

PUBLIC DISCLOSURE

July 12, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Park State Bank
Certificate Number: 8851

2630 West Superior Street
Duluth, Minnesota 55806

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

1100 Walnut Street, Suite 2100
Kansas City, Missouri 64106

This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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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.

Park State Bank's satisfactory 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 more than reasonable given the institution's size, financial condition, and the assessment areas' credit needs.
- A majority of the small business and home mortgage loans reviewed were located inside the assessment areas.
- The geographic distribution of small business and home mortgage lending 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 rating.

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 based in Duluth, Minnesota. In addition to its main office in Duluth, the bank operates fifteen full-service branches in Minnesota, which are located in the following cities: Biwabik, Chisholm, Cook, Duluth (3), Grand Rapids (2), Hibbing, Minneapolis, Mountain Iron, Nashwauk, Orr, Silver Bay, and Two Harbors. On September 4, 2020, Park Financial Group, Inc. acquired American Bank of the North, Nashwauk, Minnesota, and The Lake Bank, Two Harbors, Minnesota, which were merged into Park State Bank on May 22, 2021. Prior to the mergers, Park State Bank operated four full-service offices in Duluth, and one in Minneapolis. The remaining offices were acquired as a result of the mergers. Additionally, the Minneapolis branch was relocated from 1108 Nicollet Mall to 3033 Excelsior Boulevard in September 2020. Park State Bank received an Outstanding rating at its previous FDIC Performance Evaluation dated May 18, 2015, 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 offers loans through the Small Business Administration (SBA) and participated in the SBA administered Paycheck Protection Program (PPP). The bank also originates secondary market mortgage loans, which provides 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 ATMs; online banking, including electronic bill pay; periodic statements; telephone banking; and mobile banking, including mobile deposit.

As of March 31, 2021, assets totaled approximately \$267,349,000, loans totaled \$214,663,000, and deposits totaled \$213,908,000.

Loan Portfolio Distribution as of March 31, 2021		
Loan Category	\$(000s)	%
Construction and Land Development	4,876	2.3
Secured by Farmland	0	0.0
Secured by 1-4 Family Residential Properties	44,930	20.9
Secured by Multifamily (5 or more) Residential Properties	12,487	5.8
Secured by Nonfarm Nonresidential Properties	37,644	17.5
Total Real Estate Loans	99,937	46.6
Commercial and Industrial Loans	112,725	52.5
Agricultural Loans	0	0.0
Consumer Loans	1,993	0.9
Other Loans	8	0.0
Less: Unearned Income	0	0.0
Total Loans	214,663	100.0
<i>Source: Reports of Condition and Income</i>		
<i>Due to rounding, totals may not equal 100.0%</i>		

Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet its 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 two non-contiguous assessment areas, which will be referred to as the Duluth Assessment Area and the Minneapolis Assessment Area. The Duluth Assessment Area is comprised of St. Louis and Carlton 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 Duluth assessment area expanded with the 2021 mergers to include 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 non-metropolitan area of Minnesota. However, the expanded Duluth Assessment Area will not be used for this evaluation and no lending activities from the acquired entities will be evaluated given the limited amount of time from the merger date until this evaluation. The Minneapolis Assessment Area has not changed and is comprised of Hennepin County, Minnesota, which is part of the Minneapolis-St. Paul-Bloomington, Minnesota-Wisconsin MSA. 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 May 18, 2015, to the current evaluation dated July 12, 2021. Examiners used Interagency Small Institution Examination Procedures to evaluate Park State 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.

Examiners determined it was most appropriate to complete full scope reviews of both assessment areas when considering lending opportunities and the volume of loan activity in the assessment areas. When reaching overall conclusions, the Duluth Assessment Area received more weight as this is where the majority of the bank's branches are located and where the majority of deposit activity occurs.

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 or consumer installment lending activities because they each represent a small portion of the loan

portfolio, are not a major product line, 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 and home mortgage loans originated or renewed in 2020, as this period was considered representative of the bank’s performance during the entire evaluation period. D&B data for 2020 provided a standard of comparison for the bank’s small business lending performance. The 2015 American Community Survey (ACS) data provided a standard of comparison for the bank’s home mortgage lending performance.

