

PUBLIC DISCLOSURE

November 7, 2022

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Clear Lake Bank and Trust Company
RSSD# 865544

322 Main Avenue
Clear Lake, Iowa, 50428

Federal Reserve Bank of Chicago
230 South LaSalle Street
Chicago, Illinois 60604-1413

NOTE: This document is an evaluation of this bank'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 bank. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this bank. The rating assigned to this bank does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial bank.

TABLE OF CONTENTS

PERFORMANCE EVALUATION	2
SCOPE OF EXAMINATION	2
DESCRIPTION OF INSTITUTION.....	3
DESCRIPTION OF ASSESSMENT AREA.....	4
CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA	10
LENDING TEST	10
COMMUNITY DEVELOPMENT TEST.....	15
APPENDIX A – MAPS OF ASSESSMENT AREAS	18
APPENDIX B – SCOPE OF EXAMINATION	19
APPENDIX C – GLOSSARY	20

INSTITUTION'S CRA RATING

Clear Lake Bank and Trust Company is rated: Satisfactory

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

Clear Lake Bank and Trust Company is meeting the credit needs of its community based on an analysis of lending and community development activities. The bank's average loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The majority of home mortgage and small business loans were originated in the assessment area. The geographic distribution of loans reflects reasonable dispersion throughout the assessment area, and lending activity reflects reasonable penetration among borrowers of different income levels and businesses of different sizes. Neither Clear Lake Bank and Trust Company nor this Reserve Bank received any CRA-related complaints since the previous evaluation.

Clear Lake Bank and Trust Company's community development performance demonstrates adequate responsiveness to the needs of its assessment area through community development loans, qualified donations, and community development services. This performance is appropriate, considering the bank's capacity as well as the need and availability of such opportunities for community development in the bank's assessment area.

SCOPE OF EXAMINATION

The bank's CRA performance was evaluated using the Intermediate Small Institution Examination Procedures issued by the Federal Financial Institutions Examination Council (FFIEC). The evaluation was performed within the context of information about the institution and its assessment area such as asset size, financial condition, competition, and economic and demographic characteristics.

The evaluation included a full scope review of the bank's performance in its sole non-metropolitan statistical area (non-MSA) assessment area. Clear Lake Bank and Trust Company delineates the counties of Cerro Gordo, Iowa and Hancock County, Iowa in their entirety.

The level of performance within the assessment area was assessed based on a sample of home mortgage and small business loans originated during the period beginning January 1, 2021, to December 31, 2021. These products are considered the bank's primary business lines based on volume by number and dollar amount. In addition, the bank's community development activities were evaluated to determine their responsiveness to the needs within the assessment area.

Performance within the designated assessment areas was evaluated using intermediate-small bank examination procedures based on the following performance criteria:

- ***Loan-to-Deposit Ratio*** – A 12-quarter average loan-to-deposit ratio ending June 30, 2022, was calculated for the bank, and compared to a sample of local competitors.
- ***Lending in the Assessment Area*** – A sample of the bank’s home mortgage and small business loans originated from January 1, 2021 to December 31, 2021, were reviewed to determine the percentage of loans originated within the assessment area.
- ***Geographic Distribution of Lending in the Assessment Area*** – A sample of the bank’s home mortgage and small business loans originated from January 1, 2021 to December 31, 2021, were analyzed to determine the extent to which the bank is making loans in geographies of different income levels, particularly those designated as low- and moderate-income.
- ***Lending to Borrowers of Different Income and to Businesses of Different Sizes*** – A sample of the bank’s home mortgage loans and small business loans originated from January 1, 2021 to December 31, 2021, were reviewed to determine the distribution among borrowers of different income levels, particularly those considered low- or moderate-income, and to businesses with different revenue sizes.
- ***Response to Substantiated Complaints*** – Complaints were reviewed to determine if any were related to the bank’s record of helping to meet community credit needs and its responses to any received were evaluated for appropriateness.
- ***Community Development Activities*** – The bank’s responsiveness to community development needs through community development loans, qualified donations, and community development services, from October 22, 2019 through November 7, 2022, were reviewed considering the capacity, need, and availability of such opportunities within the assessment area.

In addition, two community representatives were contacted in connection with this examination to provide information regarding local economic conditions in the assessment area. Organizations focused on economic development and community development were contacted.

