



Office of the  
Comptroller of the Currency  
Washington, DC 20219

# INTERMEDIATE SMALL BANK

## PUBLIC DISCLOSURE

July 29, 2013

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Home Federal Savings Bank  
Charter Number 702818

1016 Civic Center Drive Rochester, MN 55901

Office of the Comptroller of the Currency

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3393

NOTE: 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'S CRA RATING:** This institution is rated **Satisfactory**.

**The Lending Test is rated: Outstanding.**

**The Community Development Test is rated: Satisfactory.**

The primary factors supporting Home Federal Savings Bank (HFSB) rating include:

- HFSB's loan to deposit ratio is more than reasonable based on the institution's size, financial condition, and the assessment area's (AA) credit needs;
- HFSB originated a majority of its loans within its AAs;
- HFSB's distribution of loans reflects excellent penetration among borrowers of different income levels;
- HFSB's distribution of loans reflects excellent dispersion throughout census tracts of different income levels; and
- HFSB demonstrates adequate responsiveness to the community development needs in its AA.

## **Scope of Examination**

HFSB was evaluated under the Intermediate Small Bank examination procedures, which include a lending test and community development test to assess compliance with the Community Reinvestment Act (CRA). The lending test evaluates HFSB's record of meeting the credit needs of its AAs through its lending activities. The community development (CD) test evaluates the bank's responsiveness to CD needs in its AAs through CD lending, qualified investments, and CD services.

The bank has five AAs in two states, Minnesota and Iowa. Minnesota includes a portion of the Rochester, MN metropolitan statistical area (MSA), four counties among the non-MSA counties of Southeast MN, Houston County in the LaCrosse, WI-MN MSA, and Dakota County in the Minneapolis-St Paul-Bloomington, MN-WI MSA. Marshall County is the only non-MSA AA in Iowa.

The lending test for HFSB covers its performance from January 1, 2011 through June 30, 2013. The number and dollar volume of originated and purchased loans were evaluated to determine the primary products for each of the bank's AAs. Residential real estate loans were determined to be primary products in four of the five AAs. In the Rochester MSA and Dakota County MSA AAs, we sampled commercial loans since they represented 84% and 93%, respectively, by dollar volume of lending during the evaluation period. Due to the significant volume of commercial loan originations, commercial loans received more weight than residential real estate loans in the Rochester MSA. Commercial loans were the only primary product in the Dakota County

MSA AA. Refer to the “Scope of Evaluation” section under each State Rating section for details on which AAs carried more weight in each state.

To evaluate HFSB’s lending performance, examiners sampled 20 commercial loans in each applicable AA. Additional commercial loans were selected as needed to have sufficient information to analyze borrower and geographic distributions within each AA. HFSB does collect data on CRA reportable loans, but our review found the data to be unreliable. As a result, we relied on loan sampling. We used HMDA data from January 1, 2011 through June 30, 2013 to analyze lending test performance for residential real estate loans in the AAs. We previously tested the collected and reported HMDA data and found the information to be accurate. All loans originated and purchased in 2011 were compared to 2011 peer mortgage data and 2000 census information. Loans originated and purchased in 2012 and 2013 were compared to 2012 peer mortgage data and 2010 census information.

The evaluation period for community development activities, including community development loans, is January 1, 2011 through June 30, 2013. We reviewed all loans, investments, and services with a primary purpose of community development presented by management. Those activities that meet the definition of community development are included in this evaluation.

## **Description of Institution**

HFSB is a federally chartered stock savings bank headquartered in Rochester, MN. As of June 30, 2013, HFSB had \$560 million in total assets. HFSB is owned by HMN Financial, Inc., a single-bank holding company. The bank has one wholly owned subsidiary, Osterud Insurance Agency, Inc, which offers financial planning products and services. HFSB has one branch in Iowa and ten branches in Minnesota. The bank also operates one loan production office in Sartell, MN. Since the last exam, three branches have been closed or sold. HFSB closed a branch in Edina, MN in December 2011 and an office in Rochester, MN in March 2013. The branch in Toledo, Iowa was sold in March 2012. There have been no mergers or acquisitions during the evaluation period. HFSB operates 14 automated teller machines (ATMs) but none accept deposits.

HFSB is involved in both traditional retail lending as well as commercial real estate and business lending. Retail products include single-family mortgage loans for purchase and refinance, open-end and closed-end home equity loans, construction loans, and consumer loans for a variety of purposes. Non-retail products include commercial, multi-family, and farm real estate loans as well as commercial construction and business loans. As of June 30, 2013, the bank reported \$438 million in outstanding loans and had a net loans and leases to total assets ratio of 78%. The loan portfolio consists of 67% commercial, 20% residential, 12% consumer, and less than 1% agricultural loans.

HFSB actively participates in several special loan programs that are designed to help build individuals’ credit, provide down payment and closing costs assistance for first time homebuyers, provide funds for home improvement, and assist low- and moderate-

income borrowers. Loans targeted to low- and moderate-income borrowers are offered through loan programs with the Southeast MN Multi-County HRA Partnership, Minnesota Housing Finance Agency (MHFA), and USDA Guaranteed Housing.

In 2013, HFSB was recognized with MHFA's Top Producing Lender Program. One of HFSB's mortgage lenders was awarded top honors for producing 20% or more in regional production for the Start Up and Step Up mortgage programs. These programs offer mortgage loan financing to low- and moderate-income borrowers for both first time homebuyers (Start Up) and current homeowners wishing to refinance their current home or to purchase a new home (Step Up). HFSB was also awarded honors for producing 7%-11.49% of the regions production for home improvement loans.

HFSB received a "Satisfactory" rating on its last CRA examination dated January 18, 2011. No legal, regulatory, or financial limitations are evident which would preclude HFSB from helping to serve the credit needs of its AA.

