

# **PUBLIC DISCLOSURE**

January 27, 2020

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Great North Bank  
Certificate Number: 15146

541 Central Avenue  
Florence, WI 54121

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

300 South Riverside Plaza, Suite 1700  
Chicago, Illinois 60606

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.

Satisfactory Community Reinvestment Act (CRA) performance under the Lending Test supports this rating. The following points summarize the bank's lending performance.

- **Loan-to-Deposit (LTD) Ratio:** The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and credit needs and opportunities of the assessment areas (AAs).
- **Assessment Area Concentration:** Overall, based on the sampled loans, the bank originated a majority of the small business and home mortgage loans within the AAs.
- **Geographic Distribution:** The geographic distribution of small business and home mortgage loans reflects reasonable dispersion throughout the AAs.
- **Borrower Profile:** The distribution of small business and home mortgage loans reflects reasonable penetration among businesses of different sizes and individuals of different income levels.
- **Consumer Complaints:** The institution has not received any CRA-related complaints during the evaluation period. Therefore, this factor did not impact the rating assigned under the Lending Test.

## DESCRIPTION OF INSTITUTION

Great North Bank is a full service financial institution headquartered in Florence, Wisconsin (Florence County). The bank is wholly-owned by Florence Bancorporation, Inc., a one-bank holding company also located in Florence. The bank has two full service branches in Wisconsin, one in Aurora (Florence County), and one in Eagle River (Vilas County).

Since the prior evaluation, the bank opened two loan production offices (LPOs), both outside of the AA. The bank opened the Appleton, Wisconsin LPO in December 2017, with only one commercial lender at that location. The bank added a home mortgage lender at that location in September 2019, and in November 2019, the commercial lender left the bank and was not replaced. The home mortgage lender at the Appleton LPO will be transferring to the Aurora branch office in the next month. Management is currently considering the viability and future of the Appleton LPO. The bank opened the Marquette, Michigan LPO in January 2019, with one commercial lender at that facility. However, that commercial lender left in June 2019, and this LPO is now defunct given its lack of lenders. Management does not intend to renew the lease, and plans to close the Marquette LPO by year-end 2020.

Great North Bank has experienced commercial lender turnover, and lapses in commercial lending coverage at various locations and at various times during the evaluation period. The Florence and Eagle River offices have not had a designated commercial lender, although the President does conduct some limited commercial lending. The LPO commercial lenders did assist the other office locations until their departure from the bank. Going forward in 2020, there is now one commercial lender to handle the activity at the Aurora and Florence locations, and the bank will be seeking a commercial lender for the Eagle River office. The vacancies in commercial lenders at the banking offices resulted in management developing a business strategy in 2019 of reaching further outside the AAs for commercial loans in the form of participations purchased. See “Assessment Area Concentration” for details on impacts of this strategy.

Since the prior evaluation, the bank closed its Wausaukee, Wisconsin (Marinette County) branch office effective April 27, 2018. This office closure impacted the AA designation, which is discussed below under the heading “Description of Assessment Area.”

According to the September 30, 2019, Consolidated Report of Condition and Income, the bank had total assets of \$142,282,000, total deposits of \$115,442,000, and total loans of \$94,982,000. Total assets increased 63.9 percent since the prior evaluation, primarily due to management’s concerted effort for aggressive growth. However, management altered its business strategy in 2019 and slowed loan growth efforts. The bank’s business focus continues to be commercial lending. As shown in Table 1, the largest component of the loan portfolio remains business lending, with commercial real estate and commercial and industrial loans representing approximately 60.2 percent. Home mortgage loans are the second largest loan category at 25.9 percent of total loans.

| <b>Loan Portfolio Distribution as of 09/30/19</b>         |                 |              |
|---|-----------------|--------------|
| <b>Loan Category</b>                                      | <b>\$(000s)</b> | <b>%</b>     |
| Construction and Land Development                         | 9,381           | 9.9          |
| Secured by Farmland                                       | 300             | 0.3          |
| Secured by 1-4 Family Residential Properties              | 24,396          | 25.7         |
| Secured by Multifamily (5 or more) Residential Properties | 237             | 0.2          |
| Secured by Nonfarm Nonresidential Properties              | 23,037          | 24.3         |
| <b>Total Real Estate Loans</b>                            | <b>57,351</b>   | <b>60.4</b>  |
| Commercial and Industrial Loans                           | 34,081          | 35.9         |
| Agricultural Loans  | 18              | 0.0          |
| Consumer Loans  | 3,508           | 3.7          |
| Other Loans   | 24              | 0.0          |
| Less: Unearned Income                                     | 0               | 0.0          |
| <b>Total Loans</b>  | <b>94,982</b>   | <b>100.0</b> |

*Source: Reports of Condition and Income*

Commercial and industrial loans increased a substantial 295 percent since the prior evaluation, with their percentage of the portfolio increasing by 20 percent. Construction and land development also experienced a substantial increase in dollar volume (172 percent). In contrast, 1-4 family residential real estate loan volume increased by a moderate 16 percent, with the bulk of this increase occurring

in the home equity category (80 percent). However, the home loans decreased 12 percent as a percent of the total loan portfolio. Farm loans and consumer loans continue to represent nominal portions of the loan portfolio.