DESCRIPTION OF INSTITUTION

Clear Lake Bank and Trust Company is a subsidiary of Arneson Bancshares, Inc., a one-bank holding company located in Clear Lake, Iowa. The bank's main office with a full-service ATM is located in Clear Lake, Iowa. The bank also operates two branches with full-service ATMs in Mason City, Iowa, and one branch with a full-service ATM located in Garner, Iowa. The bank has two additional cash only ATMs in Clear Lake, Iowa. Since the previous exam, the bank has removed a

full-service ATM from its Wendy's/Shell Oil location in Clear Lake, Iowa, the ATM was located in a middle-income census tract.

According to the Uniform Bank Performance Report (UBPR), the bank reported total assets of 553.1 million as of June 30, 2022. Clear Lake Bank and Trust Company offers a variety of lending products, including commercial, residential real estate, agricultural, and consumer loan products. The bank operates primarily as a commercial lender, representing 63.7 percent of the loan portfolio by dollar volume. Additionally, the bank offers non-complex and traditional deposit products including checking, savings, money market deposit accounts, and certificates of deposit.

Details of the allocation of the bank's loan portfolio are provided in the following table.

Composition of Loan Portfolio		
As of June 31, 2022		
(000's)		
Loan Type	Dollar Volume (\$ in 000s)	% of Portfolio
Commercial	226,814	63.7
Residential Real Estate	67,824	19.1
Agricultural	40,566	11.4
Consumer	16,011	4.5
Other	4,656	1.3
Total	355,871	100.0

Note: Percentages may not total 100.0 percent due to rounding.

There are no known legal, financial, or other factors impeding the bank's ability to help meet the credit needs in its communities.

The bank was rated satisfactory under the CRA at its previous evaluation conducted on October 21, 2019.

DESCRIPTION OF ASSESSMENT AREA

Clear Lake Bank and Trust Company's Non-MSA Iowa assessment area is comprised of two nonmetropolitan counties in north central Iowa, Cerro Gordo, and Hancock County in their entireties. The Non-MSA Iowa assessment area is comprised of one moderate-, 12 middle- and two upper-income census tracts. The assessment area contains no middle-income census tracts that are classified as distressed or underserved by the Federal Financial Institutions Examination Council (FFIEC). The assessment area remains unchanged from the previous evaluation.

As of the June 30, 2022, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, Clear Lake Bank and Trust Company ranks second out of 12 financial institutions operating within the assessment area. The bank held \$502.1 million in deposits, representing a

market share of 23.5 percent. The financial institution with the largest percentage of the deposit market share is First Citizens Bank at 30.3 percent. Wells Fargo Bank, NA and Reliance State Bank have the third and fourth largest market shares in the assessment area at 8.8 percent and 7.1 percent, respectively.

Additional assessment area demographic information is provided in the following table.

Assessment Area: 2021 IA Non MSA								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	2,709	18.2
Moderate-income	1	6.7	1,126	7.5	162	14.4	2,819	18.9
Middle-income	12	80.0	12,191	81.7	1,095	9.0	3,493	23.4
Upper-income	2	13.3	1,597	10.7	21	1.3	5,893	39.5
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	15	100.0	14,914	100.0	1,278	8.6	14,914	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied		Rental		Vacant		
		#	%	%	#	%	#	%
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	2,463	1,148	6.5	46.6	1,171	47.5	144	5.8
Middle-income	21,986	14,721	83.6	67.0	4,895	22.3	2,370	10.8
Upper-income	3,054	1,742	9.9	57.0	515	16.9	797	26.1
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	27,503	17,611	100.0	64.0	6,581	23.9	3,311	12.0
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	0	0	0.0	0	0.0	0	0.0	
Moderate-income	330	11.1	285	10.6	41	17.5	4	9.1
Middle-income	2,414	81.6	2,189	81.6	187	79.9	38	86.4
Upper-income	216	7.3	208	7.8	6	2.6	2	4.5
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	2,960	100.0	2,682	100.0	234	100.0	44	100.0
	Percentage of Total Businesses:			90.6		7.9		1.5
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	0	0	0.0	0	0.0	0	0.0	
Moderate-income	4	0.9	4	0.9	0	0.0	0	0.0
Middle-income	405	88.6	400	88.5	4	100.0	1	100.0
Upper-income	48	10.5	48	10.6	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	457	100.0	452	100.0	4	100.0	1	100.0
	Percentage of Total Farms:			98.9		0.9		0.2
2021 FFIEC Census Data & 2021 Dun & Bradstreet information according to 2015 ACS								
Note: Percentages may not add to 100.0 percent due to rounding								

Population Characteristics

The table below shows the population trends for the bank's entire assessment area, as well as the trends of Cerro Gordo and Hancock Counties, and the state of Iowa from 2010 to 2015. According to the 2015 U.S. Census Bureau demographic data, the assessment area's population was 54,573, representing a 1.7 percent decline from 2010. During the same time period, both counties in the assessment area experienced a population decline, while the state of Iowa experienced a 1.6 percent increase. A community representative noted that population decline is a result of younger adults leaving rural areas for more urban areas over the past decade. However, one representative also noted that more recently this trend has slowed due to the impact of the COVID-19 pandemic, which has shifted demand toward living in less populated communities. Federal relief funds were also attributed with providing greater investment in micropolitan areas, such as Mason City, which has helped to attract and retain individuals and businesses.

