



Office of the
Comptroller of the Currency
Washington, DC 20219

INTERMEDIATE SMALL BANK

PUBLIC DISCLOSURE

January 3, 2017

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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Minneapolis, MN 55402-3393

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: Satisfactory

The Community Development Test is rated: Satisfactory

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

- HFSB's loan to deposit ratio (LTD) is 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 reasonable penetration among borrowers of different income levels;
- HFSB's distribution of loans reflects reasonable dispersion throughout census tracts (CTs) of different income levels; and
- HFSB demonstrates adequate responsiveness to the community development needs in its AAs.

Scope of Examination

HFSB was evaluated under the Intermediate Small Bank examination procedures, which include a Lending Test and a 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.

HFSB has five AAs in the states of Minnesota and Iowa. Minnesota has four AAs, which include the Rochester, MN Metropolitan Statistical Area (MSA) AA, the MN Non-MSA AA, the LaCrosse-Onalaska WI-MN MSA AA, and the Minneapolis-St. Paul-Bloomington, MN-WI MSA AA. The state of Iowa includes one AA, which is the Iowa Non-MSA AA. Each state and AA is explained further within each State Rating section. The bank's AAs meet the requirements of the regulation and do not arbitrarily exclude any low-or moderate-income (LMI) CTs.

The Lending Test for HFSB covers its performance from January 1, 2014 through December 31, 2015 (the evaluation period). The number and dollar volume of originated and purchased loans were evaluated to determine the primary products for each of the bank's AAs. We determined HFSB's primary loan products for each AA by reviewing a loan origination report, provided by the bank, during the evaluation period. Primary products are listed in bold on the following tables.

Loan Originations and Purchases in 2014 and 2015 in the Rochester MSA		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Commercial	36.89%	80.20%
Consumer	39.36%	5.73%
RRE* – Purchase	14.68%	9.08%
RRE – Refinance	6.10%	4.37%
RRE – Home Improvement	2.44%	0.32%
Agriculture	0.54%	0.36%

Source: Bank loan origination report for 2014 and 2015

*Residential real estate

Loan Originations and Purchases in 2014 and 2015 in the MN Non-MSA		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Consumer	51.41%	15.66%
Commercial	12.21%	36.26%
RRE – Purchase	18.64%	30.85%
RRE – Refinance	12.21%	15.14%
RRE – Home Improvement	5.27%	1.40%
Agriculture	0.26%	0.70%

Source: Bank loan origination report for 2014 and 2015

Loan Originations and Purchases in 2014 and 2015 in the LaCrosse MSA		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Consumer	58.68%	15.49%
Commercial*	22.75%	49.96%
RRE – Purchase	7.19%	17.28%
RRE – Refinance	7.78%	13.96%
RRE – Home Improvement	2.99%	2.13%
Agriculture	0.61%	1.19%

Source: Bank loan origination report for 2014 and 2015

*This loan type was not selected as a primary product as the number of different borrowers was too insignificant to conduct a meaningful analysis.

Loan Originations and Purchases in 2014 and 2015 in the Minneapolis MSA		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Commercial	73.50%	93.77%
Consumer	21.20%	0.66%
RRE – Refinance	3.53%	4.82%
RRE – Home Improvement	1.06%	0.08%
RRE – Purchase	0.71%	0.66%
Agriculture	0.00%	0.00%

Source: Bank loan origination report for 2014 and 2015

Loan Originations and Purchases in 2014 and 2015 in the IA Non-MSA		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Consumer	52.35%	18.90%
Commercial*	20.81%	51.71%
RRE – Purchase	12.08%	18.72%
RRE – Refinance	10.07%	8.77%
RRE – Home Improvement	4.03%	0.78%
Agriculture	0.67%	1.14%

Source: Bank loan origination report for 2014 and 2015

**This loan type was not selected as a primary product as the number of different borrowers was too insignificant to conduct a meaningful analysis.*

To evaluate HFSB's lending performance, examiners sampled 20 primary product loans in each applicable AA. Additional loans were selected as needed to have sufficient information to analyze borrower and geographic distributions within each AA. All loans originated and purchased in 2014 and 2015 were compared to 2015 peer data and 2010 census information.