Great North Bank offers a variety of products and services to assist in meeting the deposit and credit needs of the local communities it serves. Retail deposit products include consumer checking, savings accounts, and individual retirement accounts. The bank also offers a traditional variety of business deposit accounts. Loan product offerings include consumer loans (for personal, household and family purposes), and real estate loans (for residential, business, and construction purposes). To facilitate accessibility to its products and services, the bank also offers electronic banking services, including: online banking that includes transfers and Bill Pay; E-Statements; online loan applications; and ATM access at each branch office. Weekday banking hours provide reasonable accessibility to products and services via the lobby and drive-through, from 8:30am to 4:30pm. All offices are closed on the weekends.

Great North Bank received a “Satisfactory” rating at its previous, May 11, 2015, FDIC evaluation using the Interagency Small Institution Examination Procedures, under the name State Bank of Florence. The bank changed its name in January 2017 as a result of rebranding efforts. Examiners did not identify any financial, legal, or other impediments that limit the institution’s ability to meet the credit needs of its AAs.

### **DESCRIPTION OF ASSESSMENT AREAS**

Great North Bank has designated two separate AAs containing 14 total census tracts. One AA consists of the adjacent, entire counties of Florence (Wisconsin) and Dickinson (Michigan), herein after referred to as the Florence AA. Although there are no branch offices in Dickinson County, this AA does not extend materially beyond the state border and meets regulatory requirements. The second AA consists of the entire Vilas County, Wisconsin. The north-eastern boundaries of Vilas and Florence Counties border the Wisconsin-Michigan state line. Both AAs are in non-Metropolitan Statistical Areas (non-MSAs) and are not contiguous, as they are separated by Forest County, Wisconsin. Details of each AA’s census tract composition and branch locations follow.

| <u>AA</u> | <u>Counties in AA</u> | <u>Census Tracts</u> | <u>Branches</u> |
|-----------|-----------------------|----------------------|-----------------|
| Florence  | Florence, WI          | 2 (middle-income)    | 2               |
|           | Dickinson, MI         | 7 (middle-income)    | 0               |
| Vilas     | Vilas, WI             | 2 (moderate-income)  | 1               |
|           |                       | 3 (middle-income)    | 0               |

Florence County’s two geographies have been designated as distressed, middle-income census tracts for years 2017 through 2019. Census tract 1901 was designated as distressed for the years of 2015 and 2016 as well. The bank has an office in each of these census tracts. This “distressed” designation arises due to population loss from the county. Additionally, Vilas County’s three middle-income census tracts have been designated as underserved (due to being remote rural areas) for each year since the prior evaluation (2015 through 2019). The bank has one banking office in a designated underserved census tract.

As both AAs are in non-MSAs that are demographically and economically similar, regulation and evaluation procedures allow them to be consolidated and considered as one AA. Therefore, this report presents data, facts and conclusions on a combined AA basis.

Since the last evaluation, the bank changed the AAs in response to the Wausaukee office closure. This office was located in a moderate-income census tract in Marinette County, and its closure resulted in the removal of Marinette County from the AAs (including the two moderate-income census tracts located there). However, the Wausaukee branch was purchased by another financial institution, which maintains operations from that location.

The demographic and economic data presented in this report is derived primarily from the 2010 U.S. Census Bureau or the updated 2015 American Community Survey (ACS) Census, unless otherwise noted.

**Economic and Demographic Data**

According to management, other than the removal of Marinette County from their AAs, there have been no significant changes in the AAs’ demographics since the prior evaluation. The following table presents demographic data for Great North Bank’s combined AA.