## **Selection of Areas for Full-Scope Review**

In each state where the bank has a branch, at least one AA within that state was selected for full-scope review. If the bank has more than one AA in a state, examiners considered the number of branches in the AA, the volume of lending during the evaluation period at branches within each AA, and the amount of deposits in the AA when determining which AAs would receive full-scope reviews and which would receive limited-scope reviews.

The Rochester MSA and MN non-MSA AAs in Minnesota and the Marshall County AA in Iowa were selected for full-scope reviews during this evaluation period. Refer to the "Scope" section under each state rating section for details regarding how the areas were selected.

## **Ratings**

HFSB's overall rating is a blend of two state ratings in which HFSB has branch offices. Examiners placed the most weight on the bank's performance in the state of Minnesota because it represented 91% of the bank's total deposit base, 95% of loan originations and purchases during the evaluation period, and contained 92% of the bank's branches.

The state ratings are based primarily on those areas that received full-scope reviews. Limited-scope reviews were considered to the extent that they were consistent or not consistent with the bank's performance in the full-scope AAs. Refer to the "Scope" section under each State Rating section for details regarding how the areas were weighted in arriving at the respective ratings.

## Conclusions with Respect to Performance Criteria

HFSB's performance under the Lending Test is excellent. HFSB's loan-to-deposit ratio is more than reasonable and a majority of the loans originated were inside the bank's AAs. The bank's borrower distribution reflects excellent penetration among borrowers of different income levels, and the geographic distribution of HFSB's commercial and residential loans reflect excellent dispersion among geographies.

### Loan-to-Deposit Ratio

HFSB's average loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, and AA credit needs. When compared to similarly situated banks, HFSB has the highest LTD ratio. The average LTD ratio from December 31, 2010, to June 30, 2013 was 91.03%. The bank's LTD decreased from 97.78% on December 31, 2010 to 84.77% on June 30, 2013. This declining trend also occurred in peer banks.

Institution	City, State	County	Total Assets (\$000s)	Average LTD Ratio
<b>Home Federal Savings Bank</b>	<b>Rochester, MN</b>	<b>Olmsted</b>	<b>\$560,628</b>	<b>91.03</b>
Lincoln Savings Bank	Cedar Falls, IA	Black Hawk	\$626,562	84.36
Merchants Bank, National Association	Winona, MN	Winona	\$1,289,244	78.89
Eastwood Bank	Rochester, MN	Olmsted	\$595,631	75.78
Think Mutual Bank	Rochester, MN	Olmsted	\$1,468,988	70.87

*Source: Call Report Data*

### Lending in Assessment Area

The bank originates a majority of its loans to borrowers located within its designated AAs. A random sample of 80 business loans and all HMDA loans for the period of January 1, 2011 through June 30, 2013 were analyzed to determine the bank's lending in its AAs. The bank originated 84% of loans by number and 78% by dollar volume within its AAs. The following table illustrates the number and dollar amount of loans originated inside and outside the bank's AAs during the evaluation period:

<b>Lending in HFSB's AAs</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total \$(000)
	#	%	#	%		\$(000)	%	\$(000)	%	
HMDA loans	1,711	85.00%	302	15.00%	2,013	224,021	83.49%	44,309	16.51%	268,330
Business Loans	57	71.25%	23	28.75%	80	11,528	32.87%	23,546	67.13%	35,074
Totals	1,768	84.47%	325	15.53%	2,093	235,549	77.64%	67,855	22.36%	303,404

Source: Commercial Loan Samples; 1/1/2011-6/30/2013 HMDA Data

## **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 195.28(c), in determining a federal saving association's (FSA) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

## State Rating

### State of Minnesota

**CRA Rating for (name of state): Satisfactory**

**The Lending test is rated: Outstanding**

**The Community development test is rated: Satisfactory**

The major factors that support the overall rating for Minnesota include:

- HFSB's distribution of loans in the Minnesota AAs reflects excellent penetration among borrowers of different income levels.
- HFSB's distribution of loans reflects excellent dispersion throughout census tracts of different income levels.
- HFSB demonstrates adequate responsiveness to CD needs of the AA through CD loans, investments, and services in Minnesota AAs.

**Note: The net loan-to-deposit ratio and percentage of loans and other lending-related activity in the assessment area only apply to the institution overall. No discussion of these performance criteria applies to sections of the performance evaluation relating to states, and assessment areas.**

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN MINNESOTA

HFSB has four AA's in Minnesota. The Rochester MSA and MN non-MSA AA's received full scope reviews. The Dakota County MSA and Houston County MSA AAs received limited scope reviews.

#### Rochester MSA

The AA includes 38 contiguous census tracts located in Olmsted and Dodge Counties. These two counties are a portion of the three counties comprising the Rochester MN Metropolitan Statistical Area (MSA) #40340. HFSB has four branches and seven automated teller machines located in this AA. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income level areas.

The 2000 census showed the AA consisted of five moderate-income census tracts, 23 middle-income census tracts, ten upper-income census tracts, and one census tract designated NA. The total population for the AA was 142,008, with 37,464 families and 54,314 households. The 2011 HUD estimated median family income was \$80,200. Families were designated 15.30% low-income, 18.48% moderate-income, 27.24% middle-income, and 38.97% upper-income. Families living below the poverty line totaled 3.84%.



Based on 2010 U.S. Census data, the AA consists of six moderate-income, 23 middle-income, and nine upper-income census tracts. There are no low-income census tracts within the AA. The total population for the AA is 164,335 and consists of 42,768 families and 63,367 households. The 2013 FFIEC updated median family income (MFI) for the AA is \$80,500. Families residing in the AA consist of 15.87% low-income, 18.91% moderate-income, 24.72% middle-income, and 40.51% upper-income. Within these families, 4.99% are living below the poverty line.

