

PUBLIC DISCLOSURE

July 8, 2024

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Park State Bank
Certificate Number: 8851

2630 W Superior Street
Duluth, Minnesota 55806

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.

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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.

The Lending Test is rated Satisfactory.

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the credit needs in the assessment areas.
- Park State Bank originated a majority of its small business and home mortgage loans in its assessment areas.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- The distribution of borrowers reflects reasonable penetration among businesses of different sizes and individuals of different income levels.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the Lending Test rating.

The Community Development Test is rated Satisfactory.

- The bank demonstrated adequate responsiveness to the community development needs of its assessment areas through community development loans, qualified investments, and community development services. Examiners considered the bank's capacity and the need and availability of such opportunities for community development in the assessment areas.

DESCRIPTION OF INSTITUTION

Park State Bank is headquartered in Duluth, Minnesota and is wholly owned by Park Financial Group, Inc., a one-bank holding company also located in Duluth, Minnesota. In addition to its main office in Duluth, the bank operates 14 full-service branches in Minnesota, which are located in the following cities: Biwabik, Chisholm, Cook, Duluth (2), Grand Rapids (2), Hibbing, Minneapolis, Mountain Iron, Nashwauk, Orr, Silver Bay, and Two Harbors. Since the previous evaluation, the bank closed one branch office in Duluth (census tract 0003.01), a middle-income geography. Park State Bank received a Satisfactory rating at its previous FDIC Performance Evaluation dated July 12, 2021, which was based on Interagency Small Institution Examination Procedures.

Park State Bank offers various loan products including commercial, home mortgage, and consumer loans. Commercial loans continue to represent the institution's primary business line, followed by home mortgage loans. Additionally, the bank originates loans through several government-sponsored loan programs, such as those offered by the U.S. Department of Veterans Affairs (VA), the U.S. Department of Agriculture (USDA), Federal Housing Administration (FHA), Small Business Administration (SBA), and Minnesota Housing. Finally, the bank originates loans through the Iron Range Resources and Rehabilitation Board (IRRRB). The bank also originates secondary market mortgage loans, which provide qualified borrowers with long-term mortgage financing options.

Park State Bank provides a variety of deposit services including checking, savings, individual retirement accounts, and certificates of deposit. In addition to traditional banking services, customers have access to online banking; electronic bill pay, bank-to-bank and person-to-person transfers, and electronic periodic statements; 24-hour telephone banking; and mobile banking, including mobile deposit. Finally, Park State Bank participates in the MoneyPass ATM network, which allows customers to make deposits and withdraw cash surcharge-free at applicable ATMs.

As of March 31, 2024, assets totaled approximately \$1.3 billion, loans totaled \$864.9 million, and deposits totaled \$1.2 billion. The bank's loan portfolio distribution is illustrated in the following table.

Loan Portfolio Distribution as of 3/31/2024		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	60,025	6.9
Secured by Farmland	0	0.0
Secured by 1-4 Family Residential Properties	290,709	33.6
Secured by Multifamily (5 or more) Residential Properties	24,521	2.8
Secured by Nonfarm Nonresidential Properties	271,555	31.4
Total Real Estate Loans	646,810	74.8
Commercial and Industrial Loans	162,633	18.8
Agricultural Production and Other Loans to Farmers	0	0.0
Consumer Loans	9,298	1.1
Obligations of State and Political Subdivisions in the U.S.	37,098	4.3
Other Loans	9,013	1.0
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	864,852	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 assessment areas credit needs.

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. Park State Bank designated three assessment areas, which include two contiguous areas that will be referred to as the Duluth Assessment Area and the Nonmetropolitan Statistical Area (Non-MSA) Assessment Area. Additionally, the third assessment area is non-contiguous and will be referred to as the Minneapolis Assessment Area.

The Duluth Assessment Area is comprised of Carlton, Lake, and St. Louis counties in Minnesota, and Douglas County in Wisconsin. These counties are part of the Duluth, MN-WI Metropolitan Statistical Area (MSA). The bank does not have any branches in Douglas County, and therefore remains an intrastate bank. The Non-MSA Assessment Area, which is contiguous and due west of the Duluth Assessment Area, consists of the entirety of Itasca and one census tract in Aitkin County, both of which are in nonmetropolitan areas of Minnesota. The Minneapolis Assessment Area consists of Hennepin County in Minnesota, which is part of the Minneapolis-St. Paul-Bloomington, MN-WI MSA. The following table describes the three assessment areas in more detail.

Description of Assessment Areas			
Assessment Area	Counties in Assessment Area	# of Tracts	# of Branches
Duluth	Carlton, Douglas, Lake, and St. Louis	104	11
Minneapolis	Hennepin	329	1
Non-MSA	Aitkin (census tract 7702 only) and Itasca	22	3

Source: 2020 U.S. Census Data

In May of 2021, the bank expanded its Duluth Assessment Area following merger activity that resulted in the addition of all census tracts in Lake County and Itasca County, as well as census tract 7702 in Aitkin County. Lake County is part of the Duluth, MN-WI MSA while Itasca and Aitkin counties are part of the nonmetropolitan areas of Minnesota. Additionally, the bank acquired several branch locations in both the Duluth, MN-WI MSA and nonmetropolitan areas of Minnesota. At the previous evaluation, examiners only considered the banks pre-merger assessment area due to the limited time from the merger date to the evaluation review period.

Additional details regarding assessment area demographics and other information can be found in the Conclusions on Performance section for each respective assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the previous evaluation dated July 12, 2021, to the current evaluation dated July 8, 2024. Examiners used Interagency Intermediate Small Institution Examination Procedures to evaluate Park State Bank’s CRA performance. Intermediate small institutions are evaluated under the Lending Test and Community Development Test, which are described in the Appendices. Banks must achieve at least a Satisfactory rating under each test to obtain an overall Satisfactory rating.