| Demographic Information of the Assessment Area |        |            |                              |               |              |            |
|--|--------|------------|------------------------------|---------------|--------------|------------|
| Assessment Area: Great North Bank-Combined AA  |        |            |                              |               |              |            |
| Demographic Characteristics                    | #      | Low % of # | Moderate % of #              | Middle % of # | Upper % of # | NA* % of # |
| Geographies (Census Tracts)                    | 14     | 0.0        | 14.3                         | 85.7          | 0.0          | 0.0        |
| Population by Geography                        | 51,843 | 0.0        | 18.0                         | 82.0          | 0.0          | 0.0        |
| Housing Units by Geography                     | 44,088 | 0.0        | 21.4                         | 78.6          | 0.0          | 0.0        |
| Owner-Occupied Units by Geography              | 18,702 | 0.0        | 17.5                         | 82.5          | 0.0          | 0.0        |
| Occupied Rental Units by Geography             | 4,907  | 0.0        | 28.9                         | 71.1          | 0.0          | 0.0        |
| Vacant Units by Geography                      | 20,479 | 0.0        | 23.2                         | 76.8          | 0.0          | 0.0        |
| Businesses by Geography                        | 3,690  | 0.0        | 22.3                         | 77.7          | 0.0          | 0.0        |
| Farms by Geography                             | 132    | 0.0        | 21.2                         | 78.8          | 0.0          | 0.0        |
| Family Distribution by Income Level            | 15,202 | 20.0       | 21.4                         | 23.4          | 35.2         | 0.0        |
| Household Distribution by Income Level         | 23,609 | 25.2       | 18.4                         | 19.4          | 37.0         | 0.0        |
| Median Family Income Non-MSAs - MI             |        | \$53,542   | Median Housing Value         |               |              | \$167,229  |
| Median Family Income Non-MSAs - WI             |        | \$60,911   | Median Gross Rent            |               |              | \$668      |
|  |        |            | Families Below Poverty Level |               |              | 8.6%       |

*Source: 2010 U.S. Census & 2015 ACS Census and 2018 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.*

Eighty-five percent of area businesses have fewer than 10 employees, and 85.8 percent operate from a single location, reflecting the small nature of the AAs' businesses. The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by gross annual revenue (GAR). Based on the 2018 D&B data (most recent available), there were 3,690 non-farm businesses in the AA. The GARs for these AA businesses are:

- 79.9 percent have \$1 million or less,
- 6.5 percent have more than \$1 million,
- 13.6 percent have unknown revenues.

According to the 2019 Wisconsin Department of Workforce Development (DWD), Florence County Economic and Workforce Profile (EWP), this county's largest employment sector is manufacturing. This includes the wood products sector, which accounts for 15 percent of employment and 18 percent of wages in the county. The leisure and hospitality sector ranked second, and the public administration sector is third. The DWD Vilas County EWP reflects that this county's largest employment sector is leisure and hospitality. Trade, transportation and utilities ranked second, while education and health is third. Both Florence and Vilas Counties have experienced a growth in retiring workers. Florence County is the sixth oldest county in the state (average age of 51.9 years). The aging population hinders employment recruitment, retention and expansion for the area.

The Dickinson Area Chamber of Commerce reports that in 2019, the most common Dickinson County industries (as obtained from the U.S. Department of Commerce and the U.S. Bureau of Labor and Statistics) are the following: manufacturing; health care and social services; and, education services. Dickinson County also has an aging population, with a significant population over the age of 65.

The U. S. Bureau of Labor and Statistics data indicates that the year-end 2019 unemployment rates for the AA counties are the following: Florence, 5.3 percent; Vilas, 5.5 percent; and, Dickinson, 4.3 percent. These compare with the States of Wisconsin and Michigan, and National unemployment rates of 3.4, 3.9 and 3.5 percent, respectively.

Examiners used the 2018 and 2019 FFIEC-updated family income levels to analyze the reviewed home mortgage loans under the Borrower Profile criterion. The following table presents the median family income and corresponding income ranges for the Combined AA non-MSA areas (each state).

| <b>Median Family Income Ranges</b>             |                        |                                    |                                   |                        |
|--|------------------------|------------------------------------|-----------------------------------|------------------------|
| <b>Median Family Incomes</b>                   | <b>Low<br/>&lt;50%</b> | <b>Moderate<br/>50% to &lt;80%</b> | <b>Middle<br/>80% to &lt;120%</b> | <b>Upper<br/>≥120%</b> |
| <b>WI Non-MSA Median Family Income (99999)</b> |                        |                                    |                                   |                        |
| 2018 (\$67,800)                                | <\$33,900              | \$33,900 to <\$54,240              | \$54,240 to <\$81,360             | ≥\$81,360              |
| 2019 (\$65,900)                                | <\$32,950              | \$32,950 to <\$52,720              | \$52,720 to <\$79,080             | ≥\$79,080              |
| <b>MI Non-MSA Median Family Income (99999)</b> |                        |                                    |                                   |                        |
| 2018 (\$58,700)                                | <\$29,350              | \$29,350 to <\$46,960              | \$46,960 to <\$70,440             | ≥\$70,440              |
| 2019 (\$58,600)                                | <\$29,300              | \$29,300 to <\$46,880              | \$46,880 to <\$70,320             | ≥\$70,320              |
| <i>Source FFIEC</i>                            |                        |                                    |                                   |                        |

Of the AA housing units, 42.4 percent are owner-occupied, 11.1 percent are occupied rental units, and 90.9 percent are 1-4 family units. The Geographic Distribution criterion compares the home mortgage lending performance to the distribution of AA owner-occupied housing units. Additionally, only 53.5 percent of the AA housing units are occupied, while the remaining 46.5 percent are vacant. The AA housing includes numerous units used as second homes, vacation homes, and cabins, which are not inhabited year-round. The area is quite rural, with significant amounts of forestry and lakes, especially in Vilas County. It is a highly recreational area as Vilas County is home to 1,318 lakes, having more lakes than any other Wisconsin County.

