165,187	66.5
Commercial and Industrial Loans	70,880	28.5
Agricultural Production and Other Loans to Farmers	0	0.0
Consumer Loans	3,122	1.3
Other Loans	9,228	3.7
Less: Unearned Income	(89)	(0.0)
Total Loans	248,328	100.0
<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 its assessment area’s credit needs.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires financial institutions to define one or more assessment areas within which its CRA performance will be evaluated. North Star Bank designated a single contiguous assessment area in south central Minnesota that includes the following counties in their entirety: Anoka, Ramsey, and Washington. Additionally, the assessment area includes the following partial counties: Dakota, Hennepin, Sherburne, and Wright. All of these counties are part of the Minneapolis-St. Paul-Bloomington, Minnesota-Wisconsin Metropolitan Statistical Area (MSA).

Since the prior evaluation, bank management expanded the assessment area to include all census tracts in Anoka, Ramsey, and Washington counties, as it had previously included only selected census tracts within these counties. Bank management also expanded the assessment area by including additional census tracts in both Hennepin and Dakota counties. Lastly, bank management expanded the assessment area to include portions of Wright and Sherburne counties, which had not previously been included. While North Star Bank has not made any changes to branches, the expanded assessment area includes the bank's new deposit-taking ITM in Monticello, Minnesota, which is located in a moderate-income census tract in Wright County. North Star Bank's branches in Roseville and White Bear Lake are located in middle-income census tracts in Ramsey County.

Economic and Demographic Data

According to 2020 U.S. Census data, the assessment area is comprised of 49 low-income, 170 moderate-income, 304 middle-income, and 187 upper-income census tracts. Further, there are 11 census tracts without income designations. The following table illustrates select demographic characteristics of the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	721	6.8	23.6	42.2	25.9	1.5
Population by Geography	2,910,759	6.3	22.4	43.5	27.0	1.0
Housing Units by Geography	1,161,048	5.9	22.6	44.2	26.7	0.7
Owner-Occupied Units by Geography	751,463	2.8	18.6	47.8	30.7	0.1
Occupied Rental Units by Geography	359,731	11.8	30.8	37.0	18.4	2.0
Vacant Units by Geography	49,854	8.7	23.5	41.2	25.5	1.2
Businesses by Geography	339,314	4.6	19.4	41.9	33.1	0.9
Farms by Geography	6,787	2.5	16.5	47.7	33.1	0.3
Family Distribution by Income Level	686,195	20.5	18.3	22.7	38.5	0.0
Household Distribution by Income Level	1,111,194	23.9	17.2	19.0	39.9	0.0
Median Family Income MSA - 33460 Minneapolis-St. Paul- Bloomington, MN-WI MSA		\$103,977	Median Housing Value			\$280,823
			Median Gross Rent			\$1,165
			Families Below Poverty Level			5.6%
<i>Source: 2020 U.S. Census and 2023 D&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 2023 D&B data, service industries represent the largest portion of business operations at 39.5 percent; followed by non-classifiable establishments at 19.9 percent; and finance, insurance, and real estate at 11.8 percent. Additionally, 65.2 percent of assessment area businesses have four or fewer employees, and 92.5 percent operate from a single location.

Competition

The assessment area is a highly competitive market for credit products and financial services. According to Consolidated Reports of Condition and Income (Reports of Condition) data filed by financial institutions, there are 153 financial institutions operating 580 locations within the assessment area. These institutions range from small community banks to larger national financial institutions. North Star Bank ranked 46th with 0.1 percent of the deposit market share.

North Star Bank is not required to collect or report small business CRA loan data and has elected not to do so. Therefore, examiners did not compare the bank's small business lending performance to aggregate CRA data within this evaluation. However, the aggregate CRA data provides an indication of the level of demand for small business loans and the level of competition within the assessment area. According to 2022 aggregate CRA data (most recent available), 165 CRA data reporters collectively reported 71,012 small business loans originated within the counties in the assessment area. These figures do not include the number of loans originated by smaller institutions that are not required to report small business lending data but operate within the assessment area.

The overall volume of small business lending in the assessment area reflects a highly competitive market.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying credit needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit opportunities are available. For this evaluation, examiners reviewed a recently conducted community contact discussion with a representative of a local economic development agency within the assessment area.

The contact stated that some local businesses are experiencing labor shortages and retention issues as the majority of residents commute outside the county for employment. As a result, the area is focusing on workforce development in an effort to encourage residents to find employment within the county. The contact also noted that there are record numbers of market rate single-family homes being built in the larger communities; however, there is a continuing need for affordable housing in nearly all communities within the area. Furthermore, a low vacancy rate and a low turnover of existing housing stock has made it difficult for lower income families to find housing. Overall, the contact stated there were a large number of banks in the area, and felt that housing development loans were the primary credit need of the community; however, both home mortgage and small business loans are always needed. The contact added that all area financial institutions are receptive to the credit needs and was not aware of any unmet needs.

Credit Needs

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that small business and home mortgage loans represent the primary credit needs of the assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the previous evaluation dated April 5, 2021, to the current evaluation dated April 10, 2024. Examiners used Interagency Small Institution Examination Procedures to evaluate North Star Bank's CRA performance. These procedures focus on the bank's performance under the Lending Test as outlined in the Small Bank Performance Criteria Appendix.

