



PUBLIC DISCLOSURE

January 18, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Mid-Central Federal Savings Bank
Charter Number 706149

520 Jefferson St S
Wadena, MN 56482-1844

Office of the Comptroller of the Currency

222 South Ninth Street
Suite 800
Minneapolis, MN 55402-3371

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.

The major factors supporting this rating include:

- The distribution of borrowers reflects excellent penetration among individuals of different income levels.
- The institution's average loan-to-deposit ratio is more than reasonable given the institution's size, financial condition, and credit needs of the assessment area (AA).
- The geographic distribution of residential real estate loans reflects excellent dispersion to geographies of different income levels within the AA, and distribution of consumer loans reflects reasonable dispersion.
- A majority of the institution's loans are originated to customers inside the AA.

SCOPE OF EXAMINATION

We evaluated Mid-Central Federal Savings Bank (Mid-Central) Community Reinvestment Act (CRA) performance using small bank examination procedures. We assessed performance by selecting primary products based on the number and dollar volume of loans originated between January 1, 2014 and September 30, 2015. Based on this analysis, we determined that residential real estate (RRE) loans and consumer loans are Mid-Central's primary products. We selected a sample of 20 consumer loans and 20 RRE loans in order to evaluate lending activities within the AA.

The following table shows the primary products by loan originations and purchases.

| Loan Originations and Purchases from January 1, 2014 through September 30, 2015 | | |
|--|--------------------|---------------------|
| <i>Loan Type</i> | <i>Volume by #</i> | <i>Volume by \$</i> |
| Residential Real Estate | 11% | 46% |
| Consumer | 83% | 38% |
| Commercial | 4% | 9% |
| Agriculture | 2% | 7% |

Source: Bank loan origination report for 2014 and 2015.

When assessing lending performance in the AA, more weight is placed on RRE loans given the higher dollar volume of originations and purchases.

DESCRIPTION OF INSTITUTION

Mid-Central is a \$96 million financial institution headquartered in Wadena, Minnesota. The community of Wadena is located in Wadena County in north central Minnesota. In addition to the main location, the Mid-Central has two branches located in Staples and Long Prairie, Minnesota. Mid-Central Financial Corporation, a one-bank holding company, owns the financial institution.

Mid-Central offers traditional banking products and services, and operates three automated teller machines (ATMs), one at each location. None of the three ATMs accept deposits. As of September 30, 2015, the Mid-Central's loan portfolio totaled \$89 million or 93 percent of total assets. According to the September 30, 2015 Call Report, Mid-Central's loan portfolio is comprised of residential real estate loans (57 percent), consumer loans (26 percent), commercial and commercial real estate loans (11 percent), and agricultural loans (6 percent).

There are no financial, legal, or other factors that impede Mid-Central's ability to meet its CRA obligations. Mid-Central did not have any mergers, acquisitions, or conduct any other significant corporate activity during the evaluation period. Mid-Central received an "Outstanding" rating at its January 13, 2010 CRA evaluation.

DESCRIPTION OF ASSESSMENT AREA

Mid-Central considers its AA to be all of Wadena and Todd Counties. Wadena and Todd Counties are located in non-metropolitan statistical areas. The AA is comprised of 11 contiguous census tracts. This area consists of 10 middle-income tracts and one moderate-income tract. It includes the census tracts where the main office, branches, and ATMs are located, as well as surrounding census tracts in which the financial institution can reasonably service. The AA meets the regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts.

The following table shows demographic information for the AA.

| DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE AA | |
|---|-----------|
| Population | |
| Number of Families | 11,025 |
| Number of Households | 16,024 |
| % of Low-Income Families | 24.24 |
| % of Moderate-Income Families | 21.90 |
| % of Middle-Income Families | 23.61 |
| % of Upper-Income Families | 30.25 |
| Geographies | |
| Number of Census Tracts | 11 |
| % Low-Income Census Tracts | 0.00 |
| % Moderate-Income Census Tracts | 9.09 |
| % Middle-Income Census Tracts | 90.91 |
| % Upper-Income Census Tracts | 0.00 |
| Median Family Income (MFI) | |
| 2010 MFI for AA | \$49,727 |
| 2015 HUD-Adjusted MFI | \$63,600 |
| Economic Indicators | |
| 2015 Unemployment Rate | 3.8% |
| 2010 Median Housing Value | \$133,301 |
| % of Households Below Poverty Level | 16.22 |

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

The area unemployment rate of 3.8 percent is the average of Wadena and Todd Counties as reported by the U.S. Bureau of Labor Statistics in September 2015. The unemployment rates of the two counties are 3.2 percent in Todd County and 4.4 percent in Wadena County. The unemployment level in the AA is consistent with the statewide average of 3.2 percent in 2015. Major employers in the area include Tri-County Hospital, Lakewood Health System, RR Donnelly, and Long Prairie Packing.

We discussed the local economic conditions and the performance of local financial institutions with a community leader, who indicated that local economic conditions are satisfactory. The contact indicated that, although unemployment rates have decreased, underemployment remains a concern. Local residents are able to find jobs, but many of these positions are not full-time or do not pay well. The contact stated that local financial institutions are meeting the credit needs of the community, but feels that some have become risk-averse. The community leader indicated that there are opportunities for financial institutions to make loans to individuals looking for affordable housing.