According to the Wisconsin Realtors Association, Florence County had limited housing sales in 2018 (at 11) and 2019 (at 18). The median housing price for 2018 was \$175,000, with a decline to \$130,500 in 2019. Vilas County experienced a notable higher level of sales for each of these two years, at 688 and 661, respectively. The median housing prices for Vilas County for 2018 was \$225,000, while the 2019 median price was similar at \$227,000. According to Zillow, the median home value in Dickinson County is \$104,085. This county's home values have increased over the past year by 4.5 percent. The median price of currently listed Dickinson County homes is \$114,450. There is a diverse range of housing costs throughout the AA given the nature of housing stock, including single family homes, cabins, second homes, and higher valued vacation homes on lake-front property. This data aids in providing perspective as to AA home purchase credit opportunities and home ownership affordability.

### **Competition**

The AA is moderately competitive in the market for financial services. According to the June 30, 2019, FDIC Deposit Market Share data, there were 17 financial institutions that operated 35 offices within the AA's full counties. Great North Bank ranked second, with a 9.7 percent market share of deposits.

The bank is not required to collect or report its small business loan data. However, the aggregate small business data is an indicator of the level of demand, opportunities, and competition for small business loans in the AA, and therefore this information is included here. The 2017 Peer Small Business data (most recent available) includes all loans originated by reporting financial institutions only. It does not reflect loans originated by non-reporting financial institutions (such as this bank). The report shows that 38 different reporting lenders originated 616 small business loans in the AA totaling \$21,238,000. This reflects that, in addition to the AA non-reporting financial institutions, other reporting financial institutions are originating a moderate level of small business loans, indicating a good degree of opportunities, and high level of competition for this product within the Combined AA.

There is also a high level of competition for home mortgage loans among various banks, credit unions, and non-depository mortgage lenders in and near the Combined AA. The bank is not required to collect or report home mortgage data under the Home Mortgage Disclosure Act (HMDA). However, the aggregate HMDA data is an indicator of the level of demand, opportunities, and competition for home mortgage loans in the AA, and therefore this information is included here. The 2018 Peer Mortgage Data (most recent available) includes loans originated and



purchased by reporting financial institutions only. The report shows that 241 reporting institutions originated or purchased 1,715 mortgage loans within this bank's Combined AA, totaling \$308,185,000. This level of mortgage lending is in addition to the non-reporting financial institutions' lending levels, and indicates a high degree of opportunities and competition for this product. The report reflects an average mortgage loan size of \$180,000.

### **Community Contacts**

To assist in conducting the CRA evaluation, examiners conducted community contact interviews with nonaffiliated representatives in the Combined AA. Information obtained from the interviews was used to aid in obtaining contextual information, and in ascertaining area banking activities, credit needs and opportunities.

Examiners made two contacts from two related, but different, community development organizations. Most of the information pertained to Vilas County, with some overlapping into neighboring counties and the Upper Peninsula area in general. The contacts commented that the regional area is highly rural and seasonal, with Vilas County being heavily forested and having 1,320 lakes. It draws people to the area for recreation, to engage in activities like the following: boating, fishing, camping, hiking, snowmobiling, ice fishing, etc. Given the seasonal nature of the area, 61 percent of the housing is occupied for less than six months.

Per the contacts, the housing values for Vilas County are very diverse, ranging from around \$150,000 to \$1 and \$2 million (for those on the lakes). The contacts said that there has been a housing "crisis" for quite some time, as there is a dire need for affordable housing for young people, in the form of single-family and multi-family housing (apartments). However, developers have not been willing to develop such housing in the county or the general region. There are no true residential development areas in Vilas County's communities, as the infrastructure costs are too much for such small communities. The contacts also said that there is an ongoing need for home improvement loans. Although there may not be much residential construction occurring, people still need to maintain their homes, and have needs for housing improvements.

The contacts said that the biggest population draw to the area is the 60 plus age group, for retirement and seasonal living. They noted that most, but not all, of this group tend to be wealthier. Also, this age group population, along with the lack of affordable housing for the younger generation, hinders attempts to draw or grow area businesses. The labor force has been so scarce for the county, that it resorted to using the J1-Visa program, which brings in temporary labor in the form of college students from other countries (Russia, Romania, Ukraine, etc.), to work during the seasonal time until their Visa runs out (typically 4-months). This has resulted in approximately 150 plus such employees in the county last year.