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 criterion. To evaluate the Borrower Profile criterion, examiners reviewed a sample of small business and all home mortgage loans originated or renewed inside the assessment areas. The table below provides information on the number and dollar volume of loans reviewed.

Loan Products Reviewed				
Loan Category	Universe		Reviewed	
	#	\$(000s)	#	\$(000s)
Small Business	440	74,392	162	26,027
Home Mortgage	30	13,721	24	8,297
<i>Source: 2020 Bank Records</i>				

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.

Further, management elected to and provided examiners with data pertaining to qualified investments and community development services since the previous CRA evaluation.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

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

Loan-to-Deposit Ratio

The average net loan-to-deposit ratio is more than reasonable given the institution’s size, financial condition, and credit needs in the assessment areas. The bank’s ratio, calculated from Reports of Condition data, averaged 95.1 percent over the past 24 calendar quarters from June 30, 2015, to March 31, 2021. Since the previous CRA evaluation, the quarterly net loan-to-deposit ratio has increased. The ratio ranged from a low of 72.6 percent as of December 31, 2015, to a high of 120.6 percent as of September 30, 2020. During the review period, Park State Bank maintained a ratio that is higher than the similarly situated institutions shown in the following table. Further, the bank originates home mortgage loans that are subsequently sold to secondary market investors; this lending volume is not

accounted for in the net loan-to-deposit ratio. Examiners selected comparable institutions based on their asset size, geographic location, and lending focus.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 3/31/21 \$(000s)	Average Net LTD Ratio (%)
Crown Bank Edina, Minnesota	273,877	94.1
First Resource Bank Lino Lakes, Minnesota	313,957	87.0
Flagship Bank Minnesota Wayzata, Minnesota	331,926	88.2
North Shore Bank of Commerce Duluth, Minnesota	384,742	76.1
Park State Bank Duluth, Minnesota	267,349	95.1
<i>Source: Reports of Condition 6/30/2015 through 3/31/2021</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 Areas										
Loan Category	Number of Loans				Total	Dollar Amount of Loans \$(000s)				
	Inside		Outside			Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Small Business	313	71.1	127	28.9	440	51,126	68.7	23,266	31.3	74,392
Home Mortgage	24	80.0	6	20.0	30	8,297	60.5	5,424	39.5	13,721
<i>Source: 2020 Bank Records Due to rounding, totals may not equal 100.0%</i>										

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion overall. This conclusion is supported by consistent performance within the bank’s assessment areas. When deriving conclusions for this criterion, examiners placed emphasis on lending in low- and moderate-income census tracts, which is further detailed later in this evaluation.

Borrower Profile

The bank’s lending performance demonstrates reasonable penetration of loans overall among businesses of different sizes and individuals of different income levels. This conclusion is supported by consistent performance within the bank’s assessment areas. 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 rating.

QUALIFIED INVESTMENTS AND SERVICES

Park State Bank demonstrated a commitment to meeting the needs of its assessment areas through qualified investments and services. The following are some of the qualified community development activities that help serve low- and moderate-income individuals or areas.

Park State Bank operates a branch in a low-income census tract in Duluth's Lincoln Park area. The branch serves many low- and moderate-income persons and small businesses through this location.

Of the six bank-owned ATMs, two are located in low-income census tracts and one is located in a moderate-income census tract. This ATM network provides 24-hour access to deposited funds in low- and moderate-income neighborhoods.

Park State Bank made nine qualified donations totaling \$16,800 to four different entities in an effort to provide community services targeted to low- and moderate-income individuals. All qualified donations benefited the bank's assessment areas.

Park State Bank established an emergency loan fund of approximately \$30.0 million in March 2020 to provide immediate assistance to local businesses affected by the Coronavirus Pandemic. From this fund, one loan for \$1.5 million was originated to assist one business owner prior to the establishment of the SBA PPP loan program. The bank subsequently began PPP originations to extend business relief loans. Overall, Park State Bank originated 475 SBA PPP Loans totaling \$103.6 million from April 8, 2020, to April 8, 2021. The bank also provided seven loans to businesses totaling \$47.9 million through the Federal Reserve's Main Street Lending Program, which was established to support small- and medium-sized businesses and organizations impacted by the Coronavirus Pandemic.