Economic conditions in the area are stable. Rochester, MN is the third largest city in Minnesota and continues to grow. Service and hospitality businesses are the largest industries in the Rochester area given the millions of national and international visitors to the Mayo Clinic for medical care. Large employers in the AA include the Mayo Clinic, IBM, Rochester Public School system, and the Olmsted Medical Center. According to the U.S. Bureau of Labor Statistics, the unemployment rate for Dodge and Olmsted counties were 5.0% and 4.4%, respectively. The unemployment rates of these counties were lower than the 7.5% national average and 5.2% unemployment rate in the state of Minnesota.

The amount of competition in the AA is moderate. According to the June 30, 2013 FDIC Deposit Market Share Report, there are 20 financial institutions operating within Dodge and Olmsted Counties, including HFSB. HFSB has the fifth largest deposit market share with 6.76% of deposits. Two larger national banks rank second and third with a combined market share of 34.37%.

We contacted one local community development organization to gather information on the community and obtain information on potential lending opportunities in the area. The contact stated that the amount of small business growth has been increasing over the past two years as the general economy has improved. Small businesses make up the vast majority of businesses in the area. The formation of small businesses has been the driving factor for commercial loans, but many small businesses are waiting for the economy to fully recover before they are willing to expand/grow their business. Opportunities for financial institutions to participate in community development projects has been low but this is beginning to increase. Local financial institutions are eager and proactive in helping the community in various forms of financial services. The general banking and credit needs of the area include residential, small business, and agricultural loans. The contact stated that many financing options are available for consumers and businesses alike.

#### MN non-MSA AA

The AA includes 37 contiguous census tracts in the counties of Fillmore, Freeborn, Mower, and Winona. HFSB has four branches and four automated teller machines in this AA. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The 2000 census showed the AA consisted of two moderate-income, 30 middle-income, and five upper-income census tracts. There were no census tracts designated as low-income. The total population for the AA was 142,294, with 36,900 families and 55,950

households. The 2011 HUD estimated median family income was \$59,200. Families were designated 15.90% low-income, 19.63% moderate-income, 26.11% middle-income, and 38.36% upper-income. Families living below the poverty line total 5.97%.

Based on 2010 U.S. Census Data, the AA consists of one low-income, two moderate-income, 32 middle-income, and two upper-income level census tracts. The total population for the AA is 142,745 and consists of 36,567 families and 57,164 households. The 2013 FFIEC updated median family income for the AA is \$61,700. Families residing in the AA consist of 18.37% low-income, 18.39% moderate-income, 22.99% middle-income, and 40.26% upper-income families. Within these families, 8.18% are living below the poverty line.

Economic conditions within the MN non-MSA AA are stable. According to the U.S. Bureau of Labor Statistics, the June 2013 unemployment rate for the counties in the AA ranged from 4.7% to 5.2%. This is considerably lower than the national unemployment rate of 7.5% and comparable to the 5.2% for the state of Minnesota. The AA's employment is highly concentrated in the service industry (43.02%); agriculture, forestry, and fishing industry (12.39%); and retail trade industry (10.35%).

Competition within the MN non-MSA AA is high. According to the June 30, 2013 FDIC Deposit Market Share Report, there are 34 financial institutions operating in the AA, including HFSB. HFSB has the fifth largest deposit market share at 6.96%.

## **SCOPE OF EVALUATION IN MINNESOTA**

The Rochester MSA and MN non-MSA AAs received full scope reviews and the Dakota County MSA and Houston County AA's received limited scope reviews. The Minnesota state rating is based primarily on results of those areas that received full scope reviews.

The Rochester MSA and MN non-MSA AAs were weighted most heavily in arriving at the overall conclusions as the bank's largest market share for loans and deposits is concentrated in these two areas, along with a majority of the bank's branches. Of the bank's lending activity in MN, 89% originates from the Rochester MSA and MN non-MSA AA's and 91% of the bank's deposits are within these two AAs. The Dakota County MSA and Houston County AAs represent almost 11% of the bank's lending volume and 9% of the deposits in the state.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MINNESOTA**

HFSB's CRA performance in Minnesota is Satisfactory. The bank's performance is Outstanding under the lending test and Satisfactory under the community development test.

## LENDING TEST

The bank's performance under the lending test in Minnesota is rated outstanding. The bank exhibits excellent penetration among businesses of different sizes and borrowers of different income levels. The bank has excellent distribution of commercial and residential mortgage loans among low- and moderate-income geographies.

### Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The distribution of borrowers reflects excellent penetration among businesses of different sizes and individuals of different income levels when compared to the aggregate lending data and AA demographics.

### Rochester MSA

#### Borrower Distribution of Business Loans

The borrower distribution of business loans in the Rochester MSA is excellent.

In 2012-2013, the distribution of business loans reflects excellent distribution among businesses of different sizes. The bank's performance significantly exceeded the aggregate peer group in both the number and dollar volume of loans to borrowers with revenues less than or equal to a million dollars.

<b>2012-2013 Borrower Distribution of Loans to Businesses in Rochester MSA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	74.91%	3.54%	21.54%	100%
Aggregate Lending data	33.99%	66.01%	0%	100%
% of Bank Loans in AA by #	55.00%	45.00%	0%	100%
% of Bank Loans in AA by \$	50.96%	49.04%	0%	100%

Source: OCC Loan Sample; 2012 Peer Lending Data; 2013 Business Geodemographic Data

In 2011, the distribution of business loans reflects excellent distribution among businesses of different sizes. The number of bank loans to businesses with revenues less than or equal to a million dollars significantly exceeds the performance of aggregate lenders and slightly exceeded the demographic comparator of AA businesses. The bank's dollar volume of loans to businesses with revenues less than or equal to a million was significantly lower than the number of loans; however, larger businesses tend to have loans in greater dollar amounts.

<b>2011 Borrower Distribution of Loans to Businesses in Rochester MSA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	71.26%	2.74%	26.01%	100%
Aggregate Lending data	54.77%	45.23%	0%	100%
% of Bank Loans in AA by #	75.00%	25.00%	0%	100%
% of Bank Loans in AA by \$	35.83%	64.17%	0%	100%

Source: OCC Loan Sample; 2011 Peer Lending Data; 2011 Business Geodemographic Data

**Borrower Distribution of Home Mortgage Loans**

The borrower distribution of all home mortgage loans reflects reasonable penetration among individuals of different income levels in comparison to aggregate lending data and AA demographics. Home refinance loans represent the majority of home mortgage lending in the AA, followed by home purchase and then home improvement loans.