Examiners conducted full-scope reviews of all three of Park State Bank’s assessment areas based on bank locations and the volume of lending, deposits, and services in each assessment area. When reaching overall conclusions, the most weight was afforded to the Duluth Assessment Area as this is where a majority of the bank’s loans, deposits, and branches are located. The Minneapolis and Non-MSA assessment areas both equally received the second highest weight. The following table provides a breakdown of loans, deposits, and branches in the three assessment areas.

Assessment Area Breakdown of Loans, Deposits, and Branches						
Assessment Area	Loans		Deposits		Branches	
	\$(000s)	%	\$(000s)	%	#	%
Duluth	334,590	45.9	558,284	71.1	11	73.3
Non-MSA	99,489	13.7	163,507	20.8	3	20.0
Minneapolis	294,161	40.4	63,403	8.1	1	6.7
Total	728,240	100.0	785,194	100.0	15	100.0

Source: Bank Data

Activities Reviewed

Examiners determined that the bank’s major product lines are small business loans followed by home mortgage 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 Consolidated Report of Condition and Income (Report of Condition). Small business lending received the most weight when deriving overall conclusions. This is consistent with the bank’s loan portfolio composition, volume of loans recently originated, and management’s stated business focus. Examiners did not review small farm lending activities because these loans are not offered.

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 or renewed in 2023, as this period was considered representative of the bank’s performance during the entire evaluation period. D&B data for 2023 provided a standard of comparison for the bank’s small business lending performance. In addition, examiners reviewed all home mortgage loans reported as originated or purchased on the bank’s 2023 Home Mortgage Disclosure Act (HMDA) Loan Application Register, as Park State Bank was not subject to reporting requirements in 2021 or 2022. When analyzing the bank’s 2023 home mortgage lending performance, the 2020 U.S. Census data provided a standard of comparison.

For the Lending Test, examiners reviewed the entire universe of loans to evaluate the Assessment Area Concentration criterion. All loans inside the assessment areas were further reviewed to evaluate the Geographic Distribution and Borrower Profile criterion. The table below provides information on the number and dollar volume of loans reviewed.

Loan Products Reviewed				
Loan Category	Universe		Reviewed/Sampled	
	#	\$(000s)	#	\$(000s)
Small Business	238	40,390	227	36,796
Home Mortgage	186	87,698	137	61,052

Source: 2023 Bank Data; 2023 HMDA Data.

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

For the Community Development Test, bank management provided data on community development loans, qualified investments, and community development services from the prior evaluation date of July 12, 2021, to the current evaluation date of July 8, 2024. Examiners reviewed community development activity for the entire review period and presented the information for each year within this performance evaluation.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Park State Bank demonstrated satisfactory performance under the Lending Test. The bank’s performance under all evaluated criteria supports this conclusion.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the institution’s size, financial condition, and credit needs in the assessment areas. As shown in the following table, the bank’s ratio, calculated from Report of Condition data, averaged 78.3 percent over the past 11 calendar quarters from September 30, 2021, to March 31, 2024. The ratio ranged from a high of 88.3 percent as of March 31, 2023, to a low of 65.4 percent as of December 31, 2021. Examiners selected comparable institutions based on their asset size, geographic location, and lending focus. Park State Bank’s average net loan-to-deposit ratio is the second highest and similar to that of comparable institutions, as illustrated in the table below.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 3/31/2024 (\$000s)	Average Net LTD Ratio (%)
Park State Bank Duluth, Minnesota	1,334,792	78.3
North American Banking Company Roseville, Minnesota	1,266,770	57.2
North Shore Bank of Commerce Duluth, Minnesota	507,816	86.3
Vermillion State Bank Vermillion, Minnesota	848,526	46.8
<i>Source: Reports of Condition and Income 09/30/2021 – 3/31/2024</i>		

Assessment Area Concentration

Park State Bank originated a majority of small business and home mortgage loans within its assessment areas as shown in the following table.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollars Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Business	227	95.4	11	4.6	238	36,796	91.1	3,594	8.9	40,390
Home Mortgage	137	73.7	49	26.3	186	61,052	69.6	26,647	30.4	87,698
<i>Source: Bank Data; HMDA Reported Data Due to rounding, totals may not equal 100.0%</i>										

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion. This conclusion is consistent with the bank’s performance in each of the assessment areas. Refer to comments specific to each assessment area later in this evaluation for further information.

Borrower Profile

The distribution of borrowers reflects reasonable penetration of loans. This conclusion is consistent with the bank's performance in the Duluth and Non-MSA assessment areas, which carried the most weight combined when determining overall conclusions. However, the distribution of borrowers in the Minneapolis Assessment Area reflected poor penetration, primarily related to poor small business penetration. Refer to comments specific to each assessment area later in this evaluation for further information.

Response to Complaints

The institution has not received any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

COMMUNITY DEVELOPMENT TEST

Park State Bank demonstrated satisfactory performance under the Community Development Test. The bank's community development performance demonstrates adequate responsiveness to the community development needs of its assessment areas through community development loans, qualified investments, and community development services. The bank's community development investments and services primarily support this conclusion. Examiners considered Park State Bank's capacity and the need and availability of such opportunities within the assessment areas.

Comparable institutions are also used in the analysis of a financial institution to help provide perspective on a bank's performance. For this evaluation, examiners reviewed the activities of three institutions that have similar lending focus, operations, and assessment areas as Park State Bank, and were evaluated using Interagency Intermediate Small Institution Examination Procedures since June 5, 2023. Park State Bank's overall community development performance compares reasonably to these institutions.