Park State Bank has an agreement with a large, local, regional health care provider to lend funds to patients who are unable to afford alternative financing to payoff medical bills or co-payments. The program was designed to meet the needs of low- and moderate-income individuals; however, the bank would provide financing regardless of income. Rates are much more favorable than alternative financing such as those available with a credit card. Additionally, providing a term loan makes payments more affordable. The bank originated 78 loans totaling \$904.3 thousand during the CRA evaluation period.

One bank employee provides financial expertise to a local community development organization that provides community services targeted to low- and moderate-income individuals. This employee served in a board member capacity for the organization each year during the CRA evaluation period.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practice inconsistent with helping to meet the community credit needs.

DULUTH ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN DULUTH ASSESSMENT AREA

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

According to 2015 ACS data, the assessment area is comprised of 8 low-income, 17 moderate-income, 44 middle-income, and 16 upper-income census tracts. Further, two of the census tracts do not have an income designation. Park State Bank operates four offices in this assessment area in the city of Duluth. One branch is located in a low-, two 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						
Assessment Area: Duluth						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	87	9.2	19.5	50.6	18.4	2.3
Population by Geography	279,748	6.2	15.0	54.5	24.3	0.0
Housing Units by Geography	141,841	6.3	15.5	58.4	19.7	0.0
Owner-Occupied Units by Geography	83,305	2.4	12.4	60.6	24.6	0.0
Occupied Rental Units by Geography	33,219	18.3	27.0	40.6	14.1	0.0
Vacant Units by Geography	25,317	3.6	10.6	74.8	11.0	0.0
Businesses by Geography	20,833	9.5	19.1	49.6	21.8	0.0
Farms by Geography	566	3.0	8.5	62.7	25.8	0.0
Family Distribution by Income Level	70,026	20.0	17.4	23.0	39.5	0.0
Household Distribution by Income Level	116,524	25.2	15.6	17.3	41.8	0.0
Median Family Income MSA - 20260 Duluth, MN-WI MSA		\$64,033	Median Housing Value			\$147,895
			Median Gross Rent			\$681
			Families Below Poverty Level			9.7%

Source: 2015 ACS and 2020 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.

According to 2020 D&B data, service industries represent the largest portion of business and farm operations in the assessment area at 38.2 percent; followed by non-classifiable establishments at 16.6 percent; and retail trade at 12.5 percent. Additionally, 59.8 percent of assessment area businesses and farms have 4 or fewer employees and 86.6 percent operate from a single location.

The Federal Financial Institutions Examination Council (FFIEC)-updated median family income level is used to analyze home mortgage loans under the Borrower Profile criterion. The low-, moderate-, middle-, and upper-income categories for the assessment area 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)				
2020 (\$72,700)	<\$36,350	\$36,350 to <\$58,160	\$58,160 to <\$87,240	≥\$87,240
<i>Source: FFIEC</i>				

Competition

The assessment area is a competitive market for credit products and financial services. According to Reports of Condition filed by financial institutions, 45 financial institutions operate either a main or branch office in the assessment area and hold deposits between \$1.9 million and \$1.3 billion within the area. These institutions include credit unions, small community banks, and larger national financial institutions. Park State Bank ranked 10th with 1.9 percent of the 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 2019 aggregate CRA data (most recent available), 68 CRA data reporters collectively reported 3,873 small business loans originated within 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 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. As of 2020, Park State Bank was not required to report mortgage data; therefore, examiners did not compare the bank’s home mortgage lending performance to aggregate data within this evaluation. According to 2019 HMDA aggregate lending data (most recent available), 344 HMDA-reporting entities originated or purchased 8,687 home mortgage loans within the assessment area. The top 3 lenders by number originated or purchased 27.4 percent of the market share within the assessment area. These figures do not include a high number of loans originated by smaller institutions that are not required to report home mortgage lending data but that operate within the assessment area. The overall volume of home mortgage lending in the assessment area reflects a highly competitive market.

Credit Needs

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

CONCLUSIONS ON PERFORMANCE CRITERIA IN 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 overall reasonable dispersion throughout the assessment area. This conclusion is supported by the bank’s small business and home mortgage lending performance. Examiners focused on the percentage of lending by number of loans in the low- and moderate-income census tracts in the assessment area.