Banking competition in the AA is moderate. According to the June 30, 2015 FDIC Deposit Market Share Report, there are 10 national and state chartered deposit taking

financial institutions with a presence in the AA. Mid-Central ranks third with 14.37 percent market share. Based on the deposit data, no one institution dominates the banking market in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Mid-Central's average loan-to-deposit (LTD) ratio is more than reasonable given its size, financial condition, and the credit needs of the AA. Mid-Central's quarterly LTD ratio averaged 99 percent over the 24 quarters since the prior evaluation. This compares favorably to similarly situated institutions that had quarterly average LTD ratios ranging from 57 percent to 84 percent over the same period. Similarly situated institutions are defined as institutions operating in Mid-Central's AA with total assets ranging from \$56 million to \$235 million.

| Loan-to-deposit Ratio Institution | Assets as of 9/30/15 (\$000s) | Average LTD Ratio (%) |
|---|----------------------------------|--------------------------|
| Mid-Central Federal Savings Bank | 95,855 | 98.54 |
| American Heritage National Bank | 235,395 | 83.92 |
| Wadena State Bank | 127,396 | 67.00 |
| First National Bank of Menahga & Sebeka | 86,544 | 64.12 |
| The First National Bank in Wadena | 55,874 | 57.43 |

Source: Call Report data as of September 30, 2015.

Lending in Assessment Area

Mid-Central's record of lending within its AA is reasonable, and a majority of loans are originated within the AA. Based on a sample of consumer and RRE loans originated in 2014 and 2015, Mid-Central originated 63 percent by number and 54 percent by dollar of the loans within its AA. The following table shows loan originations inside and outside of the AA by number and dollar volume.

| Lending in the AA | | | | | | | | | | |
|-------------------|-----------------|----|---------|----|-------|-------------------------|----|---------|----|-------|
| Loan Type | Number of Loans | | | | | Dollars of Loans (000s) | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| RRE | 13 | 65 | 7 | 35 | 20 | 824 | 51 | 776 | 49 | 1,600 |
| Consumer | 12 | 60 | 8 | 40 | 20 | 135 | 75 | 44 | 25 | 179 |
| Totals | 25 | 63 | 15 | 37 | 40 | 959 | 54 | 820 | 46 | 1,779 |

Source: RRE and consumer loan samples.

Lending to Borrowers of Different Incomes

Mid-Central’s distribution of borrowers reflects excellent penetration among individuals of different income levels.

Residential Real Estate Loans

Distribution of borrowers reflects excellent penetration among individuals of different income levels when compared to HMDA reporting lenders (peer) and demographics of the AA. Mid-Central exceeds the peer comparator for loans originated to both low- and moderate-income individuals. Mid-Central’s performance in lending to low-income borrowers is near the demographic comparator, while lending performance to moderate-income borrowers exceeds the demographic comparator. The following table compares Mid-Central’s RRE lending activity to the peer lenders in the AA.

| 2014-2015 Borrower Distribution of RRE Loans in the AA | | | |
|---|----------------------|----------------------|------------------|
| Borrower Income Level | % of Number of Loans | % Aggregate Lenders* | % of AA Families |
| Low | 15.00 | 10.38 | 24.24 |
| Moderate | 30.00 | 18.78 | 21.90 |
| Middle | 20.00 | 24.43 | 23.61 |
| Upper | 35.00 | 29.47 | 30.25 |

Source: Loan sample; 2014 Peer Lending Data; 2010 US Census Data.

** 16.95% of HMDA lenders income information was not available.*

Consumer Loans

Distribution of borrowers reflects excellent penetration among individuals of different income levels given the demographics of the AA. Mid-Central’s performance in lending to low-income borrowers substantially exceeds the demographic comparator, while lending performance to moderate-income borrowers exceeds the demographic comparator. The following table compares Mid-Central’s consumer lending to the demographics within the AA.

| Borrower Distribution of Consumer Loans in the AA | | | | | | | | |
|--|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA House holds | % of Number of Loans | % of AA House holds | % of Number of Loans | % of AA House holds | % of Number of Loans | % of AA House holds | % of Number of Loans |
| Consumer | 28.18 | 45.00 | 17.77 | 20.00 | 19.81 | 25.00 | 34.24 | 10.00 |

Source: Loan Sample; 2010 US Census Data.

Geographic Distribution of Loans

Mid-Central’s overall geographic distribution of loans reflects excellent dispersion throughout the AA. The AA does not include low-income census tracts. Dispersion to moderate-income census tracts exceeds demographic and peer lender comparators for RRE lending and meets demographic comparators for consumer lending.

Residential Real Estate Loans

The geographic distribution of RRE loans in the AA reflects excellent dispersion when compared to area demographic data and peer lenders in the AA. Lending in the moderate-income census tract exceeds the performance of the peer lender group and the demographic comparator. The following table compares Mid-Central’s RRE lending activity to the AA demographics and peer lender data.

| Geographic Distribution of RRE in the AA | | | |
|---|----------------------|---------------------|------------------|
| Census Tract Income Level | % of Number of Loans | % Aggregate Lenders | % of AA Families |
| Low | 0.00 | 0.00 | 0.00 |
| Moderate | 10.00 | 7.48 | 8.33 |
| Middle | 90.00 | 92.52 | 91.67 |
| Upper | 0.00 | 0.00 | 0.00 |

Source: Loan Sample; 2014 Peer Lending Data, 2010 US Census Data.

Consumer Loans

The geographic distribution of consumer loans in the AA reflects reasonable dispersion throughout the AA. Mid-Central’s lending to consumers in the one moderate-income census tract meets the demographic composition of the AA. The following table shows the geographic distribution of consumer loans in the AA.

| 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 | 8.84 | 10.00 | 91.96 | 90.00 | 0.00 | 0.00 |

Source: Loan Sample; 2010 US Census Data.

Responses to Complaints

Mid-Central received no CRA related complaints during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 195.28(c), in determining a Federal savings 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 FSA's lending performance.

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