Park State Bank was responsive to the community development needs of its assessment areas as identified through the community contacts comments and by the demographic and economic data; therefore, community development activity that benefitted a broader statewide area was also considered.

Community Development Loans

Since the prior evaluation, the bank originated or renewed 59 community development loans totaling approximately \$39.9 million throughout its assessment areas and broader statewide or regional area. The bank extended loans in an effort to support affordable housing; provide community services to low- and moderate-income persons; promote economic development; and support the revitalization and stabilization of low- and moderate-income geographies.

Community development lending activity does not include SBA Paycheck Protection Program (PPP) loans originated from 2020-2021 as this was during the previous evaluation; however, the Park State Bank did not receive community development credit for these loans as they were evaluated under Interagency Small Institution Examination Procedures. For informational purposes, Park State Bank originated 1,240 PPP loans totaling approximately \$194 million that

helped support small businesses struggling with the impact of the Coronavirus pandemic. To ensure equal comparison, examiners removed PPP lending activity from the comparable institutions. The bank's community development loans to total assets (3.0 percent) and community development loans to net loans (4.7 percent) is the lowest of the ratios of comparable institutions, which ranged from 4.9 to 8.6 percent and 10.5 to 14.3 percent, respectively.

The following tables provide a breakdown of the community development loans by area benefited and activities by year for each community development purpose.

Community Development Lending by Assessment Area										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Duluth	4	777	7	865	19	9,120	8	11,220	38	21,982
Minneapolis	0	0	1	1,200	0	0	0	0	1	1,200
Non-MSA	1	340	7	2,414	3	315	2	4,516	13	7,585
Broader Statewide or Regional	1	5,895	0	0	5	3,199	1	30	7	9,124
Total	6	7,012	15	4,479	27	12,634	11	15,766	59	39,891

Source: Bank Data

Community Development Lending by Year										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2021 (Partial)	0	0	4	385	4	916	3	5,089	11	6,390
2022	1	300	5	3,345	10	7,139	7	10,646	23	21,430
2023	3	6,372	4	535	9	1,927	1	31	17	8,865
YTD 2024	2	340	2	214	4	2,652	0	0	8	3,206
Total	6	7,012	15	4,479	27	12,634	11	15,766	59	39,891

Source: Bank Data

Qualified Investments

Qualified investments and donations funded since the previous evaluation were considered under this criterion. Park State Bank received consideration for 138 qualified investments totaling approximately \$5.0 million. This total included prior period equity investments that helped provide community services and revitalize and stabilize a moderate-income area, and one prior period and one new investment that promoted economic development. Also included were 116 donations totaling approximately \$136,000, which primarily included donations to organizations that provide community services to low- and moderate-income persons.

When aggregated for the evaluation period, the bank's qualified investments to total assets ratio was 0.4 percent and represents 1.5 percent of total investments. Park State Bank's level of qualified investments activity compares reasonably to the ratios of comparable institutions, whose qualified investments to total assets ratios ranged from 0.1 to 0.7 percent, and qualified investments to total investments ratio ranged from 0.3 to 4.5 percent.

The following tables illustrate the bank’s qualified investments by area benefited and activities by year for each community development purpose.

Community Development Qualified Investments by Assessment Area										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Duluth	4	1	63	125	6	50	28	3,221	101	3,397
Minneapolis	0	0	8	30	0	0	0	0	8	30
Non-MSA	0	0	23	21	4	10	1	1	28	32
Broader Statewide or Regional	0	0	0	0	1	1,500	0	0	1	1,500
Total	4	1	94	176	11	1,560	29	3,222	138	4,959

Source: Bank Data

Community Development Qualified Investments by Year										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	0	0	1	69	1	45	19	3,209	21	3,323
2021 (Partial)	0	0	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0	0	0
2023	0	0	0	0	1	1,500	0	0	1	1,500
YTD 2024	0	0	0	0	0	0	0	0	0	0
Subtotal	0	0	1	69	2	1,545	19	3,209	22	4,823
Qualified Grants & Donations	4	1	93	107	9	15	10	13	116	136
Total	4	1	94	176	11	1,560	29	3,222	138	4,959

Source: Bank Data

Community Development Services

Since the previous evaluation, bank employees devoted time to various organizations that primarily provide community services to low- and moderate-income individuals and revitalize and stabilize low- and moderate-income geographies within the assessment areas. Park State Bank provided 102 services that meet the definition of community development under the CRA. This level of involvement indicates the bank’s commitment to helping the communities in which it serves.

Park State Bank’s level of community development services is the highest, doubling the second highest, of the comparable institutions whose total reported community development services ranged from 34 to 49 qualified activities.

The following tables illustrate the bank’s qualified services by area benefited and activities by year for each community development purpose.

Community Development Services by Assessment Area					
Assessment Area	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
Duluth	0	26	7	26	59
Minneapolis	8	6	3	6	23
Non-MSA	0	9	3	4	16
Broader Statewide or Regional	3	0	0	1	4
Total	11	41	13	37	102
<i>Source: Bank Data</i>					

Community Development Services by Year					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2021 (Partial)	3	7	6	10	26
2022	3	7	2	10	22
2023	3	13	2	10	28
YTD 2024	2	14	3	7	26
Total	11	41	13	37	102
<i>Source: Bank Data</i>					

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank’s compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

DULUTH ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE DULUTH ASSESSMENT AREA

The Duluth Assessment Area contains all census tracts in Carlton, Douglas, Lake, and St. Louis counties, which are part of the Duluth, MN-WI MSA.

According to 2020 U.S. Census Data, the assessment area is comprised of 3 low-income, 21 moderate-income, 55 middle-income, and 20 upper-income census tracts. Further, 5 of the census tracts do not have an income designation. Park State Bank operates eleven offices in this assessment area. Three branches are located in moderate-, seven branches are located in middle-, and one branch is located in an upper-income census tract.