We used loans reported under the Home Mortgage Disclosure Act (HMDA) from January 1, 2014 through December 31, 2015 to analyze Lending Test performance for residential real estate loans in the MN Non-MSA. We previously tested the collected HMDA data and found the information to be reliable. As a result, the data was used in this evaluation.

The Community Development Test encompasses activities from July 1, 2013 through December 31, 2015. We reviewed all loans, investments, and services with a primary purpose of CD presented by management. Those activities that meet the definition of CD are included in this evaluation.

Description of Institution

HFSB is an interstate federally chartered stock savings bank headquartered in Rochester, MN. As of September 30, 2016, HFSB had \$684 million in total assets. HFSB is owned by HMN Financial, Inc., a single-bank holding company. The bank has two wholly owned subsidiaries: Osterud Insurance Agency, Inc. and HF Property Holdings, LLC. Osterud Insurance Agency, Inc. offers financial planning products and services, and HF Property Holdings, LLC holds other real estate owned separate from the bank. HFSB has one branch in Iowa and twelve branches in Minnesota. Of these 13 branches, the IA Non-MSA is located in a moderate-income CT, one MN Non-MSA branch is located in a low-income CT, and two Rochester MSA branches are located in moderate-income CTs. The bank also operates three loan production offices in Sartell, MN, Owatonna, MN, and Delafield, WI. In August of 2015, the bank acquired Kasson State Bank, which was headquartered in Kasson, MN. This acquisition added two branches for HFSB. There have been no branch closings during the evaluation period. HFSB operates 14 automated teller machines (ATMs), none of which accept deposits.

Please see the “Description of Institution” under each State for more information about HFSB’s branches in full-scope areas.

HFSB is a full-service financial institution offering traditional loan and deposit products and services to commercial and consumer customers. 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 other business loans. HFSB’s business strategy over the evaluation period was to grow its commercial loan portfolio.

As of September 30, 2016, HFSB net loans and leases totaled \$567 million, representing 81 percent of total assets. As of December 31, 2015, tier one capital was \$72 million and the tier one leverage ratio was 11 percent. The loan portfolio consists of 63 percent commercial, 23 percent residential real estate, 13 percent consumer, and one percent agricultural.

HFSB actively participates in several special loan programs that are designed to help build individual credit. Some programs provide down payment and closing costs assistance for first time homebuyers as well as provide funds for home improvement to assist LMI borrowers. Affordable loans targeted to LMI borrowers are offered through loan programs with Minnesota Housing Finance Agency (MHFA), the Iowa Finance Authority, and USDA Guaranteed Housing.

HFSB received a “Satisfactory” rating on its last CRA examination dated July 29, 2013. No legal, regulatory, or financial limitations are evident which would preclude HFSB from helping to serve the credit needs of its AAs.

Selection of Areas for Full-Scope Review

In each state where HFSB has a branch, at least one AA within that state was selected for full-scope review. We considered the number of branches, the volume of lending, and deposit levels within Minnesota to determine which AA would receive full- or limited-scope reviews. We selected the Rochester MSA in Minnesota and the IA Non-MSA in Iowa for full-scope reviews during the 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 as it represented 92 percent of the bank’s total deposit base, 97 percent of loan originations and purchases, and held 92 percent of the bank’s branches. As such, the least weight in the overall rating was placed on the State of Iowa.

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 reasonable. HFSB’s LTD ratio is reasonable, and a majority of the loans originated were inside the bank’s AAs. The bank’s borrower distribution reflects reasonable penetration among borrowers of different income levels, and the geographic distribution of HFSB’s loans reflect reasonable dispersion among LMI geographies.

Loan-to-Deposit Ratio

HFSB’s average LTD ratio is reasonable given the bank’s size, financial condition, and AA credit needs. HFSB’s quarterly net LTD ratio averaged 79.19 percent over the 13 quarters from September 30, 2013 to September 30, 2016. The ratio ranged from a quarterly low of 69.48 percent to a quarterly high of 93.80. HFSB’s LTD ratio ranks first among two similarly situated banks. Similarly situated banks include those operating in the banks AAs with similar asset sizes.