Home Refinance Loans

In 2012-2013, the distribution of home refinance loans reflects reasonable penetration among individuals of different income levels. The bank’s lending to low-income borrowers fell below peer and significantly below the AA demographics. Considering 4.99% of families are below the poverty level and would not likely be able to afford a home, the bank’s performance is reasonable. The bank’s lending to moderate-income borrowers fell slightly below both the aggregate lending performance and the AA demographics.

<b>2012-2013 Borrower Distribution of Home Refinance Loans in Rochester MSA</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	8.14%	9.85%	15.87%
Moderate	18.11%	20.49%	18.91%
Middle	23.62%	24.89%	24.72%
Upper	50.13%	44.77%	40.51%

Source: 1/1/2012-6/30/2013 HMDA Data; 2012 Peer Mortgage Data; 2010 Census Data

In 2011, the distribution of borrowers reflects reasonable penetration among individuals of different income levels. The bank’s lending to low-income borrowers fell below peer and significantly below AA demographics. Considering 3.84% of families are below the poverty level and would not be able to afford a home, the bank’s performance compared to AA demographics is more reasonable. Lending to moderate-income borrowers fell below both peer and AA demographics.

<b>2011 Borrower Distribution of Home Refinance Loans in Rochester MSA</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	6.43%	9.67%	15.30%
Moderate	13.57%	20.06%	18.48%
Middle	26.43%	26.27%	27.24%
Upper	53.57%	44.00%	38.97%

Source: 2011 HMDA Data; 2011 Peer Mortgage Data; 2000 Census Data

Home Purchase Loans

The borrower distribution of home purchase loans made in 2012-2013 reflects excellent penetration among individuals of different income levels. The bank’s lending to low- and moderate-income borrowers exceeds aggregate peer lenders and significantly exceeds the AA demographics.

<b>2012-2013 Borrower Distribution of Home Purchase Loans in Rochester MSA</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	25.34%	20.21%	15.87%
Moderate	32.19%	30.77%	18.91%
Middle	15.07%	21.82%	24.72%
Upper	27.40%	27.21%	40.51%

Source: 1/1/2012-6/30/2013 HMDA Data; 2012 Peer Mortgage Data; 2010 Census Data

The borrower distribution of home purchase loans made in 2011 reflects excellent penetration among individuals of different income levels. The bank’s lending to low- and moderate-income borrowers exceeds aggregate lending performance and far exceeds the demographic comparator.

<b>2011 Borrower Distribution of Home Purchase Loans in Rochester MSA</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	27.27%	23.18%	15.30%
Moderate	31.82%	29.95%	18.48%
Middle	15.15%	20.74%	27.24%
Upper	25.76%	26.13%	38.97%

Source: 2011 HMDA Data; 2011 Peer Mortgage Data; 2000 Census Data

Home Improvement Loans

The distribution of home improvement loans reflects excellent penetration among individuals of different income levels in 2012-2013. The bank’s lending to low-income borrowers significantly exceeds aggregate lending performance and is slightly below the AA demographics. Lending to moderate-income borrowers exceeds aggregate lending performance and significantly exceeds AA demographics.

<b>2012-2013 Borrower Distribution of Home Improvement Loans in Rochester MSA</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	14.81%	10.90%	15.87%
Moderate	29.63%	25.56%	18.91%
Middle	40.74%	24.06%	24.72%
Upper	14.81%	39.47%	40.51%

Source: 1/1/2012-6/30/2013 HMDA Data; 2012 Peer Mortgage Data; 2010 Census Data

The distribution of home improvement loans reflects reasonable penetration among individuals of different income levels in 2011. The bank's lending to low-income borrowers was comparable to both aggregate lending performance and AA demographics. Lending to moderate-income borrowers slightly exceeds aggregate lending performance but significantly exceeds AA demographics.

<b>2011 Borrower Distribution of Home Improvement Loans in Rochester MSA</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	15.38%	16.04%	15.30%
Moderate	23.08%	22.18%	18.48%
Middle	38.46%	24.91%	27.24%
Upper	23.08%	36.86%	38.97%

Source: 2011 HMDA Data; 2011 Peer Mortgage Data; 2000 Census Data

## **MN Non-MSA AA**

### **Borrower Distribution of Home Mortgage Loans**

The borrower distribution of all home mortgage loans reflects excellent penetration among individuals of different income levels in comparison to aggregate lending data and AA demographics. Home refinance loans represent the majority of home mortgage lending in the AA, followed by home purchase and then home improvement loans.

#### **Home Refinance Loans**

In 2012-2013, the distribution of home refinance loans reflects excellent penetration among individuals of different income levels. The bank's lending to low-income borrowers exceeded aggregate lending performance but fell significantly below AA demographics. Considering 8.18% of families are below the poverty level and would likely not be able to afford a home, the bank's performance compared to AA demographics is reasonable. The bank's lending to moderate-income borrowers significantly exceeds both aggregate lending performance and AA demographics.

<b>2012-2013 Borrower Distribution of Home Refinance Loans in MN Non-MSA AA</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	8.98%	7.94%	18.37%
Moderate	26.01%	20.74%	18.39%
Middle	29.41%	26.04%	22.99%
Upper	35.60%	45.28%	40.26%

Source: 1/1/2012-6/30/2013 HMDA Data; 2012 Peer Mortgage Data; 2010 Census Data

In 2011, the distribution of loans reflects reasonable penetration among individuals of different income levels. The bank’s lending to low-income borrowers was lower than aggregate lending performance and fell significantly below AA demographics. Considering 5.97% of families are below the poverty level and would likely not be able to afford a home, the bank’s performance compared to AA demographics is more reasonable. The bank’s lending to moderate-income borrowers significantly exceeds both aggregate lending performance and AA demographics.