Economic and Demographic Data

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)	104	2.9	20.2	52.9	19.2	4.8
Population by Geography	291,638	2.0	17.6	55.9	22.9	1.5
Housing Units by Geography	152,311	2.3	17.4	59.1	19.4	1.8
Owner-Occupied Units by Geography	89,813	0.7	15.4	59.0	24.5	0.3
Occupied Rental Units by Geography	34,395	7.0	27.3	47.0	12.5	6.3
Vacant Units by Geography	28,103	1.5	11.6	74.5	11.2	1.2
Businesses by Geography	25,659	4.7	14.9	49.6	23.8	7.0
Farms by Geography	733	1.1	9.5	60.8	26.1	2.5
Family Distribution by Income Level	72,450	18.6	18.4	22.9	40.0	0.0
Household Distribution by Income Level	124,208	24.5	16.0	18.1	41.4	0.0
Median Family Income MSA - 20260 Duluth, MN-WI MSA		\$77,796	Median Housing Value		\$180,795	
			Median Gross Rent		\$797	
			Families Below Poverty Level		6.7%	

Source: 2020 U.S. Census and 2023 D&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.

D&B data for 2023 indicates that service industries represent the largest portion of businesses in the assessment area at 38.4 percent, followed by non-classifiable establishments at 15.4 percent, and retail trade at 11.2 percent. In addition, 64.6 percent of area businesses have 4 or fewer employees, and 88.3 percent operate from a single location.

The FFIEC provides updated median family incomes that are used to analyze home mortgage loans under the Borrower Profile criterion as well as community development activities. The low-, moderate-, middle-, and upper-income categories for the Duluth, MN-WI MSA during the evaluation period are presented in the following table.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Duluth, MN-WI MSA Median Family Income (20260)				
2023 (\$93,900)	<\$46,950	\$46,950 to <\$75,120	\$75,120 to <\$112,680	≥\$112,680

Source: FFIEC

Competition

The assessment area is a heavily competitive market for credit products and financial services. According to Reports of Condition data filed by financial institutions, 52 financial institutions

operate 99 locations within the assessment area. These institutions range from small community banks to larger national financial institutions. Park State Bank is ranked 5th with approximately 8.3 percent deposit market share.

Park State 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, which is the most recent year with available data, 78 CRA data reporters collectively reported 4,433 small business loans within the assessment area. The top four CRA data reporters collectively reported 63.0 percent of these small business loans. These figures do not include a high number of loans originated by smaller or mid-sized institutions, such as Park State Bank, that are not required to report small business lending data but that operate within the assessment area. The overall volume of small business lending reflects a highly competitive market.

Park State Bank also faces significant competition for home mortgage loans from financial institutions and mortgage companies originating or purchasing loans within the assessment area. According to 2022 aggregate HMDA data, which is the most recent year with available data, 341 HMDA data reporters collectively reported 7,846 home mortgage loans within the assessment area. Park State Bank did not report HMDA data in 2022; therefore, is not included in the rank listing. The top lenders consisted of larger national and regional institutions, and a credit union. The overall volume of home mortgage lending 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 and community development needs. This information helps determine whether local financial institutions are responsive to these needs, and what credit and community development opportunities may be available. For this performance evaluation, examiners reviewed one recently conducted community contact interview with a representative from a community development and economic development entity that serves a portion of the assessment area.

The contact stated that the suburbs surrounding the city of Duluth are growing as there is a trend of people moving away from the city toward more rural parts of the county. As a result, this has increased home construction activity in rural areas of the county. Additionally, there is a trend of more individuals and fewer families seeking housing, which stresses the housing supply. The contact stated that with higher interest rates, borrowing costs have become more expensive and businesses and individuals have taken a more cautious approach to borrowing. The contact stated a lot of financial institutions have become more cautious as well considering economic factors and collateral valuations.

The contact noted there are numerous opportunities for banks to participate with community development opportunities and housing initiatives. Additionally, the contact stated that many local banks help in the community and are willing to lend, noting the competition in the area. The contact was not aware of any individuals or businesses having complaints with any banks.

Credit and Community Development Needs and Opportunities

Considering information from bank management, and demographic and economic data, examiners determined that commercial lending, including to small businesses, and home mortgage lending represent the primary credit needs of the assessment area. In addition, community development opportunities in the assessment area include affordable housing, community services for low- and moderate-income individuals, economic development, and the revitalization and stabilization of low- and moderate-income geographies.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE DULUTH ASSESSMENT AREA

LENDING TEST

Park State Bank demonstrated reasonable performance under the Lending Test in the Duluth Assessment Area. The bank’s Geographic Distribution and Borrower Profile performance support this conclusion.

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion overall throughout the assessment area. The bank’s reasonable small business and excellent home mortgage lending performance supports this conclusion. As stated previously, small business lending carries the most weight when evaluation overall conclusions.

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area. The following table indicates that the bank’s lending performance in low- and moderate-income census tracts reasonably compares to demographic data.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	4.7	6	3.9	741	3.9
Moderate	14.9	19	12.3	3,253	17.1
Middle	49.6	94	60.6	10,122	53.1
Upper	23.8	32	20.6	2,997	15.7
Not Available	7.0	4	2.6	1,950	10.2
Total	100.0	155	100.0	19,063	100.0
<i>Source: 2023 D&B Data; Bank Data</i>					

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects excellent dispersion throughout the assessment area. The following table shows that Park State Bank’s home mortgage lending performance in low-income census tracts exceeds demographic data. Additionally, home mortgage lending in moderate-income census tracts significantly exceeds demographic data.