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion. The following table indicates that the bank’s lending performance in low-income census tracts exceeds demographic data and its level of lending in moderate-income census tracts lags demographic data. As previously discussed, competition in the assessment area for small business loans is high. Considering the bank’s lending performance in low-income census tracts and competitive factors, the bank’s performance is considered reasonable.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	9.5	21	12.7	1,969	9.7
Moderate	19.1	18	10.9	1,794	8.9
Middle	49.6	76	46.1	10,182	50.2
Upper	21.8	50	30.3	6,333	31.2
Total	100.0	165	100.0	20,278	100.0
<i>Source: 2020 D&B Data; 2020 Bank Data Due to rounding totals may not equal 100%</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’s lending performance in the moderate-income census tracts lags demographic data. Park State Bank did not originate any home mortgage loans in low-income census tracts. As previously stated, there is significant competition for home mortgage lending from financial institutions and mortgage companies within the assessment area. Further, the bank’s opportunity to originate home mortgage loans in low-income census tracts is

limited as only 2.4 percent of assessment area owner-occupied housing units are in this area. Additionally, the bank offers secondary market loan programs through investor relationships to borrowers in low- and moderate-income census tracts. Specifically, in 2020, three secondary-market loans were originated to borrowers in low-income census tracts and three loans were originated to borrowers in moderate-income census tracts within the assessment area. Considering these factors, and that home mortgage lending is not the primary business focus of the bank, the bank's performance is reasonable.

Geographic Distribution of Home Mortgage Loans					
Tract Income Level	% of Owner-Occupied Housing Units	#	%	\$(000s)	%
Low	2.4	0	0.0	0.0	0.0
Moderate	12.4	1	5.9	30	1.7
Middle	60.6	6	35.3	850	48.0
Upper	24.6	10	58.8	893	50.3
Total	100.0	17	100.0	1,773	100.0
<i>Source: 2015 ACS Data; 2020 Bank Data Due to rounding, totals may not equal 100%</i>					

Borrower Profile

The bank's lending performance demonstrates an overall reasonable penetration among businesses of different revenue sizes and individuals of different income levels. The bank's reasonable small business primarily supported this conclusion, but the excellent home mortgage lending performance was also considered. Examiners focused on the percentage of lending to businesses with gross annual revenues of \$1 million or less. Examiners also focused on the percentage of home mortgage loans to low- and moderate-income borrowers.

Small Business Loans

The distribution of sampled small business loans reflects reasonable lending penetration to businesses with gross annual revenues of \$1 million or less. The following table indicates that the bank's lending performance to businesses with gross annual revenues of \$1 million or less is far lower than demographic data. However, there are additional factors to consider in evaluating the bank's performance. The table illustrating performance includes 45 loans to borrowers in which revenues were not available. These loans were originated as part of the SBA's PPP loan program and revenue information for these loan types is not required to be collected. The majority of these loans were originated to customers with loan sizes of \$100,000 or less, indicating the bank's willingness to serve the needs of smaller businesses. Considering these factors, performance is reasonable.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	81.6	25	28.7	4,338	34.3
>1,000,000	5.2	17	19.6	3,895	30.8
Revenue Not Available	13.2	45	51.7	4,423	34.9
Totals	100.0	87	100.0	12,656	100.0
<i>Source: 2020 D&B Data; 2020 Bank Data Due to rounding, totals may not equal 100.0%</i>					

Home Mortgage Loans

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, is excellent. As shown in the following table, the bank's lending performance to low-income borrowers substantially exceeds demographics, although lending to moderate-income borrowers is less than demographic data. As previously stated, the bank does provide secondary market loans that include low down-payment options, which are particularly helpful for low- and moderate-income individuals. Specifically, in 2020, six secondary-market loans were originated to low-income borrowers and ten were originated to moderate-income borrowers within the assessment area. Given these factors, performance is excellent.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	20.0	7	41.2	359	20.3
Moderate	17.4	1	5.9	50	2.8
Middle	23.0	1	5.9	16	0.9
Upper	39.5	5	29.4	642	36.2
Not Available	0.0	3	17.6	706	39.8
Totals	100.0	17	100.0	1,773	100.0
<i>Source: 2015 ACS Data; 2020 Bank Data Due to rounding, totals may not equal 100.0%</i>					

MINNEAPOLIS ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN MINNEAPOLIS ASSESSMENT AREA

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

According to 2015 ACS data, the assessment area includes 31 low-income, 64 moderate-income, 116 middle-income, and 85 upper-income census tracts. Further, three of the census tracts do not have an income designation. Park State Bank operates its Minneapolis branch in this assessment area, which is located in a middle-income census tract.