<b>2011 Borrower Distribution of Home Refinance Loans in MN Non-MSA AA</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	4.14%	7.46%	15.90%
Moderate	26.90%	21.95%	19.63%
Middle	32.41%	25.96%	26.11%
Upper	36.55%	44.63%	38.36%

Source: 2011 HMDA Data; 2011 Peer Mortgage Data; 2000 Census Data

Home Purchase Loans

The borrower distribution of home purchase loans made in 2012-2013 reflects excellent penetration among individuals of different income levels. The bank’s lending to low- and moderate-income borrowers exceeds both aggregate peer lenders and AA demographics.

<b>2012-2013 Borrower Distribution of Home Purchase Loans in MN Non-MSA AA</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	20.99%	18.16%	18.37%
Moderate	33.33%	29.29%	18.39%
Middle	19.75%	24.69%	22.99%
Upper	25.93%	27.87%	40.26%

Source: 1/1/2012-6/30/2013 HMDA Data; 2012 Peer Mortgage Data; 2010 Census Data

The borrower distribution of 2011 home purchase loans reflects excellent penetration among individuals of different income levels. Though the bank’s lending to low-income borrowers fell short of the aggregate lending performance, it was comparable to AA

demographics. In lending to moderate-income borrowers, the bank’s performance substantially exceeded both the aggregate lending performance and AA demographics.

<b>2011 Borrower Distribution of Home Purchase Loans in MN Non-MSA AA</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	15.22%	19.73%	15.90%
Moderate	41.30%	32.50%	19.63%
Middle	21.74%	22.43%	26.11%
Upper	21.74%	25.34%	38.36%

Source: 2011 HMDA Data; 2011 Peer Mortgage Data; 2000 Census Data

Home Improvement Loans

The distribution of home improvement loans reflects excellent penetration among individuals of different income levels in 2012-2013. The bank’s lending to low-income borrowers significantly exceeds aggregate lending performance and exceeds AA demographics. Lending to moderate-income borrowers is below both aggregate lending performance and AA demographics.

<b>2012-13 Borrower Distribution of Home Improvement Loans in MN Non-MSA AA</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	21.21%	8.17%	18.37%
Moderate	15.15%	22.12%	18.39%
Middle	45.45%	29.81%	22.99%
Upper	18.18%	39.90%	40.26%

Source: 1/1/2012-6/30/2013 HMDA Data; 2012 Peer Mortgage Data; 2010 Census Data

The borrower distribution of home improvement loans in 2011 reflects excellent penetration among individuals of different income levels. In lending to moderate-income borrowers the bank’s performance significantly exceeded both the aggregate lending performance and the demographic comparator. The bank’s performance in lending to low-income borrowers was near both the aggregate lenders and AA demographics.

<b>2011 Borrower Distribution of Home Improvement Loans in MN Non-MSA AA</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	12.50%	14.91%	15.90%
Moderate	68.75%	28.95%	19.63%
Middle	12.50%	15.79%	26.11%
Upper	6.25%	40.35%	38.36%

Source: 2011 HMDA Data; 2011 Peer Mortgage Data; 2000 Census Data



**Geographic Distribution of Loans**

The geographic distribution of loans reflects excellent dispersion throughout the bank’s AAs in Minnesota.

**Rochester MSA AA**

There are no low-income census tracts in the Rochester AA for either evaluation period, thus our analysis focused on lending in the moderate-income census tracts.

**Geographic Distribution of Business Loans**

In 2012-2013, the geographic distribution of business loans reflects excellent dispersion throughout the AA. The bank’s performance significantly exceeded both the aggregate small business data and the AA demographic comparator.

<b>2012-13 Geographic Distribution of Loans to Businesses in Rochester MSA AA</b>				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of AA Businesses	0.00%	14.87%	56.45%	28.69%
Aggregate Lending Data	0.00%	14.35%	54.48%	31.17%
% of Number of Bank Loans	0.00%	20.00%	47.50%	82.50%

*Source: Loan Sample; 2012 Peer Lending Data; 2013 Business Geodemographic Data*

In 2011, the geographic distribution of business loans reflects reasonable dispersion throughout the AA. The bank’s performance was slightly below aggregate lending performance but exceeded AA demographics.

<b>2011 Geographic Distribution of Loans to Businesses in Rochester MSA AA</b>				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of AA Businesses*	0.00%	12.77%	62.01%	25.04%
Aggregate Lending Data	0.00%	16.05%	54.86%	29.10%
% of Number of Bank Loans	0.00%	15.00%	35.00%	50.00%

*Source: Loan Sample; 2011 Peer Lending Data; 2011 Business Geodemographic Data*

**Geographic Distribution of Home Mortgage Loans**

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

**Home Refinance Loans**

The geographic distribution of home refinance loans reflects reasonable dispersion in 2012-2013. The bank’s performance in the moderate-income tracts was comparable to the aggregate peer lending performance although it fell below the demographic comparator.

<b>2012-2013 Geographic Distribution of Home Refinance Loans in Rochester MSA</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00%	0.00%	0.00%
Moderate	9.37%	10.12%	12.79%
Middle	44.05%	50.88%	57.48%
Upper	46.58%	39.00%	29.74%

Source: 1/1/2012-6/30/2013 HMDA Data; 2012 Peer Mortgage Data; 2010 Census Data

The geographic distribution of home refinance loans reflects reasonable dispersion in 2011. The bank’s performance in the moderate-income tracts was comparable to the aggregate peer lending performance although it fell significantly below the demographic comparator.

<b>2011 Geographic Distribution of Home Refinance Loans in Rochester MSA</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00%	0.00%	0.00%
Moderate	3.18%	4.32%	9.46%
Middle	45.22%	57.97%	66.13%
Upper	51.59%	37.71%	24.40%

Source: 2011 HMDA Data; 2011 Peer Mortgage Data; 2000 Census Data

Home Purchase Loans

The geographic distribution of home purchase loans reflects excellent dispersion in 2012-2013. The bank’s performance in the moderate-income tracts significantly exceeded both aggregate peer lending performance and the AA demographics.