Geographic Distribution of Home Mortgage Loans					
Tract Income Level	% of Owner-Occupied Housing Units	#	%	\$(000s)	%
Low	0.7	4	3.6	185	0.8
Moderate	15.4	31	27.9	4,746	21.5
Middle	59.0	52	46.8	11,754	53.2
Upper	24.5	24	21.6	5,395	24.4
Not Available	0.3	0	0.0	0	0.0
Total	100.0	111	100.0	22,080	100.0
<i>Source: 2020 U.S. Census, Bank Data Due to rounding, totals may not equal 100.0%</i>					

Borrower Profile

The distribution of borrowers reflects reasonable penetration in the Duluth Assessment Area. The bank's reasonable small business and home mortgage lending performance supports this conclusion.

Small Business Loans

The distribution of small business loans reflects reasonable 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 lags demographic data. However, according to bank management and the community contact, there is significant competition for small business loans in the assessment area, which is supported by 2022 CRA aggregate data. Further, the bank is an active SBA lender. Considering these factors, performance is considered reasonable.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
≤ \$1,000,000	83.8	100	64.5	7,863	41.2
> \$1,000,000	4.2	55	35.5	11,199	58.8
Revenue Not Available	12.0	0	0.0	0	0.0
Total	100.0	155	100.0	19,062	100.0
<i>Source: 2023 D&B Data; Bank Data</i>					

Home Mortgage Loans

The distribution of home mortgage loans reflects reasonable penetration among individuals of different income levels. As illustrated in the following table, Park State Bank's lending performance to low-income borrowers is slightly lower than demographic data. However, discussions with management revealed the assessment area is affected by rising home prices and limited housing stock, which was confirmed in the community contact discussion. Additionally, home mortgage lending to moderate-income borrowers exceeded demographic data. Considering the factors identified, the bank's performance is reasonable.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	18.6	14	12.6	1,548	7.0
Moderate	18.4	23	20.7	4,074	18.5
Middle	22.9	27	24.3	5,565	25.2
Upper	40.0	37	33.3	9,079	41.1
Not Available	0.0	10	9.0	1,813	8.2
Total	100.0	111	100.0	22,079	100.0

*Source: 2020 U.S. Census; Bank Data
Due to rounding, totals may not equal 100.0%*

COMMUNITY DEVELOPMENT TEST

Park State Bank’s community development performance demonstrates adequate responsiveness to community development needs in the assessment area, considering the institution’s capacity, as well as the need and availability of community development opportunities in the assessment area.

Community Development Loans

Park State Bank extended loans in the assessment area for all types of community development lending. Specifically, the bank originated 38 loans totaling approximately \$22.0 million in the assessment area.

Qualified Investments

During the evaluation period, Park State Bank retained 21 equity investments totaling approximately \$3.3 million and made 80 donations totaling approximately \$73,700 to organizations that primarily support community services and helping to revitalize and stabilize applicable geographies within the assessment area.

Community Development Services

During the evaluation period, institution employees provided 59 instances of financial expertise or technical assistance that benefited the Duluth Assessment Area. Services were provided to various organizations that provide community services to low- and moderate-income individuals, promote economic development, and help to revitalize and stabilize low-and moderate-income areas within the assessment area.

The bank operates the Chisholm, Duluth Lincoln Park, and Two Harbors offices in moderate-income census tracts, which provides enhanced accessibility for low- and moderate-income residents.

MINNEAPOLIS ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE MINNEAPOLIS ASSESSMENT AREA

The Minneapolis Assessment Area contains all census tracts in Hennepin County, which is part of the Minneapolis-St. Paul-Bloomington, MN-WI MSA.

According to 2020 U.S. Census Data, the assessment area is comprised of 26 low-income, 69 moderate-income, 109 middle-income, and 117 upper-income census tracts. Further, 8 of the census tracts do not have an income designation. Park State Bank operates one office in this assessment area, which is located in an upper-income census tract.

Economic and Demographic Data

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)	329	7.9	21.0	33.1	35.6	2.4
Population by Geography	1,281,565	7.3	19.5	32.9	38.2	2.1
Housing Units by Geography	539,223	6.6	19.4	34.6	37.7	1.6
Owner-Occupied Units by Geography	321,314	3.0	14.6	36.8	45.4	0.2
Occupied Rental Units by Geography	192,578	12.4	27.2	31.5	25.1	3.8
Vacant Units by Geography	25,331	9.2	20.9	31.2	36.5	2.3
Businesses by Geography	178,964	4.6	15.6	31.1	46.9	1.7
Farms by Geography	2,940	2.8	15.0	29.0	52.6	0.6
Family Distribution by Income Level	294,057	20.0	17.0	20.1	42.9	0.0
Household Distribution by Income Level	513,892	24.8	16.5	17.8	41.0	0.0
Median Family Income MSA - 33460 Minneapolis-St. Paul- Bloomington, MN-WI MSA	\$103,977		Median Housing Value			\$311,998
			Median Gross Rent			\$1,188
			Families Below Poverty Level			5.9%

Source: 2020 U.S. Census and 2023 D&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.

D&B data for 2023 indicates that service industries represent the largest portion of businesses in the assessment area at 40.3 percent, followed by non-classifiable establishments at 21.0 percent, and finance, insurance & real estate at 12.9 percent. In addition, 64.1 percent of area businesses have 4 or fewer employees, and 92.7 percent operate from a single location.

