



PUBLIC DISCLOSURE

October 5, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Community Development Bank FSB
Charter Number 717428

516 Main Street
Ogema, MN 56569

Office of the Comptroller of the Currency

Campbell Mithun Tower
222 South Ninth Street
Suite 800
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.

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

- A majority of loans were originated inside the AA.
- Distribution of loans to borrowers of different income levels and business of different sizes reflects excellent penetration.
- Geographic distribution of loans reflects excellent dispersion throughout the AA.
- The bank's net loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and credit needs of its assessment area (AA).

SCOPE OF EXAMINATION

We evaluated Community Development Bank FSB's (CDB) Community Reinvestment Act (CRA) performance using small bank procedures. The bank's CRA performance was assessed under the lending test and focused on the bank's primary loan products based on loan originations and purchases from January 1, 2013 to June 30, 2015. We determined the bank's primary loan products to be commercial and consumer loans. We selected a random sample of 20 loans from each primary product during the evaluation period to determine the bank's lending activity within its AA. Additional loans were selected as needed to have sufficient information to analyze borrower and geographic distributions. The following table shows loan originations and purchases by number and dollar volume:

| Loan Originations and Purchases from January 1, 2013 to June 30, 2015 | | |
|--|--------------------|---------------------|
| <i>Loan Type</i> | <i>Volume by #</i> | <i>Volume by \$</i> |
| Agriculture | 17.82% | 31.43% |
| Commercial | 20.00% | 50.20% |
| Consumer | 48.51% | 2.65% |
| Residential Real Estate | 13.66% | 15.72% |

Source: Bank Loan Origination Report

When assessing lending performance in the AA we placed equal weight on commercial and consumer loans given the high majority in the number of consumer loans and high majority in the dollar volume of commercial loans.

We used call report data to determine the bank's quarterly LTD ratio and annual deposit information reported to the Federal Deposit Insurance Corporation (FDIC) to find similarly situated banks. The most recent deposit information is as of June 30, 2015.

DESCRIPTION OF INSTITUTION

CDB is an intrastate federally-chartered stock institution. The bank is wholly owned by CDC Bancshares, Inc. a one-bank holding company headquartered in

Detroit Lakes, MN. CDB operates its main office on the White Earth Indian Reservation in Ogema, MN, which is in Becker County. CDB operates one branch in Hancock, MN and twelve automated teller machines, none of which are deposit taking. In July 2010, CDB closed one branch in Benson, MN.

The bank is a full-service financial institution, offering a wide array of commercial and retail banking products and services. Loan products include financing for residential 1-4 family housing, home improvement, small business needs, SBA 504 and 7a projects, consumer products, and HUD and RD insured projects. As of June 30, 2015, CDB had \$72 million in total assets with a tier one leverage capital ratio of 10.65 percent. The loan portfolio totaled \$44 million or 61 percent of total assets and consisted of commercial loans (55.7 percent), residential real estate (15 percent), agriculture loans (24.2 percent), and consumer loans (5.1 percent).

There are no legal or financial circumstances that affect the bank's ability to meet the credit needs of its AA. CDB was rated Outstanding at the last CRA examination dated May 25, 2009.

DESCRIPTION OF ASSESSMENT AREA(S)

The AA consists of fourteen non-adjacent, non-MSA census tracts (CTs) in Northern and Western Minnesota. The AA includes the CTs where the bank's branches are located and the surrounding CTs the bank can reasonably serve. The Northern MN portion of the AA contains three contiguous CTs located in Becker and Mahnommen Counties. This portion of the AA consists of 2 moderate-income CTs and 1 middle-income CT. The Western MN portion of the AA contains eleven contiguous CTs located in Pope, Stevens, and Swift Counties. All eleven CTs in this portion of the AA are designated as middle-income. The Federal Financial Institutions Examination Council (FFIEC) has designated the seven CTs located in Stevens and Swift Counties as distressed or underserved. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

Major employers in the AA are healthcare, manufacturing, and the Shooting Star Casino on the White Earth Indian Reservation in Mahnommen, MN. Information from the Bureau of Labor Statistics indicates the AA's average unemployment rate was 4.44 percent at year-end 2014. This is higher than the state of Minnesota's unemployment rate of 3.6 percent and lower than the national unemployment rate of 5.6 percent.

Competition from other financial institutions is moderate. The June 30, 2015 FDIC market share data shows 19 deposit-taking institutions within the AA. CDB ranks eighth with 6.14 percent of the market share. Institutions with the greatest market share include Glenwood State Bank and Bremer Bank with combined market share of 24.7 percent.

We contacted a local community official to better understand the AA demographics and to evaluate the primary credit needs of the AA. The contact confirmed that the local economy has stable employment and development in the Hancock, MN AA region is increasing. Affordable housing is the primary credit need of the AA. The contact stated that local financial institutions are meeting the lending needs of the community.

The following table depicts demographic and economic characteristics of the Ogema Combined AA:

| DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE AA | |
|---|-----------|
| Population | |
| Number of Families | 10,377 |
| Number of Households | 16,129 |
| % of Low-Income Families | 19.18% |
| % of Moderate-Income Families | 19.18% |
| % of Middle-Income Families | 23.99% |
| % of Upper-Income Families | 37.66% |
| Geographies | |
| Number of Census Tracts | 14 |
| % Low-Income Census Tracts | 0.00% |
| % Moderate-Income Census Tracts | 14.29% |
| % Middle-Income Census Tracts | 85.71% |
| % Upper-Income Census Tracts | 0.00% |
| Median Family Income (MFI) | |
| 2010 MFI for AA | \$57,683 |
| 2015 HUD-Adjusted MFI | \$63,600 |
| Economic Indicators | |
| 2014 Unemployment Rate | 4.09% |
| 2010 Median Housing Value | \$119,720 |
| % of Households Below Poverty Level | 13.43% |

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

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

CDB's LTD ratio is reasonable given the bank's size and the credit needs of the AA. The bank's LTD ratio averaged 69.85 percent over the 26 quarters since the last CRA examination. The quarterly ratio ranged from a low of 56.19 percent (1Q10) to a high of 82.65 percent (3Q09) during this time.