Economic and Demographic Data

The following table illustrates select demographic characteristics of the assessment area.

Demographic Information of the Assessment Area						
Assessment Area: Minneapolis						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	299	10.4	21.4	38.8	28.4	1.0
Population by Geography	1,197,776	9.7	19.2	37.4	33.2	0.5
Housing Units by Geography	518,332	8.9	19.2	39.1	31.9	0.8
Owner-Occupied Units by Geography	307,395	3.3	14.7	40.8	41.0	0.2
Occupied Rental Units by Geography	182,801	17.6	26.4	36.7	17.5	1.8
Vacant Units by Geography	28,136	12.9	22.2	36.3	26.9	1.7
Businesses by Geography	139,826	7.2	15.4	39.3	37.6	0.6
Farms by Geography	2,194	3.7	13.6	38.8	43.6	0.3
Family Distribution by Income Level	283,946	21.8	16.3	20.0	41.8	0.0
Household Distribution by Income Level	490,196	26.1	16.2	17.2	40.4	0.0
Median Family Income MSA - 33460 Minneapolis-St. Paul-Bloomington, MN-WI MSA		\$84,589	Median Housing Value			\$249,469
			Median Gross Rent			\$978
			Families Below Poverty Level			8.1%

Source: 2015 ACS and 2020 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.

According to 2020 D&B data, service industries represent the largest portion of business and farm operations at 39.8 percent; followed by non-classifiable establishments at 22.7 percent; and finance, insurance, and real estate at 10.9 percent. Additionally, 60.0 percent of assessment area businesses and farms have 4 or fewer employees, and 91.5 percent operate from a single location.

The FFIEC-updated median family income level is used to analyze home mortgage loans under the Borrower Profile criterion. The low-, moderate-, middle-, and upper-income categories for the assessment area 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)				
2020 (\$97,300)	<\$48,650	\$48,650 to <\$77,840	\$77,840 to <\$116,760	≥\$116,760
<i>Source: FFIEC</i>				

Competition

The assessment area is a highly competitive market for credit products and financial services. According to Reports of Condition data filed by financial institutions, 84 financial institutions operate either a main or branch office in the assessment area and hold deposits between \$6.6 million and \$53.2 billion within the area. These institutions include credit unions, small community banks, and larger national financial institutions. Park State Bank ranked 65th with 0.03 percent of the 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 2019 aggregate CRA data (most recent available), 128 CRA data reporters collectively reported 31,114 small business loans originated within 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.

Park State Bank also faces significant competition for home mortgage loans from a multitude of financial institutions and mortgage companies within the assessment area. As of 2020, Park State Bank was not required to report mortgage data; therefore, examiners did not compare the bank’s home mortgage lending performance to aggregate data within this evaluation. According to 2019 HMDA aggregate lending data (most recent available), 559 HMDA-reporting entities originated or purchased 56,507 home mortgage loans within the assessment area. The top 3 lenders by number originated or purchased 26.5 percent of the market share within the assessment area. These figures do not include a high number of loans originated by smaller institutions that are not required to report home mortgage lending data but that operate within the assessment area. The overall volume of home mortgage 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 the 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 performance evaluation, examiners reviewed one recently conducted community contact from a representative of an economic development organization that serves the assessment area.

The contact indicated that the Coronavirus Pandemic has had a significant impact on businesses within the assessment area with business closures and many that suffered as a result of riots. Although there have been business closures and shut downs, government assistance programs have helped limit the economic impact. The contact further stated that although small business loans are a credit need in the assessment area, many business owners seek grant money over traditional financing options. The contact also stated that there is heavy competition in the Twin Cities metro area with new banks continuing to enter the market.

Credit Needs

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

**CONCLUSIONS ON PERFORMANCE CRITERIA IN MINNEAPOLIS
ASSESSMENT AREA**

LENDING TEST

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

Geographic Distribution

The geographic distribution of loans reflects overall reasonable dispersion throughout the assessment area. The bank’s reasonable small business and home mortgage lending performance supports this conclusion. Examiners focused on the percentage of lending by number of loans in the low- and moderate-income census tracts in the assessment area.