The FFIEC provides updated median family incomes that are used to analyze home mortgage loans under the Borrower Profile criterion as well as community development activities. The low-, moderate-, middle-, and upper-income categories for the Minneapolis-St. Paul-Bloomington, MN-WI MSA during the evaluation period are presented in the following table.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Minneapolis-St. Paul-Bloomington, MN-WI MSA Median Family Income (33460)				
2023 (\$124,300)	<\$62,150	\$62,150 to <\$99,440	\$99,440 to <\$149,160	≥\$149,160
<i>Source: FFIEC</i>				

Competition

The assessment area is a heavily competitive market for credit products and financial services. According to Reports of Condition data filed by financial institutions, 94 financial institutions operate 275 locations within the assessment area. These institutions range from small community banks to larger national financial institutions. Park State Bank is ranked 47th with approximately 0.1 percent deposit market share.

According to 2022 aggregate CRA data, 136 CRA data reporters collectively reported 33,713 small business loans within the assessment area. The top four CRA data reporters collectively reported 65.9 percent of these small business loans. These figures do not include a high number of loans originated by smaller or mid-sized institutions, such as Park State Bank, that are not required to report small business lending data but that operate within the assessment area. The overall volume of small business lending reflects a highly competitive market.

According to 2022 aggregate HMDA data, 562 HMDA data reporters collectively reported 40,242 home mortgage loans within the assessment area. Park State Bank did not report HMDA data in 2022; therefore, is not included in the rank listing. The top lenders consisted of larger national and regional institutions, and a credit union. The overall volume of home mortgage lending reflects a highly competitive market.

Community Contact

Examiners conducted a new interview with a representative from a community and business development organization that serves a portion of the assessment area and primarily deals with underrepresented and underserved individuals and businesses inside the area. The contact indicated the area in general includes many lower-income individuals and businesses. The contact noted current higher interest rates are negatively impacting business growth given increased cost of capital. Additionally, banks have become more conservative in their underwriting standards resulting in many individuals and businesses becoming “unbankable”. As a result, many businesses have sought alternative and more affordable means of financing. Regarding housing, the contact stated there is a shortage of single-family homes in the area, and houses on the market result in bidding wars. Additionally, the contact emphasized the effect of higher interest rates making mortgage payments more expensive overall.

The contact stated there is a medium to high degree of lending competition in the area. This includes national, regional, community, and smaller institutions. Additionally, there are credit unions, and organizations such as the contacts, that offer flexible lending products. The contact identified small business and home mortgage lending as primary credit needs of the area.

Credit and Community Development Needs and Opportunities

Considering information from bank management, the community contact, and demographic and economic data, examiners determined that commercial lending, including to small businesses, and home mortgage lending represent the primary credit needs of the assessment area. In addition, community development opportunities in the assessment area include affordable housing, community services for low- and moderate-income individuals, economic development, and the revitalization and stabilization of low- and moderate-income geographies.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE MINNEAPOLIS ASSESSMENT AREA

LENDING TEST

Park State Bank demonstrated reasonable performance under the Lending Test in the Minneapolis Assessment Area. The balance of the bank’s excellent Geographic Distribution performance and poor Borrower Profile performance supports this conclusion.

Geographic Distribution

The geographic distribution of loans reflects excellent dispersion overall throughout the assessment area. The bank’s excellent small business and reasonable home mortgage lending performance supports the conclusion. As stated previously, small business lending performance was afforded more weight when determining overall conclusions.

Small Business Loans

The geographic distribution of small business loans reflects excellent dispersion throughout the assessment area. The following table indicates that the bank’s lending performance in low-income census tracts reasonably compares to demographic data. Further, the banks’ lending performance in moderate-income census tracts significantly exceeds, more than doubling, demographic data.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	4.6	1	3.6	400	3.6
Moderate	15.6	9	32.1	2,444	22.2
Middle	31.1	3	10.7	1,270	11.5
Upper	46.9	15	53.6	6,905	62.7
Not Available	1.7	0	0.0	0	0.0
Total	100.0	28	100.0	11,019	100.0
<i>Source: 2023 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%</i>					

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the assessment area. The following table shows that the bank did not originate any home mortgage loans in low-income census tracts. However, considering the limited number of home mortgage loans originated in the assessment area, and the low percentage of owner-occupied housing units located in these geographies, performance is reasonable. Additionally, Park State Banks' home mortgage lending in moderate-income census tracts compares reasonably with demographic data. As stated previously, significant competition for home mortgage loans affects lending opportunities in these areas as confirmed by the community contact and aggregate data. Examiners' review of Report of Condition data filed by financial institutions confirmed that 33 competing financial institutions operate 67 offices in these low- and moderate-income geographies and mostly engage in home mortgage lending. Overall, considering the competition in these areas, and performance in moderate-income census tracts, performance is considered reasonable.

Geographic Distribution of Home Mortgage Loans					
Tract Income Level	% of Owner-Occupied Housing Units	#	%	\$(000s)	%
Low	3.0	0	0.0	0	0.0
Moderate	14.6	1	11.1	300	0.8
Middle	36.8	4	44.4	1,134	3.2
Upper	45.4	4	44.4	34,479	96.0
Not Available	0.2	0	0.0	0	0.0
Total	100.0	9	100.0	35,913	100.0

*Source: 2020 U.S. Census, Bank Data
Due to rounding, totals may not equal 100.0%*

Borrower Profile

The distribution of borrowers reflects poor penetration in the Minneapolis Assessment Area. The bank's poor small business and reasonable home mortgage lending performance supports this conclusion. As noted previously, small business lending performance carries more weight when forming conclusions.