<b>2012-2013 Geographic Distribution of Home Purchase Loans in Rochester MSA</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00%	0.00%	0.00%
Moderate	19.48%	13.40%	12.79%
Middle	48.70%	51.20%	57.48%
Upper	31.82%	35.40%	29.74%

Source: 1/1/2012-6/30/2013 HMDA Data; 2012 Peer Mortgage Data; 2010 Census Data

The geographic distribution of home purchase loans reflects excellent dispersion in 2011. The bank’s performance in the moderate-income tracts significantly exceeded both aggregate peer lending performance and the AA demographics.

<b>2011 Geographic Distribution of Home Purchase Loans in Rochester MSA</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00%	0.00%	0.00%
Moderate	12.86%	8.36%	9.46%
Middle	52.86%	55.08%	66.13%
Upper	34.29%	36.56%	24.40%

Source: 2011 HMDA Data; 2011 Peer Mortgage Data; 2000 Census Data

**Home Improvement Loans**

The geographic distribution of home improvement loans reflects reasonable dispersion in 2012-2013. The bank’s performance in the moderate-income tracts is adequate compared to aggregate peer lenders but falls significantly below AA demographics.

<b>2012-2013 Geographic Distribution of Home Improvement Loans in Rochester MSA</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00%	0.00%	0.00%
Moderate	7.41%	10.95%	12.79%
Middle	62.96%	54.01%	57.48%
Upper	29.63%	35.04%	29.74%

Source: 1/1/2012-6/30/2013 HMDA Data; 2012 Peer Mortgage Data; 2010 Census Data

The geographic distribution of home improvement loans reflects excellent dispersion in 2011. The bank’s performance in the moderate-income tracts far exceeded both aggregate lenders and the AA demographics.

<b>2011 Geographic Distribution of Home Improvement Loans in Rochester MSA</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00%	0.00%	0.00%
Moderate	15.38%	7.02%	9.46%
Middle	46.15%	63.88%	66.13%
Upper	38.46%	29.10%	24.40%

Source: 2011 HMDA Data; 2011 Peer Mortgage Data; 2000 Census Data

**MN Non-MSA AA**

**Geographic Distribution of Home Mortgage Loans**

The overall geographic distribution of home mortgage loans reflects excellent dispersion throughout the AA. For 2012-2013, the lending performance analysis is based on lending in both low- and moderate-income tracts per the updated 2010 census data. For 2011, lending analysis focused on lending in the moderate-income areas as the AA did not contain any low-income tracts per the 2000 census data.

Home Refinance Loans

The geographic distribution of home refinance loans reflects excellent dispersion in 2012-2013. The bank’s performance in both low- and moderate-income tracts significantly exceeded aggregate peer lending performance. Lending in low-income tracts fell slightly below AA demographics, but lending exceeded AA demographics in moderate-income tracts.

<b>2012-2013 Geographic Distribution of Home Refinance Loans in MN Non-MSA AA</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	2.39%	1.57%	2.72%
Moderate	6.87%	2.42%	5.44%
Middle	82.99%	88.84%	86.41%
Upper	7.76%	7.17%	5.43%

Source: 1/1/2012-6/30/2013 HMDA Data; 2012 Peer Lending Data; 2010 Census Data

The geographic distribution of home refinance loans reflects reasonable dispersion in 2011. The bank’s lending performance in the moderate-income tracts was comparable to aggregate peer lending performance but was slightly below the AA demographics.

<b>2011 Geographic Distribution of Home Refinance Loans in the MN Non-MSA AA</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00%	0.00%	0.00%
Moderate	2.60%	2.78%	4.25%
Middle	80.52%	76.87%	79.62%
Upper	16.88%	20.35%	16.13%

Source: 2011 HMDA Data; 2011 Peer Lending Data; 2000 Census Data

Home Purchase Loans

The geographic distribution of home purchase loans reflects reasonable dispersion in 2012-2013. The bank’s lending performance exceeded both the aggregate peer lending data and AA demographics in low-income tracts. However, lending in moderate-income tracts fell below aggregate peer lending data and AA demographics.

<b>2012-2013 Geographic Distribution of Home Purchase Loans in MN Non-MSA AA</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	3.61%	3.12%	2.72%
Moderate	2.41%	3.81%	5.44%
Middle	84.34%	86.37%	86.41%
Upper	9.64%	6.70%	5.43%

Source: 1/1/2012-6/30/2013 HMDA Data; 2012 Peer Lending Data; 2010 Census Data

The geographic distribution of home purchase loans reflects excellent dispersion in 2011. The bank's lending performance in moderate-income tracts exceeded both aggregate peer lending data and AA demographics.

<b>2011 Geographic Distribution of Home Purchase Loans in MN Non-MSA AA</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00%	0.00%	0.00%
Moderate	4.35%	3.27%	4.25%
Middle	78.26%	79.22%	79.62%
Upper	17.39%	17.51%	16.13%

Source: 2011 HMDA Data; 2011 Peer Lending Data; 2000 Census Data

### Home Improvement Loans

The geographic distribution of home improvement loans reflects excellent dispersion in 2012-2013. The bank's lending to borrowers in moderate-income tracts was significantly above the aggregate lending performance and the demographic comparator. The bank made no home improvement loans in low-income tracts which is consistent with aggregate peer lenders.

<b>2012-2013 Geographic Distribution of Home Improvement Loans in MN Non-MSA AA</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00%	0.00%	2.72%
Moderate	8.82%	3.76%	5.44%
Middle	79.41%	88.73%	86.41%
Upper	11.76%	7.51%	5.43%

Source: 2012 and YTD 2013 HMDA Data; 2012 Peer Lending Data; 2010 Demographic Data

The geographic distribution of home improvement loans reflects excellent dispersion in 2011. The bank's lending to borrowers in moderate-income tracts was significantly above both aggregate lending performance and AA demographics.