Loan-to-deposit Ratio Institution (Headquarters)	Assets as of 09/30/16 (\$000s)	Average LTD Ratio (%)
<i>Home Federal Savings Bank (Rochester, MN)</i>	\$684,441	79.19
Sterling State Bank (Austin, MN)	\$340,487	75.21
Vermillion State Bank (Vermillion, MN)	\$521,799	62.03

Source: Call Report data as of September 30, 2016.

Lending in Assessment Area

The bank originates a majority of its loans inside its designated AAs. A random sample of 60 business loans, 80 consumer loans, and all HMDA loans were analyzed to determine the bank’s lending in 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.

Lending in HFSB's AAs										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total \$(000)
	#	%	#	%		\$(000)	%	\$(000)	%	
HMDA loans	1,012	77.85	288	22.15	1,300	125,861	59.82	84,523	40.18	210,384
Business Loans	39	65.00	21	35.00	60	34,134	85.47	5,804	14.53	39,938
Consumer Loans	66	82.50	14	17.50	80	1,059	85.50	179	14.50	1,238
Totals	1,117	77.57	323	22.43	1,440	161,054	64.02	90,506	35.98	251,560

Source: OCC Loan Samples; 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 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 Minnesota: Satisfactory

The Lending Test is rated: Satisfactory

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

DESCRIPTION OF INSTITUTION'S OPERATIONS IN MINNESOTA

HFSB has four AA's in Minnesota. The Rochester MSA received a full-scope review. The MN Non-MSA, Minneapolis MSA, and LaCrosse MSA AAs received limited-scope reviews.

Rochester MSA

The AA includes 44 contiguous CTs and the full counties of Olmsted, Fillmore, and Dodge. HFSB has seven branches and seven ATMs located in this AA. Based on 2010 U.S. Census data, the AA consists of eight moderate-income CTs, 27 middle-income CTs, and nine upper-income CTs. There are no low-income CTs within the AA. The AA meets the requirements of the regulation and does not arbitrarily exclude any LMI CTs.

The economy is expanding, which is driven by a targeted focus on expanding healthcare. Rochester has an economic development initiative called the Destination Medical Center (DMC) which is a 20 year, 5.6 billion dollar economic development initiative. The DMC's goal is to position Rochester as the global health center for the highest quality healthcare. The DMC is the largest economic development initiative in Minnesota history. Service businesses are one of the largest industries in the Rochester area given the millions of national and international visitors to the Mayo Clinic for medical care. Rochester houses and accommodates approximately three million visitors each year. Major employers in the AA include the Mayo Clinic, IBM Corp., and the Rochester Public School system.

According to the U.S. Bureau of Labor Statistics, the annual unemployment rate in 2015 for Dodge, Olmsted, and Fillmore counties were 3.7 percent, 3.0 percent, and 4.1

percent respectively. The unemployment rate of these counties were lower than the 5.3 percent national average and similar to the 3.7 percent unemployment rate in the State of Minnesota.

Competition in the AA is moderate. According to the June 30, 2016 FDIC Deposit Market Share Report, 29 financial institutions operate 76 branches throughout the AA. HFSB ranks fifth among the 29 financial institutions in the AA with \$332 million in deposits or 7.27 percent. HFSB’s primary competitors are Think Mutual Bank, Wells Fargo Bank N.A., US Bank N.A, and Bremer Bank who together hold approximately 64 percent of the market share. All other institutions hold three percent or less of the deposit market share.

We contacted one community leader within the Rochester MSA as part of this evaluation. The community contact indicated a need for affordable housing in the Rochester MSA for LMI residents.

2015 DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE ROCHESTER MSA AA	
Population	
Individuals	185,201
Number of Families	48,578
Number of Households	71,913
% of Low-Income Families	16.72%
% of Moderate-Income Families	18.53%
% of Middle-Income Families	24.32%
% of Upper-Income Families	40.43%
Geographies	
Number of Census Tracts	44
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	18.18%
% Middle-Income Census Tracts	61.36%
% Upper-Income Census Tracts	20.45%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$74,450
2015 FFIEC-Adjusted MFI	\$81,700
Economic Indicators	
2015 Unemployment Rate	3.60%
2010 Median Housing Value	\$177,816
% of Households Below Poverty Level	7.91%

Source: 2010 U.S. Census data with updated information when available

SCOPE OF EVALUATION IN MINNESOTA

The Rochester MSA received a full-scope review and the MN Non-MSA, Minneapolis MSA, and LaCrosse MSA AAs received limited-scope reviews. The MN Non-MSA consists of the counties of Freeborn, Mower, and Winona. The Minneapolis MSA consists of Dakota County, and the LaCrosse MSA consists of Houston County.