The contacts commented that the main employment for the area is the service industry, primarily restaurants/food industry, which tends to have the lowest paying jobs. They also noted that low- and moderate-income populations are abundant throughout Vilas County and the region, with Eagle River having half its households making around \$25,000 as of a few years ago. The wealthier, aged population, and seasonal residents along the lakes, tends to skew the median income for the area.

Eagle River is the only city in Vilas County, and is the only community designated with TIF districts. Although communities in the county have business parks, with space available for development, such development is not occurring very frequently. This is impacted by the housing and labor force issues noted above. The contacts described the downtown districts in the area as blighted, with many vacant buildings. There are several business incubators in the area as well. The contacts mentioned that there are self-employed individuals and smaller businesses that need continued financial maintenance. Per the contacts, in the recent past, a revolving loan fund (RLF) was developed, with support from area financial institutions. However, only one or two businesses have taken advantage of it, as the RLF has not been promoted effectively.

### **Credit Needs**

Considering information from the community contacts, bank management, and demographic and economic data, examiners determined that affordable single-family and multi-family housing, and home improvement, are primary credit needs for the Combined AA. The above noted HMDA loan levels for the area also support these identified credit needs. Examiners also identified the continued need for small business loans, particularly for start-up, operational, expansion, and renovation. Downtown businesses are also in need of revitalization.

## **SCOPE OF EVALUATION**

### **General Information**

This evaluation covers the period from the prior evaluation dated May 11, 2015, to the current evaluation dated January 27, 2020. Examiners analyzed Great North Bank's CRA Performance using the Interagency Small Institution Examination Procedures, which consider the bank's performance under the Lending Test.

This evaluation does not include any lending activity performed by affiliates. As previously noted, examiners analyzed the bank's two AAs as one combined area.

### **Activities Reviewed**

Examiners determined that the bank's major product lines are commercial and home mortgage loans. Although the number of originated commercial and home mortgage loans has been similar during the evaluation period, the dollar volume of commercial originations is notably higher than that of the home mortgage. Furthermore, the bank's recent business strategy has been to target commercial growth. For these reasons, examiners gave the bank's small business lending performance slightly more evaluation consideration. As consumer and agriculture loans do not represent a major business focus, they do not materially impact the evaluation rating, and therefore, they were not analyzed for purposes of this evaluation.

Although examiners considered all lending activity for evaluation purposes, a random sample of small business and home mortgage originated and purchased loans during the two most recent calendar years was analyzed and is presented in this report. While the number and dollar volume of loans are considered and presented, examiners emphasized performance by number because it is a

better indicator of the number of businesses and individuals served. The following table depicts the loan universes and sample sizes for 2018 and 2019.

| <b>Loan Products Reviewed</b>                               |                 |                 |                 |                 |
|---|-----------------|-----------------|-----------------|-----------------|
| <b>Loan Category</b>  | <b>Universe</b> |                 | <b>Reviewed</b> |                 |
|   | <b>#</b>        | <b>\$(000s)</b> | <b>#</b>        | <b>\$(000s)</b> |
| Small Business  |                 |                 |                 |                 |
| 2018  | 103             | 22,856          | 42              | 7,788           |
| 2019  | 119             | 23,916          | 44              | 10,938          |
| Home Mortgage   |                 |                 |                 |                 |
| 2018  | 126             | 16,113          | 46              | 4,667           |
| 2019  | 118             | 17,862          | 44              | 5,153           |
| <i>Source: Bank Records from 01/01/18 through 12/31/19.</i> |                 |                 |                 |                 |

## CONCLUSIONS ON PERFORMANCE CRITERIA

### LENDING TEST

Great North Bank demonstrated reasonable lending performance. Performance under the geographic distribution and borrower profile criteria primarily support this conclusion.

### Loan-to-Deposit Ratio

The LTD ratio is reasonable given the institution's size, financial condition, and AA credit needs and opportunities. The bank's LTD ratio, calculated from Call Report data, averaged 82.0 percent over the past 18 calendar quarters from June 30, 2015, to September 30, 2019. The ratio ranged from a low of 65.1 percent as of March 31, 2017, to a high of 105.8 percent as of June 30, 2018. Great North Bank maintained a ratio similar to those of comparable institutions, as shown in the following table. Examiners selected comparable institutions based on their asset size, banking structure, lending focus, similar locations or type of geographic area(s) served (with no metropolitan influences), and management's input.

| <b>Loan-to-Deposit Ratio Comparison</b>                                  |   |  |
|--|---|--|
| <b>Bank</b>  | <b>Total Assets as of<br/>09/30/2019<br/>(\$000s)</b> | <b>Average Net<br/>LTD Ratio<br/>(%)</b> |
| <b>Great North Bank</b>  | <b>142,282</b>  | <b>82.0</b>                              |
| Similarly-Situated Institution #1  | 201,096   | 82.2                                     |
| Similarly-Situated Institution #2  | 162,198   | 71.5                                     |
| Similarly-Situated Institution #3  | 139,079   | 68.3                                     |
| Similarly-Situated Institution #4  | 138,443   | 76.8                                     |
| Similarly-Situated Institution #5  | 145,754   | 69.0                                     |
| Similarly-Situated Institution #6  | 188,370   | 93.5                                     |
| <i>Source: Reports of Condition and Income 06/30/15 through 09/30/19</i> |   |  |