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion. 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	7.2	10	6.8	1,631	5.3
Moderate	15.4	22	14.9	4,590	14.9
Middle	39.3	47	31.7	8,953	29.0
Upper	37.6	69	46.6	15,674	50.8
NA	0.6	0	0.0	0	0.0
Total	100.0	148	100.0	30,848	100.0
<i>Source: 2020 D&B Data; 2020 Bank Data Due to rounding totals may not equal 100%</i>					

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the assessment area. The following table indicates that the bank’s lending performance in the moderate-income census tracts exceeds demographic data, although there were only seven home mortgage loans total. Park State Bank did not originate any home mortgage loans in low-income census tracts. However, very few owner-occupied housing units are located in these tracts. Further, as previously stated, competition for home mortgage loans in the assessment area is high. Considering these factors, and that home mortgage lending is not the primary business focus of the bank, the bank’s performance is reasonable.

Geographic Distribution of Home Mortgage Loans					
Tract Income Level	% of Owner-Occupied Housing Units	#	%	\$(000s)	%
Low	3.3	0	0.0	0.0	0.0
Moderate	14.7	2	28.6	1,388	21.3
Middle	40.8	2	28.6	2,256	34.6
Upper	41.0	3	42.8	2,880	44.1
NA	0.2	0	0.0	0	0.0
Total	100.0	7	100.0	6,524	100.0
<i>Source: 2015 ACS Data; 2020 Bank Data Due to rounding totals may not equal 100%</i>					

Borrower Profile

The distribution of borrowers reflects overall reasonable penetration among businesses of different revenue sizes and individuals of different income levels. The bank’s reasonable small businesses lending performance primarily supports this conclusion. The bank’s home mortgage lending performance is poor; however, carried less weight when deriving overall conclusions. Examiners focused on the percentage of lending to businesses with gross annual revenues of \$1 million or less. They also focused on the percentage of home mortgage loans to low- and moderate-income borrowers.

Small Business Loans

The distribution of sampled small business loans reflects reasonable lending penetration to businesses with gross annual revenues of \$1 million or less. The following table indicates that the bank’s lending performance to businesses with gross annual revenues of \$1 million or less is far lower than demographic data. However, there are additional factors to consider in evaluating the bank’s performance. The community contact indicated that many business owners seek grant money over traditional financing options. Furthermore, the table illustrating performance includes 59 loans to borrowers in which revenues were not available. These loans were originated as part of the SBA’s PPP loan program and revenue information for these loan types is not required to be collected. The majority of these loans were originated to customers with loan sizes of \$100,000 or less, indicating the bank’s willingness to serve the needs of smaller businesses. Considering these factors, performance is reasonable.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	87.1	11	14.7	3,711	27.8
>1,000,000	5.5	5	6.7	1,675	12.5
Revenue Not Available	7.4	59	78.6	7,985	59.7
Totals	100.0	75	100.0	13,371	100.0
<i>Source: 2020 D&B Data; 2020 Bank Data Due to rounding, totals may not equal 100.0%</i>					

Home Mortgage Loans

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, is poor. Park State Bank did not originate any home mortgage loans to low- and moderate-income borrowers. Management stated that the branch was located in the business district of downtown Minneapolis, and the bank's primary business focus is commercial lending. Furthermore, the branch was temporarily closed during 2020 as a result of safety concerns stemming from civil unrest, and fire that damaged one of the businesses in the lower portion of the building. The branch was subsequently relocated in September 2020 less than four miles away. In addition, there is significant competition for home mortgage lending from financial institutions and mortgage companies within the assessment area. As previously stated, the bank does provide secondary market loans to low- and moderate-income borrowers. Specifically, in 2020 one secondary-market loan was originated to a moderate-income borrower within the assessment area. While these factors provide context for the lower lending among low- and moderate-income borrowers, the bank's performance is considered poor.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	21.8	0	0.0	0	0.0
Moderate	16.3	0	0.0	0	0.0
Middle	20.0	0	0.0	0	0.0
Upper	41.9	2	28.6	1,320	20.2
Not Available	0.0	5	71.4	5,204	79.8
Totals	100.0	7	100.0	6,524	100.0
<i>Source: 2015 ACS Data; 2020 Bank Data Due to rounding, totals may not equal 100.0%</i>					

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 institution'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 institution 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.