The Rochester MSA was weighted most heavily in arriving at the overall conclusions as the bank’s largest market share for loans and deposits is concentrated in this area as well as a majority of the bank’s branches. Seventy one percent of loans originated from the Rochester MSA, and 63 percent of the bank’s deposits are in the Rochester MSA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MINNESOTA

HFSB’s CRA performance in Minnesota is Satisfactory. The bank’s performance is Satisfactory under both the Lending Test and the Community Development Test.

LENDING TEST

The bank’s performance under the Lending Test in the State of Minnesota is rated Satisfactory. The bank exhibits reasonable penetration among businesses of different sizes and borrowers of different income levels. The bank has reasonable distribution of loans among LMI CTs.

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

The distribution of borrowers reflects reasonable 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 distribution of business loans reflects reasonable penetration among businesses of different sizes. The bank’s performance significantly exceeded the aggregate peer data by number, but was below peer by dollar volume. HFSB was also near the percentage of businesses in the AA by number. Although the 14 percent of unreported businesses could potentially be additional small businesses, we have no reason to believe that the non-reporters are a disproportionate amount of small businesses.

Borrower Distribution of Loans to Businesses in Rochester MSA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	81.08	4.58	14.35	100.00
Aggregate Lending data	54.11	45.89	0.00	100.00
% of Bank Loans in AA by #	70.00	30.00	0.00	100.00
% of Bank Loans in AA by \$	37.00	63.00	0.00	100.00

Source: Loan Sample; 2015 Peer Lending Data; June 2015 Dunn and Bradstreet Data

Based on limited-scope reviews, the performance in the MN Non-MSA and the Minneapolis MSA are not inconsistent with the performance in the Rochester MSA.

Borrower Distribution of Consumer Loans

The borrower distribution of consumer loans in the Rochester MSA reflects reasonable penetration. The distribution of consumer loans to LMI borrowers exceeds the percentage of LMI households living in the AA.

Borrower Distribution of Consumer Loans in Rochester MSA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	21.28	21.67	17.23	23.33	20.13	25.00	41.36	30.00

Source: OCC Loan Sample; 2010 Demographic Data

Based on limited-scope reviews, the performance in the MN Non-MSA and the LaCrosse MSA are not consistent with the performance in the Rochester MSA. Performance in MN Non-MSA and LaCrosse MSA are stronger than the performance in the Rochester MSA as lending demonstrates excellent penetration of consumer loans among borrowers of different incomes.

Geographic Distribution of Loans

The distribution of loans reflects reasonable dispersion throughout CTs of different income levels.

Rochester MSA

Geographic Distribution of Business Loans

The geographic distribution of business loans reflects reasonable dispersion throughout the AA. The bank’s performance is near both the aggregate small business data and the demographic comparator.

Geographic Distribution of Loans to Businesses in Rochester MSA				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of AA Business	0.00	14.57	60.22	25.21
Aggregate Lending Data	0.00	12.29	59.75	27.96
% of Number of Bank Loans	0.00	10.00	55.00	35.00

Source: OCC Loan Sample; 2015 Peer Lending Data; June 2015 Dunn and Bradstreet data

Based on limited-scope reviews, the performance in the MN Non-MSA and the Minneapolis MSA are not consistent with the performance in the Rochester MSA. Performance in the MN Non-MSA and the Minneapolis MSA are stronger than the performance in the Rochester MSA as the number of loans originated exceeded the peer and demographic data in the LMI CTs.

Geographic Distribution of Consumer Loans

The geographic distribution of consumer loans reflects excellent dispersion throughout the AA. The bank’s performance significantly exceeds the demographic comparator.

Our geographic distribution analysis included a review of lending gaps, particularly in the LMI areas. We did not identify any unexplained conspicuous gaps in the Rochester MSA AA.