## Assessment Area Concentration

Overall, considering all evaluation years' lending levels and each reviewed product type, a majority of Great North Bank's loans and other lending related activities are in the bank's AAs. However, the reviewed loans reflect a declining trend, especially the small business loans. The decline has resulted in a poor small business loan AA concentration for 2019. See the following table for details.

| 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                                    |                 |      |         |      |         |                                  |      |         |      |                |
| 2018  | 23              | 54.8 | 19      | 45.2 | 42      | 1,962                            | 25.2 | 5,826   | 74.8 | 7,788          |
| 2019  | 13              | 29.5 | 31      | 70.5 | 44      | 1,314                            | 12.0 | 9,624   | 88.0 | 10,938         |
| <b>Subtotal</b>                                   | 36              | 41.9 | 50      | 58.1 | 86      | 3,276                            | 17.5 | 15,450  | 82.5 | 18,726         |
| Home Mortgage                                     |                 |      |         |      |         |                                  |      |         |      |                |
| 2018  | 29              | 63.0 | 17      | 37.0 | 46      | 3,249                            | 69.6 | 1,418   | 30.4 | 4,667          |
| 2019  | 28              | 63.6 | 16      | 36.4 | 44      | 3,323                            | 64.5 | 1,830   | 25.5 | 5,153          |
| <b>Subtotal</b>                                   | 57              | 63.3 | 33      | 36.7 | 90      | 6,572                            | 66.9 | 3,248   | 33.1 | 9,820          |

Source: Bank Records for Calendar Years 2018 and 2019

Based on the random sample of loans, in 2018, the bank originated a small majority (by number) of small business loans within the AAs. However, a majority of the small business loans by dollar amount were outside the AAs. In 2019, the declining AA concentration trend continued, with even fewer small business loans by number (29.5 percent) and dollar volume (12.0 percent) originated in the AAs.

The AA concentration of small business loans has dropped substantially from the prior evaluation, at which time the bank originated 91 percent of the number and 86 percent of the dollars in the AAs. With the opening of the LPOs outside the AAs, commercial lending occurred near the LPO locations, resulting in the origination of more commercial loans outside the AAs. Further, the bank has experienced commercial lender turnover and vacancies at its AAs' branch offices (as detailed previously), which adversely impacted the bank's ability to serve the business credit needs within the AAs. To compensate for the limited AA commercial lending, and to achieve the strategic goal of commercial loan growth, management had implemented a business plan during 2019 to more aggressively purchase commercial loans, which were predominantly outside the AAs. Participations purchased increased from two in 2018 totaling \$2.6 million, to 32 in 2019 totaling \$14.8 million.

Given the AA concentration results and noted trends, management plans to re-address their business plan. They are also working to hire additional commercial lenders within the branch offices to focus on serving the immediate AAs once again. Management expects these actions to improve the small business AA concentration to prior years' levels.

Although the home mortgage AA concentration has decreased from the prior evaluation, it is within reasonable levels. The Appleton LPO lending efforts outside the AAs also contributed to the declining trend in home mortgage AA concentration. The move of the Appleton LPO mortgage lender to the Aurora branch office within the next month is expected to enhance home mortgage lending within the AAs.

### **Geographic Distribution**

The geographic distribution reflects reasonable dispersion throughout the AAs. Examiners focused on the percentage by number of loans in the moderate-income CTs, as well as the bank's performance in serving the designated distressed and underserved geographies.

### ***Small Business Loans***

The geographic distribution of small business loans reflects reasonable dispersion throughout the AAs.

| <b>Geographic Distribution of Small Business Loans</b>                   |                        |           |              |                 |              |
|--|------------------------|-----------|--------------|-----------------|--------------|
| <b>Tract Income Level</b>  | <b>% of Businesses</b> | <b>#</b>  | <b>%</b>     | <b>\$(000s)</b> | <b>%</b>     |
| <b>Moderate</b>  |                        |           |              |                 |              |
| 2018   | 22.3                   | 10        | 43.5         | 361             | 18.4         |
| 2019   | NA                     | 5         | 38.5         | 790             | 60.1         |
| <b>Middle</b>  |                        |           |              |                 |              |
| 2018   | 77.7                   | 13        | 56.5         | 1,601           | 81.6         |
| 2019   | NA                     | 8         | 61.3         | 524             | 39.9         |
| <b>Totals</b>  |                        |           |              |                 |              |
| <b>2018</b>  | <b>100.0</b>           | <b>23</b> | <b>100.0</b> | <b>1,962</b>    | <b>100.0</b> |
| <b>2019</b>  | <b>NA</b>              | <b>13</b> | <b>100.0</b> | <b>1,314</b>    | <b>100.0</b> |
| <i>Source: 2018 D&amp;B Data; Bank Records; NA denotes Not Available</i> |                        |           |              |                 |              |