Activities Reviewed

Examiners determined that the bank's major product line is commercial loans. This conclusion considered discussions with management regarding the bank's business strategy, review of bank records of the number and dollar volume of loans originated during the evaluation period, and a review of the Report of Condition. For this evaluation, examiners focused solely on the bank's small business lending to derive overall conclusions. Examiners did not review home mortgage or small farm lending activities because they each represent a small portion of the loan portfolio, are not a business focus of the institution, and provide no material support for conclusions.

Bank records indicate that the lending focus and product mix remained generally consistent throughout the evaluation period. Therefore, examiners reviewed all small business loans

originated, purchased, or renewed in 2023, as this period was considered representative of the bank's performance during the entire evaluation period. According to bank data, the small business loan universe during this period included 113 loans totaling \$38.3 million. Examiners considered the entire universe of 113 small business loans when analyzing the bank's performance for the Assessment Area Concentration criterion. Examiners then reviewed all the loans located within the assessment area when evaluating the Geographic Distribution criterion (93 loans totaling \$31.5 million) and chose a sample based on the total number of loans located within the assessment area to analyze the Borrower Profile criterion (47 loans totaling \$17.3 million). D&B data for 2023 provided a standard of comparison for the bank's small business lending performance.

While the evaluation considered the number and dollar volume of loans reviewed, examiners emphasized performance by number of loans because it is a better indicator of the number of businesses served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

North Star Bank demonstrated satisfactory performance under the Lending Test. The bank's performance under the loan-to-deposit ratio, assessment area concentration, and geographic distribution criterion supports this conclusion.

Loan-to-Deposit Ratio

The average net loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's net loan-to-deposit ratio, calculated from Reports of Condition data, averaged 71.5 percent over the past 11 calendar quarters from June 30, 2021, to December 31, 2023. The ratio ranged from a low of 68.4 percent as of June 30, 2021, to its current high of 76.3 percent as of December 31, 2023. As illustrated in the following table, North Star Bank's average net loan-to-deposit ratio reasonably compares to most of the comparable institutions. North Star Bank's net loan-to-deposit ratio has been trending upward since the previous CRA evaluation. Examiners selected comparable institutions based on their asset size, lending focus, and geographic location.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 12/31/23 \$(000s)	Average Net LTD Ratio (%)
BankCherokee Saint Paul, MN	375,627	60.5
Citizens Independent Bank Saint Louis Park, MN	344,578	63.8
Crown Bank Edina, MN	382,495	94.3
Gateway Bank Mendota Heights, MN	271,713	73.6
North Star Bank Roseville, MN	352,077	71.5
Village Bank Saint Francis, MN	410,440	62.9
<i>Source: Reports of Condition 6/30/2021 through 12/31/2023</i>		

Assessment Area Concentration

North Star Bank originated a majority of small business loans within the assessment area as shown in the following table.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans					Dollar Amount of Loans \$(000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$	%	\$	%	\$(000s)
Small Business	93	82.3	20	17.7	113	31,528	82.4	6,744	17.6	38,272
<i>Source: 2023 Bank records</i>										

Geographic Distribution

The geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area. Examiners focused on the percentage of lending by number of loans in low- and moderate-income census tracts within the assessment area.

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area. The following table shows the bank's lending in both low- and moderate-income geographies reasonably compares to demographic data.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	4.7	4	4.3	860	2.7
Moderate	19.4	18	19.4	4,917	15.6
Middle	41.9	57	61.3	20,222	64.2
Upper	33.1	14	15.0	5,529	17.5
Not Available	0.9	0	0.0	0	0.0
Totals	100.0	93	100.0	31,528	100.0

Source: 2023 D&B Data; 2023 Bank Data

Borrower Profile

The bank's lending performance demonstrates poor penetration among businesses of different revenue sizes. Examiners focused on the percentage of lending to businesses with gross annual revenues of \$1 million or less.

Small Business Loans

The distribution of small business loans reflects poor lending penetration to businesses with gross annual revenues of \$1 million or less. As illustrated in the following table, the bank's lending performance to businesses with gross annual revenues of \$1 million or less is significantly lower than demographic data. While North Star Bank was an active Small Business Administration lender, there was minimal activity during the evaluation period. Additionally, management indicated the bank has a long history and maintains a more mature commercial customer base, which includes businesses with higher revenues. North Star Bank engages in limited advertising that mainly includes advertisements in local community publications for general brand awareness.

Although these factors provide some context for the low level of lending among businesses with gross annual revenues of \$1 million or less, the overall distribution of small business loans reflects poor penetration among businesses of different revenue sizes given it significantly lags demographic data.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	88.9	21	44.7	5,962	34.5
>1,000,000	3.9	26	55.3	11,308	65.5
Revenue Not Available	7.2	0	0.0	0	0.0
Totals	100.0	47	100.0	17,269	100.0

Source: 2023 D&B Data; 2023 Bank Data

Response to Complaints

The institution has not received 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 inconsistent with helping to meet community credit needs.

APPENDICES

SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

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.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

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).

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 (e.g., geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g., 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 Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

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 (e.g., 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.

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 (also known as non-MSA): 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.