Geographic Distribution of Consumer Loans in Rochester MSA								
Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	0.00	0.00	16.27	45.00	60.48	35.00	23.25	20.00

Source: OCC Loan Sample; 2010 Demographic Data

Based on limited-scope reviews, the performance in the MN Non-MSA is not consistent with the performance in the Rochester MSA. The performance was weaker as the number of loans originated fell below the demographics in the LMI CTs. A geographic distribution analysis was not conducted in the LaCrosse MSA as there are no LMI CTs 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 CD performance demonstrates adequate responsiveness to the CD needs of the Rochester AA.

Rochester MSA

Number and Amount of Community Development Loans

HFSB demonstrated adequate responsiveness with the amount of CD loans originated during the evaluation period. HFSB originated seven CD loans, totaling over \$1.5 million or approximately four percent of allocated tier one Capital. Allocated tier one capital is tier one capital as of December 31, 2015 multiplied by the percent of deposits in the AA. The loans made during the evaluation period by HFSB provided funds to six organizations who provided community services to LMI individuals, affordable housing, and promoted economic development.

Based on limited-scope reviews, bank performance in the MN Non-MSA, Minneapolis MSA, and the LaCrosse MSA are weaker than the Rochester MSAs adequate performance. Performance weaknesses are attributed to the limited deposits and/or opportunities in these AAs.

Number and Amount of Qualified Investments

HFSB demonstrated poor responsiveness with the amount of qualified investments made during the evaluation period. HFSB made thirteen charitable contributions, totaling \$74 thousand or 0.18 percent of allocated tier one capital for CD purposes in the Rochester MSA. Charitable donations supported thirteen organizations that provide community services and affordable housing for LMI individuals and small business development.

Based on limited-scope reviews, the bank's performance in the MN Non-MSA, the Minneapolis MSA, and the LaCrosse MSA are not inconsistent with the rating of the Rochester MSA.

Extent to Which the Bank Provides Community Development Services

HFSB demonstrated excellent responsiveness with the amount of CD services in the Rochester MSA. Twelve employees, or 19 percent of the employees working in the AA, provided services to 13 different organizations, recording 938 hours of CD services. Employees served in leadership roles for organizations providing social services and affordable housing to LMI persons as well as promoting economic development.

Based on limited-scope reviews, the bank's performance in the Minneapolis MSA, MN Non-MSA, and the LaCrosse MSA are not inconsistent with the rating of the Rochester MSA.

Responsiveness to Community Development Needs

Responsiveness to the CD needs of the Rochester MSA is excellent. As mentioned previously, two of the bank's branches in the Rochester MSA are located in moderate-income CTs. One of the bank's branches in the MN Non-MSA is located in a low-income CT. The location of these branches generally increases access to financial services to LMI individuals. The bank also focuses some of their initiatives on affordable housing, which was identified by the community contact as a specific community need in the Rochester MSA.

State Rating

State of Iowa

CRA Rating for Iowa: Satisfactory

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

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

- HFSB's distribution of loans in the Iowa AA reflects reasonable penetration among borrowers of different income levels.
- HFSB's distribution of loans reflects reasonable dispersion throughout CTs of different income levels.
- HFSB demonstrates adequate responsiveness to CD needs of the AA through qualified investments and CD services.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN IOWA

The AA includes ten contiguous CTs within the full county of Marshall in Iowa. HFSB has one branch in this AA, which is located in a moderate-income CT. The 2010 census data showed the AA consists of two moderate-income, seven middle-income, and one upper-income CT. There are no low-income CTs within the AA.

Economic conditions in the AA are stable. According to the U.S Bureau of Labor Statistics, the 2015 annual AA's unemployment rate was five percent. This is above the State of Iowa unemployment rate at 3.7 percent and similar to the national unemployment rate of 5.3 percent. The AA is concentrated in the service industry (40.22 percent); followed by agriculture (16.09 percent) and retail trade (11.90 percent). Major employers in the AA include JBS Swift & Company, Emerson Process Mgt/Fisher Controls, Marshalltown Community School District, Iowa Veterans Home, and Lennox Industries Inc.