The bank's Eagle River branch is located in one of the AA's moderate-income census tracts, and therefore, it is expected that the moderate-income census tracts would have a reasonably strong penetration of loans. In 2018, the origination of small business loans in the AA's moderate-income census tracts, by number, far exceeded the demographics for the area. This performance is tempered a bit by the lower dollar volume of loans originated within moderate-income census tracts, and the fact that the loans were originated in only one of the two moderate-income census tracts (where the branch is located). Furthermore, in 2018, the bank originated seven loans in the two designated distressed census tracts. This performance is also expected as a bank office is located in each of these designated census tracts. Additionally, the bank originated three loans in one of the three underserved census tracts.

Although the 2019 level of lending in moderate-income census tracts is also high, the 2019 performance is based on a very low level of overall small business loans originated within the AA during that year (only 13 of the sampled loans). The low volume of small business lending in the AA during 2019 mitigates the otherwise high percentage of lending in moderate-income census tracts. Furthermore, as with the 2018 performance, only one of the two moderate-income census

tracts received small business loan originations (the tract containing the bank's office). Two small business loans were originated in one of the distressed census tracts, which is considered low given that a branch office is located in each of the two distressed geographies. Further, four loans were originated in one of the three underserved census tracts. Considering the overall lending performance and demographics, the office locations, competition, and credit needs and opportunities, the geographic distribution of small business loans is reasonable.

**Home Mortgage Loans**

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the AAs.

| <b>Geographic Distribution of Home Mortgage Loans</b> |   |           |              |                 |              |
|---|---|-----------|--------------|-----------------|--------------|
| <b>Tract Income Level</b>                             | <b>% of Owner-Occupied Housing Units*</b> | <b>#</b>  | <b>%</b>     | <b>\$(000s)</b> | <b>%</b>     |
| <b>Moderate</b>                                       |   |           |              |                 |              |
| 2018  | 17.5                                      | 4         | 13.8         | 693             | 21.3         |
| 2019  | 17.5                                      | 6         | 21.4         | 1,261           | 37.9         |
| <b>Middle</b>   |   |           |              |                 |              |
| 2018  | 82.5                                      | 25        | 86.2         | 2,556           | 78.7         |
| 2019  | 82.5                                      | 22        | 78.6         | 2,062           | 62.1         |
| <b>Total</b>  |   |           |              |                 |              |
| <b>2018</b>   | <b>100.0</b>                              | <b>29</b> | <b>100.0</b> | <b>3,249</b>    | <b>100.0</b> |
| <b>2019</b>   | <b>100.0</b>                              | <b>28</b> | <b>100.0</b> | <b>3,323</b>    | <b>100.0</b> |
| <i>Source: * 2015 ACS Data; Bank Records</i>          |   |           |              |                 |              |

In 2018, by number, the distribution of home mortgage loans within moderate-income census tracts was below the demographics for the area. However, in 2019, the home mortgage loan distribution in the moderate-income census tracts exceeded the demographics. Overall, considering each year's performance levels, the demographics, office locations, competition, and credit needs and opportunities, the bank has a reasonable distribution of home mortgage loans throughout its AAs.

**Borrower Profile**

The distribution of borrowers in the AAs reflects reasonable penetration among businesses of different sizes and individuals of different income levels. Examiners focused on the percentage by number of small business loans to businesses with GARs of \$1 million or less. They also focused on the percentage by number of home mortgage loans to low- and moderate-income borrowers.

**Small Business Loans**

The distribution of small business loans reflects reasonable penetration of loans to businesses with GARs of \$1 million or less.

| <b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>  |                        |           |              |                 |              |
|---|------------------------|-----------|--------------|-----------------|--------------|
| <b>Gross Revenue Level</b>  | <b>% of Businesses</b> | <b>#</b>  | <b>%</b>     | <b>\$(000s)</b> | <b>%</b>     |
| <b>≤ \$1,000,000</b>  |                        |           |              |                 |              |
| 2018  | 79.9                   | 19        | 82.6         | 1,548           | 78.9         |
| 2019  | --                     | 9         | 69.2         | 459             | 34.9         |
| <b>&gt; \$1,000,000</b>   |                        |           |              |                 |              |
| 2018  | 6.5                    | 4         | 17.4         | 414             | 21.1         |
| 2019  | --                     | 4         | 30.8         | 855             | 65.1         |
| <b>Revenue Not Available</b>  |                        |           |              |                 |              |
| 2018  | 13.6                   | NA        | NA           | NA              | NA           |
| 2019  | --                     | NA        | NA           | NA              | NA           |
| <b>Total</b>  |                        |           |              |                 |              |
| <b>2018</b>   | <b>100.0</b>           | <b>23</b> | <b>100.0</b> | <b>1,962</b>    | <b>100.0</b> |
| <b>2019</b>   | <b>--</b>              | <b>13</b> | <b>100.0</b> | <b>1,314</b>    | <b>100.0</b> |
| <i>Source: 2018 D&amp;B Data, -- Denotes that 2019 D&amp;B Data is not available; NA denotes Not Applicable; Bank Records</i> |                        |           |              |                 |              |