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 table below, the bank's record of lending to businesses with gross annual revenues of \$1 million or less significantly lags demographic data. Discussions with management revealed the absence of PPP lending significantly reduced the banks performance since the previous evaluation. The community contact discussion indicated the current high interest rate environment negatively impacts businesses from borrowing through traditional lenders, which encourages businesses to seek alternative financing opportunities, which was confirmed by bank management. Further, the contact confirmed that banks are tightening underwriting standards in connection with economic conditions, which was also confirmed by bank management. Although these factors were considered, the bank's performance is poor.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
≤ \$1,000,000	88.9	4	14.3	820	7.4
> \$1,000,000	4.2	24	85.7	10,199	92.6
Revenue Not Available	6.9	0	0.0	0	0.0
Total	100.0	28	100.0	11,019	100.0
<i>Source: 2023 D&B Data; Bank Data</i>					

Home Mortgage Loans

The distribution of home mortgage loans reflects reasonable penetration among individuals of different income levels. As illustrated in the following table, the bank did not originate any loans to low-income borrowers and lending to moderate-income borrowers was slightly lower than demographic data. The community contact and management stated that housing prices have increased, and the lack of affordable housing affects a low- or moderate-income person’s ability to purchase a home. Examiners confirmed that based on calculations derived from the average median housing value within the assessment area and industry-standard underwriting criteria, these individuals are more likely to experience difficulty in qualifying for home mortgage loans due to monthly payment and down-payment requirements. Considering these factors, the bank’s performance is reasonable.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	20.0	0	0.0	0	0.0
Moderate	17.0	1	11.1	50	0.1
Middle	20.1	1	11.1	456	1.3
Upper	42.9	2	22.2	3,023	8.4
Not Available	0.0	5	55.6	32,384	90.2
Total	100.0	9	100.0	35,913	100.0
<i>Source: 2020 U.S. Census; Bank Data</i>					
<i>Due to rounding, totals may not equal 100.0%</i>					

COMMUNITY DEVELOPMENT TEST

Park State Bank’s community development performance demonstrates adequate responsiveness to community development needs in the assessment area, considering the institution’s capacity, as well as the need and availability of community development opportunities in the assessment area. Although adequate responsiveness overall, the bank should consider focusing more resources in this area with regards to community development lending and investments.

Community Development Loans

Park State Bank extended one loan for \$1.2 million in the assessment area that helped provide community services for low-and moderate-income individuals.

Qualified Investments

During the evaluation period, Park State Bank made 8 donations totaling approximately \$30,000 to organizations that provide community services to low- and moderate-income individuals.

Community Development Services

During the evaluation period, institution employees provided 23 instances of financial expertise or technical assistance that benefited the Minneapolis Assessment Area. Services were provided to various organizations that provide affordable housing, community services to low- and moderate-income individuals, economic development, and help to revitalize and stabilize low-and moderate-income areas within the assessment area.

The bank operates the Minneapolis office in an upper-income census tract; however, there are low- and moderate-income census tracts in close proximity, which provide accessibility for low- and moderate-income residents.

NON-MSA ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE NON-MSA ASSESSMENT AREA

The Non-MSA Assessment Area contains all census tracts in Itasca County and one census tract (7702) in Aitkin County, which are both located in nonmetropolitan areas of Minnesota.

According to 2020 U.S. Census Data, the assessment area is comprised of 6 moderate-income, 13 middle-income, and 3 upper-income census tracts. Park State Bank operates three offices in this assessment area. One branch is located in a moderate-income census tract and two branches are located in middle-income census tracts.

Economic and Demographic Data

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)	22	0.0	27.3	59.1	13.6	0.0
Population by Geography	47,292	0.0	23.9	65.8	10.3	0.0
Housing Units by Geography	30,066	0.0	26.5	63.9	9.6	0.0
Owner-Occupied Units by Geography	16,991	0.0	22.5	65.8	11.7	0.0
Occupied Rental Units by Geography	3,624	0.0	35.2	61.6	3.2	0.0
Vacant Units by Geography	9,451	0.0	30.3	61.3	8.4	0.0
Businesses by Geography	4,165	0.0	28.4	62.0	9.6	0.0
Farms by Geography	151	0.0	19.2	70.9	9.9	0.0
Family Distribution by Income Level	13,349	20.7	21.7	20.9	36.6	0.0
Household Distribution by Income Level	20,615	25.8	16.4	19.9	37.9	0.0
Median Family Income Non-Metropolitan- MN	\$74,737	Median Housing Value		\$171,270		
		Median Gross Rent		\$714		
		Families Below Poverty Level		8.6%		
<i>Source: 2020 U.S. Census and 2023 D&B Data. 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>						

D&B data for 2023 indicates that service industries represent the largest portion of businesses in the assessment area at 38.9 percent, followed by non-classifiable establishments at 13.7 percent, and retail trade at 11.1 percent. In addition, 69.0 percent of area businesses have 4 or fewer employees, and 90.4 percent operate from a single location.

The FFIEC provides updated median family incomes that are used to analyze home mortgage loans under the Borrower Profile criterion as well as community development activities. The low-, moderate-, middle-, and upper-income categories for the nonmetropolitan areas of Minnesota during the evaluation period are presented in the following table.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
MN NA Median Family Income (99999)				
2023 (\$90,400)	<\$45,200	\$45,200 to <\$72,320	\$72,320 to <\$108,480	≥\$108,480
<i>Source: FFIEC</i>				

Competition

The assessment area is a moderately competitive market for credit products and financial services. According to Reports of Condition data filed by financial institutions, 15 financial institutions operate 17 locations within the assessment area. These institutions range from small community banks to larger national financial institutions. Park State Bank is ranked 2nd with approximately 18.9 percent deposit market share.

According to 2022 aggregate CRA data, 46 CRA data reporters collectively reported 839 small business loans within the assessment area. The top four CRA data reporters collectively reported 57.7 percent of these small business loans. These figures do not include a high number of loans originated by smaller or mid-sized institutions, such as Park State Bank, that are not required to report small business lending data but that operate within the assessment area. The overall volume of small business lending reflects a moderately competitive market.