CDB’s average LTD ratio ranks first among similarly situated banks. Similarly situated banks are defined as financial institutions located within the AA with similar asset sizes, product offerings, and services. The following table shows the bank’s average LTD ratio compared to similarly situated banks:

| Loan-to-deposit Ratio Institution (Headquarters) | Assets as of 6/30/15 | Average LTD Ratio (%) |
|---|---------------------------------|----------------------------------|
| Community Development Bank FSB | \$72 Million | 69.84% |
| Farmer’s & Merchants State Bank of Appleton | \$42 Million | 67.89% |
| First National Bank Mahnommen Twin Valley | \$89 Million | 67.48% |
| State Bank of Danvers | \$48 Million | 59.55% |

Source: Call Report Data as of June 30, 2015

Lending in Assessment Area

A majority of loans are originated or purchased inside the AA. Based on combined lending for consumer and commercial loans, CDB originated 85.00 percent by number and 55.69 percent by dollar volume of loans within its AA during the sample period. The following table depicts lending performance results:

| Lending in the Assessment Area | | | | | | | | | | |
|---------------------------------------|-----------------|--------|---------|--------|-------|-------------------------|--------|-----------|--------|-----------|
| Loan Type | Number of Loans | | | | | Dollars of Loans (000s) | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Commercial | 15 | 75.00% | 5 | 25.00% | 20 | 2,014,000 | 54.58% | 1,675,954 | 45.42% | 3,689,954 |
| Consumer | 19 | 95.00% | 1 | 5.00% | 20 | 117,985 | 85.13% | 20,602 | 14.87% | 138,587 |
| Totals | 34 | 85.00% | 6 | 15.00% | 40 | 2,131,985 | 55.69% | 1,696,556 | 44.31% | 3,828,541 |

Source: Commercial and Consumer Loan Sample.

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

CDB’s lending to borrowers of different incomes and businesses of different sizes reflects excellent penetration in the AA.

Consumer Loans

CDB’s consumer lending to borrowers of different income levels reflects excellent penetration. Consumer lending to low- and moderate-income borrowers substantially exceeds the demographic comparator. The following table illustrates the bank’s distribution of consumer loans in the AA:

| Borrower Distribution of Consumer Loans in the AA | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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 | 25.64 | 45.00 | 16.80 | 30.00 | 19.06 | 10.00 | 38.50 | 15.00 |

Source: Loan Sample; 2010 US Census Data.

Business Loans

CDB's distribution of commercial loans reflects excellent penetration among businesses of different sizes. The number of loans to businesses with gross revenues or sales of \$1 million or less exceeds the demographic comparator and substantially exceeds peer comparators. The demographic data contains a high level of businesses of unknown size, as they chose not to report the information. The unknown data does not cause concern for potentially unreported small businesses as the aggregate peer lending data provides a sufficient comparator for CDB. The following table shows the distribution of business loans among businesses of different sizes in the AA:

| Borrower Distribution of Loans to Businesses in the AA | | | | |
|---|--------------|--------------|---------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/Unknown | Total |
| % of AA Businesses | 78.26% | 4.72% | 17.02% | 100% |
| Aggregate Lending Data | 39.96% | 60.04% | 0.00% | 100% |
| % of Bank Loans in AA by # | 80.00% | 20.00% | 0.00% | 100% |
| % of Bank Loans in AA by \$ | 46.48% | 53.52% | 0.00% | 100% |

Source: Loan Sample; 2014 Peer Lending Data; 2014 Dunn and Bradstreet Data.

Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion throughout the AA. The AA does not include low-income CTs and dispersion to moderate-income CTs exceeds demographic comparators during the evaluation period.

Consumer Loans

CDB's geographic distribution of consumer loans reflects excellent dispersion throughout CTs of different income levels. CDB's performance exceeded the demographic comparator. The following table depicts the geographic distribution of consumer loans during the evaluation period:

| Geographic Distribution of Consumer Loans in the AA | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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 | 12.36 | 20.00 | 87.64 | 80.00 | 0.00 | 0.00 |

Source: Loan Sample; 2010 US Census Data.

Business Loans

The geographic distribution of business loans reflects excellent dispersion throughout the AA. CDB’s performance significantly exceeds the demographic comparator. The following table depicts the geographic distribution of business loans during the evaluation period:

| Geographic Distribution of Commercial Loans in the AA | | | |
|--|----------------------|---------------------|--------------------|
| Census Tract Income Level | % of Number of Loans | % Aggregate Lenders | % of AA Businesses |
| Low | 0.00 | 0.00 | 0.00 |
| Moderate | 25.00 | 6.10 | 10.90 |
| Middle | 75.00 | 93.90 | 89.10 |
| Upper | 0.00 | 0.00 | 0.00 |

Source: Loan Sample; 2014 Peer Lending Data; 2014 Dunn and Bradstreet Data.

Responses to Complaints

CDB received no CRA related complaints during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank’s lending performance. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.