By number, the bank's 2018 distribution of small business loans to businesses with GARs of \$1 million and less is higher than, but in line with, the demographics. By dollar volume, the distribution of small business loans to businesses with GARs of \$1 million and less is slightly lower than, but in line with, the demographics.

By number, the 2019 distribution of loans to businesses with GARs of \$1 million and less was much lower than the 2018 performance. However, the bank originated a majority of the loans to businesses with GARs of \$1 million and less. By dollar volume, the distribution to businesses with GARs of \$1 million and less was substantially lower than in 2018, and less than a majority. Further, as noted previously, for 2019, there was an overall low level of small business lending within the AAs, which impacted this analysis (the lower level of lending in the AAs tends to skew the corresponding percentages). Overall, considering both years' performance levels, competition, demographics, and credit needs and opportunities, the bank's distribution of small business loans reflects reasonable penetration of loans to businesses with GARs of \$1 million or less.

### ***Home Mortgage Loans***

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, is reasonable. Examiners focused on performance by number to low- and moderate-income borrowers, and comparison to demographics.

| Distribution of Home Mortgage Loans by Borrower Income Level   |               |           |              |              |              |
|--|---------------|-----------|--------------|--------------|--------------|
| Borrower Income Level  | % of Families | #         | %            | \$(000s)     | %            |
| Low  |               |           |              |              |              |
| 2018   | 20.0          | 3         | 10.4         | 100          | 3.1          |
| 2019   | --            | 3         | 10.7         | 165          | 4.9          |
| Moderate   |               |           |              |              |              |
| 2018   | 21.4          | 8         | 27.6         | 529          | 16.3         |
| 2019   | --            | 5         | 17.9         | 320          | 9.6          |
| Middle   |               |           |              |              |              |
| 2018   | 23.4          | 5         | 17.2         | 295          | 9.1          |
| 2019   | --            | 8         | 28.6         | 889          | 26.8         |
| Upper  |               |           |              |              |              |
| 2018   | 35.2          | 13        | 44.8         | 2,325        | 71.5         |
| 2019   | --            | 10        | 35.7         | 1,833        | 55.2         |
| Income Not Available   |               |           |              |              |              |
| 2018   | NA            | NA        | NA           | NA           | NA           |
| 2019   | --            | 2         | 7.1          | 116          | 3.5          |
| <b>Totals</b>  |               |           |              |              |              |
| <b>2018</b>  | <b>100.0</b>  | <b>29</b> | <b>100.0</b> | <b>3,249</b> | <b>100.0</b> |
| <b>2019</b>  | <b>--</b>     | <b>28</b> | <b>100.0</b> | <b>3,323</b> | <b>100.0</b> |
| <i>Source: 2015 ACS Data; -- Denotes that 2019 Demographics are not available; NA denotes Not Applicable; Bank Records</i> |               |           |              |              |              |

Based on the sampled loans, in 2018, the bank originated 10.4 percent of the home mortgage loans to low-income individuals. This is lower than the presented demographics. When factoring in the AAs' 8.6 percent of families living below the poverty level, the bank's performance aligns more with the presented demographics. The 2019 lending to low-income individuals was at a similar level to 2018 performance. In 2018, by number, the bank's level of lending to moderate-income borrowers was above the demographics. However, the level of lending to moderate-income borrowers decreased significantly in 2019. Considering both years' performance levels, the demographics, poverty level, competition, housing values and level of sales (as presented previously), and the opportunities and needs, the distribution of loans reflects a reasonable penetration to borrowers of different income levels.

### **Response to Complaints**

Great North Bank has not received any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the rating.

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

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



## APPENDICES

### SMALL BANK PERFORMANCE CRITERIA

#### **Lending Test**

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

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The 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;
- 4) The geographic distribution of the bank's loans; 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.

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

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

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

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

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

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

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

**FFIEC-Estimated Income Data:** The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in

information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

**Full-Scope Review:** A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

**Home Mortgage Loans:** Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

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

**Limited-Scope Review:** A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (e.g., geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

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

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

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

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

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

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

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Rated Area:** A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

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

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

**Small Farm Loan:** A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

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

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

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