<b>2011 Geographic Distribution of Home Improvement Loans in MN Non-MSA AA</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00%	0.00%	0.00%
Moderate	17.65%	7.32%	4.25%
Middle	76.47%	77.24%	79.62%
Upper	5.88%	15.45%	16.13%

Source: 2011 HMDA Data; 2011 Peer Lending Data; 2000 Census Data

### **Conclusions for Areas Receiving Limited-Scope Reviews**

Based on a limited-scope review, HFSB's performance under the lending test in the Dakota County MSA is not inconsistent with the overall outstanding rating for the lending test in the State of Minnesota. HFSB's performance in the Houston County MSA is weaker than the overall outstanding rating for the lending test in the State of Minnesota. Lending performance in the Houston County AA demonstrated reasonable penetration among businesses of different sizes. The geographic distribution analysis was not completed since there were no low- or moderate-income census tracts in the AA.

### **Responses to Complaints**

During this evaluation period, there were no complaints related to HFSB's performance in meeting AA credit needs.

## **COMMUNITY DEVELOPMENT TEST**

The bank's performance under the community development test in Minnesota is rated Satisfactory. HFSB's community development performance demonstrates excellent responsiveness to the community development needs of its Rochester AA and adequate responsiveness to the community development needs of its MN non-MSA AA.

### **Rochester MSA**

#### **Number and Amount of Community Development Loans**

HFSB originated six community development loans totaling over \$2.7 million during the examination period. These loans provided operating funds to three organizations that provide community services to low- and moderate-income individuals.

#### **Number and Amount of Qualified Investments**

HFSB made thirteen charitable contributions totaling \$82 thousand for community development purposes in the Rochester MSA. Charitable donations supported twelve organizations that provide community services for low- and moderate-income individuals and families.

#### **Extent to Which the Bank Provides Community Development Services**

HFSB provides a significant amount of community development services in the Rochester MSA. Fifteen employees provided services to 25 different organizations, recording 2,635 hours of community development services. Board members and employees served largely in leadership roles for organizations providing for social services, job training, and affordable housing needs of low- and moderate-income individuals and economic development.

## **Responsiveness to Community Development Needs**

HFSB's community development loans, investments, and services reflect excellent responsiveness to the community development needs of the Rochester MSA. One of the bank's four branches and two of the seven automated teller machines are located in moderate-income census tracts. This generally increases access to financial services to low- and moderate-income individuals.

## **MN non-MSA**

### **Number and Amount of Community Development Loans**

HFSB originated eight community development loans totaling over \$511 thousand during the examination period. Loans were to six borrowers to revitalize the downtown business district of Austin, MN.

### **Number and Amount of Qualified Investments**

HFSB made five charitable contributions totaling over \$4 thousand for community development purposes in the MN non-MSA AA. Charitable donations supported four organizations that promote economic development and provide community services for low- and moderate-income individuals and families.

### **Extent to Which the Bank Provides Community Development Services**

HFSB provides a significant amount of community development services in the MN non-MSA. Seven employees provided services to eight different organizations, recording 464 hours of community development services. Employees served mostly in leadership roles for organizations providing for economic development in the community.

## **Responsiveness to Community Development Needs**

HFSB's community development loans, investments, and services reflect adequate responsiveness to the community development needs of the MN non-MSA. One of the bank's four branches and one of the four automated teller machines are located in a low-income census tract. This generally increases access to financial services to low- and moderate-income individuals.

## **Performance in Limited-Scope Assessment Areas of the State of Minnesota**

Based on limited-scope reviews, bank performance in the Dakota County MSA AA is not inconsistent with the overall Satisfactory rating for the Community Development Test for the State of Minnesota. Performance in the Houston County AA is weaker than and not consistent with the overall Satisfactory rating for the State of Minnesota. Performance weaknesses are attributed to the limited deposits of this AA, representing less than 5% of HFSB's deposits in the State of Minnesota.

## State Rating

### State of Iowa

#### CRA Rating for Iowa: Satisfactory

The Lending test is rated: Outstanding

The Community Development test is rated: Satisfactory

The major factors that support the overall rating for Iowa include:

- HFBSB's distribution of loans in the Iowa AA reflects excellent penetration among borrowers of different income levels.
- HFBSB's distribution of loans reflects excellent dispersion throughout census tracts of different income levels.
- HFBSB demonstrates adequate responsiveness to the community development (CD) needs of the AA through CD investments.

**Note: The net loan-to-deposit ratio and percentage of loans and other lending-related activity in the assessment area only apply to the institution overall. No discussion of these performance criteria applies to sections of the performance evaluation relating to states, and assessment areas.**

## DESCRIPTION OF INSTITUTION'S OPERATIONS IN IOWA

The AA includes ten contiguous census tracts located in Marshall County, Iowa. HFBSB has one branch and one automated teller machine in this AA, located in a moderate-income census tract. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income level areas.

The 2000 census showed the AA consisted of one moderate-income, 13 middle-income, and two upper-income census tracts. There were no low-income census tracts within the AA. The total population for the AA was 57,414, with 15,497 families and 22,343 households. The 2011 HUD estimated median family income was \$58,500. Families were designated 16.19% low-income, 18.26% moderate-income, 25.66% middle-income, and 39.89% upper-income. Families living below the poverty line total 7.27%.

Based on 2010 U.S. Census data, the AA consists of two moderate-income and eight middle-income census tracts. There are no low- or upper-income census tracts within the AA. The total population for the AA is 40,648 and consists of 10,207 families and 15,517 households. The 2013 FFIEC updated median family income (MFI) for the AA is \$59,800. Families residing in the AA consist of 17.20% low-income, 21.50% moderate-



income, 24.37% middle-income, and 36.93% upper-income. Within these families, 8.82% are living below the poverty line.