Competition amongst financial institutions is moderate. According to the June 30, 2016 FDIC Deposit Market Share Report, there are 12 financial institutions operating within the AA. HFSB ranks eighth with 5.27 percent of the deposit market share. Wells Fargo N.A., Central State Bank, and Great Western Bank lead the market with a combined market share of 59 percent.

2010 DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE IA Non-MSA AA	
Population	
Individuals	40,648
Number of Families	10,207
Number of Households	15,517
% of Low-Income Families	16.86%
% of Moderate-Income Families	21.41%
% of Middle-Income Families	24.04%
% of Upper-Income Families	37.69%
Geographies	
Number of Census Tracts	10
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	20.00%
% Middle-Income Census Tracts	70.00%
% Upper-Income Census Tracts	10.00%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$56,190
2015 FFIEC-Adjusted MFI	\$62,000
Economic Indicators	
2015 Unemployment Rate	5.00%
2010 Median Housing Value	\$101,856
% of Households Below Poverty Level	11.01%

Source: 2010 U.S. Census data with updated information when available

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 both the Lending Test and the Community Development Test are Satisfactory.

LENDING TEST

The bank's performance under the Lending Test in Iowa is rated Satisfactory. The bank exhibits reasonable penetration of consumer loans among borrowers of different income levels. The bank exhibits reasonable dispersion of loans among LMI CTs.

Lending to Borrowers of Different Incomes

The borrower distribution of consumer loans in the IA Non-MSA reflects reasonable penetration. The distribution of consumer loans to LMI borrowers exceeds the percentage of LMI households living in the AA.

Borrower Distribution of Consumer Loans in IA Non-MSA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	20.36	25.00	18.24	30.00	20.08	25.00	41.32	20.00

Source: OCC Loan Sample; 2010 Demographic Data

Geographic Distribution of Consumer Loans

HFSB’s performance reflects reasonable dispersion of consumer loans in LMI geographies in comparison to the percentage of households within the IA Non-MSA. Considering the poverty rate of 19.98 percent in the moderate-income CTs, the bank’s performance compared to the demographic comparator is reasonable. Our geographic distribution analysis included a review of lending gaps, particularly in the LMI areas. We did not find any unexplained conspicuous gaps in the AA.

Geographic Distribution of Consumer Loans in IA Non-MSA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	0.00	0.00	22.03	14.29	60.42	71.43	17.55	14.29

Source: OCC Loan Sample; 2010 Demographic Data

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 Iowa is rated Satisfactory.

Number and Amount of Community Development Loans

During the evaluation period, HFSB did not generate any CD loans.

Number and Amount of Qualified Investments

HFSB demonstrated adequate responsiveness in the AA by contributing to CD organizations in the AA. The bank made two charitable contributions, totaling four thousand dollars for CD purposes in the IA Non-MSA. Charitable donations supported one organization that provides community services for LMI individuals.

Extent to Which the Bank Provides Community Development Services

HFSB demonstrated excellent responsiveness with the amount of CD services provided in the IA Non-MSA. Three employees, or 38 percent of employees working in the AA, provided services to two different organizations, recording 80 hours of CD services. These organizations provide social services to LMI persons.

Responsiveness to Community Development Needs

Responsiveness to the CD needs of the IA Non-MSA is excellent. As previously mentioned, the bank's only branch in Iowa is located in a moderate-income CT. This generally increases access to financial services to LMI 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”).

Time Period Reviewed	Lending Test: (01/01/2014 to 12/31/2015) Community Development Test: (07/01/2013 to 12/31/2015)	
Financial Institution	Products Reviewed	
Home Federal Savings Bank Rochester, MN	Commercial, Consumer, Residential Real Estate	
Affiliate(s)	Affiliate Relationship	Products Reviewed
HNN Financial Inc. Osterud Insurance Agency, Inc.	Subsidiary Subsidiary	None None
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Minnesota: Rochester MSA #40340 MN Non-MSA LaCrosse MSA #29100 Minneapolis MSA #33460 Iowa: IA Non-MSA	Full Scope Limited Scope Limited Scope Limited Scope Full Scope	Olmsted, Dodge, and Fillmore Counties Freeborn, Mower, and Winona Counties Houston County Dakota County Marshall County

Appendix B: Summary of State Ratings

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