According to 2022 aggregate HMDA data, 171 HMDA data reporters collectively reported 1,371 home mortgage loans within the assessment area. Park State Bank did not report HMDA data in 2022; therefore, is not included in the rank listing. The top lenders consisted of larger national and regional institutions, and a credit union. The overall volume of home mortgage lending reflects a moderately competitive market.

Credit and Community Development Needs and Opportunities

Considering information from bank management, and demographic and economic data, examiners determined that commercial lending, including to small businesses, and home mortgage lending represent the primary credit needs of the assessment area. In addition, community development opportunities in the assessment area include affordable housing, community services for low- and moderate-income individuals, economic development, and the revitalization and stabilization of low- and moderate-income geographies.

CONCLUSIONS ON PERFORMANCE CRITERIA IN NON-MSA ASSESSMENT AREA

LENDING TEST

Park State Bank demonstrated reasonable performance under the Lending Test in the Non-MSA Assessment Area. The bank's Geographic Distribution and Borrower Profile performance support this conclusion.

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion overall throughout the assessment area. The bank's reasonable small business and home mortgage lending performance support the conclusion.

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area. The following table indicates that the bank’s lending performance in moderate-income census tracts reasonably compares to demographic data.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate	28.4	12	27.3	1,136	16.9
Middle	62.0	30	68.2	4,978	74.1
Upper	9.6	2	4.5	600	8.9
Not Available	0.0	0	0	0	0.0
Total	100.0	44	100.0	6,714	100.0
<i>Source: 2023 D&B Data; Bank Data Due to rounding, totals may not equal 100.0%</i>					

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the assessment area. The following table shows that Park State Bank’s home mortgage lending performance in moderate-income census tracts is slightly lower; however, reasonably compares to demographic data.

Geographic Distribution of Home Mortgage Loans					
Tract Income Level	% of Owner-Occupied Housing Units	#	%	\$(000s)	%
Moderate	22.5	3	17.6	248	8.1
Middle	65.8	14	82.4	2,811	91.9
Upper	11.7	0	0.0	0	0.0
Not Available	0.0	0	0.0	0	0.0
Total	100.0	17	100.0	3,059	100.0
<i>Source: 2020 U.S. Census, Bank Data Due to rounding, totals may not equal 100.0%</i>					

Borrower Profile

The distribution of borrowers reflects reasonable penetration in the Non-MSA Assessment Area. The bank’s reasonable small business and home mortgage lending performance supports this conclusion.

Small Business Loans

The distribution of small business loans reflects reasonable lending penetration to businesses with gross annual revenues of \$1 million or less. As illustrated in the table below, the bank’s record of lending to businesses with gross annual revenues of \$1 million is slightly lower; however, comparable to demographic data.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
≤ \$1,000,000	85.8	34	77.3	4,597	68.5
> \$1,000,000	3.5	10	22.7	2,118	31.5
Revenue Not Available	10.7	0	0.0	0	0.0
Total	100.0	44	100.0	6,715	100.0
<i>Source: 2023 D&B Data; Bank Data</i>					

Home Mortgage Loans

The distribution of home mortgage loans reflects reasonable penetration among individuals of different income levels. As illustrated in the following table, Park State Bank’s lending performance to low-income borrowers lags demographic data. However, home mortgage lending to moderate-income borrowers exceeded demographic data. Overall, the bank’s performance is reasonable.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	20.7	2	11.8	191	6.2
Moderate	21.7	5	29.4	554	18.1
Middle	20.9	3	17.6	545	17.8
Upper	36.6	5	29.4	1,625	53.1
Not Available	0.0	2	11.8	144	4.7
Total	100.0	17	100.0	3,059	100.0
<i>Source: 2020 U.S. Census; Bank Data</i> <i>Due to rounding, totals may not equal 100.0%</i>					

COMMUNITY DEVELOPMENT TEST

Park State Bank’s community development performance demonstrates adequate responsiveness to community development needs in the assessment area, considering the institution’s capacity, as well as the need and availability of community development opportunities in the assessment area.

Community Development Loans

Park State Bank extended 13 loans for approximately \$7.6 million in the assessment area that helped provide affordable housing, community services to low- and moderate-income individuals, economic development, and help to revitalize and stabilize moderate-income areas within the assessment area.

Qualified Investments

During the evaluation period, Park State Bank made 28 donations totaling approximately \$31,800 to organizations that provide community services to low- and moderate-income individuals, economic development, and help to revitalize and stabilize moderate-income areas within the assessment area.

Community Development Services

During the evaluation period, institution employees provided 16 instances of financial expertise or technical assistance that benefited the Non-MSA Assessment Area. Services were provided to various organizations that provide community services to low- and moderate-income individuals, economic development, and help to revitalize and stabilize moderate-income areas within the assessment area.

The bank operates the Nashwauk office in a moderate-income census tract, which provides accessibility for low- and moderate-income residents.

APPENDICES

INTERMEDIATE 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).

Community Development Test

The Community Development Test considers the following criteria:

- 1) The number and amount of community development loans;
- 2) The number and amount of qualified investments;
- 3) The extent to which the bank provides community development services; and
- 4) The bank's responsiveness through such activities to community development lending, investment, and service needs.

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.

Community Development: For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms; or
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Bank CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Community Development Loan: A loan that:

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose bank:
 - (i) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
 - (ii) Benefits the bank's assessment area(s) or a broader statewide or regional area including the bank's assessment area(s).

Community Development Service: A service that:

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the bank's retail banking services under § 345.24(d).

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.

Distressed Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include 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.

Low Income Housing Tax Credit: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

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.

Qualified Investment: A 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.

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

Small Business Investment Company (SBIC): SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

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.

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

Upper-Income: Individual income that is 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.