Economic conditions in the AA are stable. According to the June 2013 U.S. Bureau of Labor Statistics, the AA's unemployment rate was 5.8%. This compares favorably to the national average of 7.5% but is significantly above the state of Iowa at 4.6%. The AA's employment is highly concentrated in the service industry (39.98%); agriculture, forestry, and fishing (13.37%); and retail trade (11.06%). Major employers in the AA include JBS Swift, Emerson Process Management Fisher Division, Marshalltown Community School District, Iowa Veterans Home, and Lennox Manufacturing.

Competition amongst financial institutions is low. According to the June 30, 2013 FDIC Deposit Market Share Report, there are 12 financial institutions operating within the AA, including HFSB. HFSB ranks ninth with 4.89% deposit market share.

## **SCOPE OF EVALUATION IN IOWA**

A full scope review of the Marshall County AA was completed since this is HFSB's only AA located in Iowa. The Iowa rating is based wholly on the results of this single AA.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN IOWA**

HFSB's CRA performance in Iowa is Satisfactory. Performance under the lending test is Outstanding and the community development test is Satisfactory.

## **LENDING TEST**

The bank's performance under the lending test in Iowa is rated Outstanding. The bank exhibits excellent distribution of home refinance loans among borrowers of different income levels. The bank has excellent distribution of loans among low- and moderate-income geographies.

### **Lending to Borrowers of Different Incomes**

In 2012-2013, the distribution of home refinance loans reflects excellent penetration among individuals of different income levels in comparison to aggregate lending data. The bank's lending performance exceeds aggregate lenders performance to both low- and moderate-income borrowers. The bank's lending to moderate-income borrowers exceeds AA demographics but falls significantly below AA demographics when lending to low-income borrowers. Considering that 8.82% of families are below the poverty level and cannot afford a home, the bank's lending to low-income borrowers is reasonable.

<b>2012-2013 Borrower Distribution of Home Refinance Loans in Marshall County</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	7.89%	6.21%	17.20%
Moderate	23.68%	22.32%	21.50%
Middle	21.05%	24.66%	24.37%
Upper	47.37%	46.81%	36.93%

Source: 1/1/2012-6/30/2013 HMDA Data; 2012 Peer Mortgage Data; 2010 Census Data

In 2011, the distribution of home refinance loans reflects reasonable penetration among individuals of different income levels. Lending to low-income borrowers fell significantly short of aggregate peer lenders and AA demographics. However, considering 7.27% of families are below the poverty level and cannot afford homes, the bank’s performance is considered reasonable. Lending to moderate-income borrowers significantly exceeded both peer and AA demographics.

<b>2011 Borrower Distribution of Home Refinance Loans in Marshall County</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	4.17%	10.17%	16.19%
Moderate	35.42%	22.20%	18.26%
Middle	27.08%	26.61%	25.66%
Upper	33.33%	41.02%	39.89%

Source: 2011 HMDA Data; 2011 Peer Mortgage Data; 2000 Census Data

**Geographic Distribution of Loans**

We focused on lending in moderate-income areas as the AA did not contain any low-income tracts during the evaluation period.

In 2012-2013, the geographic distribution of home refinance loans reflects excellent dispersion throughout the AA. The bank exceeds aggregate peer lending performance, but falls short of AA demographics.

<b>2012-2013 Geographic Distribution of Home Refinance Loans in Marshall County</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00%	0.00%	0.00%
Moderate	10.53%	8.72%	17.24%
Middle	89.47%	91.28%	82.76%
Upper	0.00%	0.00%	0.00%

Source: 1/1/2012-6/30/2013 HMDA Data; 2012 Peer Lending Data; 2010 Census Data

In 2011, the geographic distribution of home refinance loans reflects excellent dispersion throughout the AA. The bank significantly exceeds aggregate peer lending performance and exceeds AA demographics.

<b>2011 Geographic Distribution of Home Refinance Loans in Marshall County</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00%	0.00%	0.00%
Moderate	6.12%	1.74%	5.23%
Middle	75.51%	74.17%	75.50%
Upper	18.37%	24.09%	19.28%

*Source: 2011 HMDA Data; 2011 Peer Lending Data; 2000 Census Data*

**Responses to Complaints**

During this evaluation period, there were no complaints related to HFBSB’s performance in meeting AA credit needs.

**COMMUNITY DEVELOPMENT TEST**

The bank’s performance under the community development test in Iowa is rated Satisfactory.

**Number and Amount of Community Development Loans**

During the evaluation period, HFBSB did not generate any community development loans.

**Number and Amount of Qualified Investments**

HFBSB made four charitable contributions totaling \$6 thousand for community development purposes in the Marshall County AA. Charitable donations supported three organizations that provide community services for low- and moderate-income individuals and families.

**Extent to Which the Bank Provides Community Development Services**

During the evaluation period, HFBSB did not conduct any community development services.

**Responsiveness to Community Development Needs**

HFBSB’s community development investments reflect adequate responsiveness to the community development needs of the Marshall County AA. The bank’s only branch and ATM are located in a moderate-income census tract. This generally increases access to financial services to low- and moderate-income individuals.

## Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test: (01/01/2011 to 06/30/2013) Community Development Test: (01/01/2011 to 06/30/2013)	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
Home Federal Savings Bank Rochester, MN	Commercial, Residential Real Estate	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Minnesota: Rochester MSA #40340 MN non-MSA Houston County MSA #29100 Dakota County MSA #33460  Iowa: Marshall County	Full Scope Full Scope Limited Scope Limited Scope  Full Scope	

## Appendix B: Summary of State Ratings

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Overall Bank:	Lending Test Rating	Community Development Test Rating	Overall Bank/State/Multistate Rating
Home Federal Savings Bank	Outstanding	Satisfactory	Satisfactory
Minnesota	Outstanding	Satisfactory	Satisfactory
Iowa	Outstanding	Satisfactory	Satisfactory