Population Change			
Area	2010 Population	2015 Population	Percent Change (%)
Assessment Area	55,492	54,573	-1.7
Cerro Gordo County, IA	44,151	43,481	-1.5
Hancock County, IA	11,341	11,092	-2.2
State of Iowa	3,046,355	3,093,526	1.5

*Source: 2010 U.S. Census Bureau Decennial Census
2011 - 2015 U.S. Census Bureau American Community Survey*

Income Characteristics

The following table compares the median family income (MFI) for the assessment area, counties within the assessment area, and the state of Iowa. According to the 2011-2015 Census Bureau data, MFI in the assessment area decreased 2.0 percent from 2010 to 2015. In contrast, the state of Iowa's MFI remained stable with a 0.2 increase during the same period. Hancock County experienced an increase in MFI of 5.8 percent, while Cerro Gordo County saw a decrease of 3.2 percent. While Cerro Gordo County saw a decline in MFI during this time period, a community representative noted that the area has experienced a prosperous economic environment following the COVID-19 pandemic, as businesses relocate there. Another community representative added that the increase in MFI in Hancock County is likely due to the strong manufacturing presence relative to the small population size of the county; this competitive environment to obtain and retain employees has led to increased wages.

Median Family Income Change 2010 and 2015			
Area	2010 Median Family Income (\$)	2015 Median Family Income (\$)	Percentage Change (%)
Assessment Area	64,208	62,894	-2.0
Cerro Gordo County, IA	65,498	63,408	-3.2
Hancock County, IA	60,896	64,403	5.8
State of Iowa	67,302	67,466	0.2

*Source: 2006 - 2010 U.S. Census Bureau American Community Survey 2011 - 2015 U.S. Census Bureau American Community Survey
Median Family Incomes have been inflation-adjusted and are expressed in 2015 dollars.*

Housing Characteristics

According to the 2021 FFIEC census data, there are a total of 27,503 housing units in the assessment area. The majority of housing units are owner-occupied at 64.0 percent, while 23.9 percent are considered rental units, and 12.0 percent of housing units are vacant. The majority of the assessment area’s housing stock is located in middle-income census tracts (79.9 percent), with 11.1 percent located in upper-income tracts, and 9.0 percent located in the sole moderate-income census tract.

The following table presents recent housing cost burden for individuals within the counties of the assessment area, as well as the state of Iowa. The cost burden is a measure of affordability via a comparative analysis of individuals of different income levels that spend 30.0 percent or more of their income on housing costs. As evidenced by the following table, low-income individuals are generally impacted at a higher rate than moderate-income individuals for both renters and owners. Of the two counties that comprise the assessment area, Hancock County has the lowest proportion of both renters and owners that meet the cost burden criteria, with 28.7 percent and 11.9 percent, respectively. Cerro Gordo has a greater proportion of renters that meet the cost burden criteria at 36.9 percent for renters and 13.5 percent for owners. The proportion of households that meet the cost burden criteria in the state of Iowa is 38.0 percent for renters and 15.2 percent for owners.

Both community representatives indicated that there is an insufficient supply of both owner-occupied and rental housing. One representative specified that there are not enough assisted living options for the older population, and therefore people are remaining in their existing homes, limiting the overall availability. Other limiting factors include the high costs of new construction, as well as the need to revitalize the existing housing stock. Finally, the representatives indicated that while there have been new housing developments projects, they have filled up quickly.

2021 IA Non MSA Housing Cost Burden						
Area	Cost Burden (%) - Renters			Cost Burden (%) - Owners		
	Low Income	Moderate Income	All Renters	Low Income	Moderate Income	All Owners
Assessment Area	73.5	19.6	35.6	54.1	20.3	13.2
Cerro Gordo County, IA	74.0	21.3	36.9	53.3	20.9	13.5
Hancock County, IA	70.4	7.4	28.7	57.0	18.1	11.9
State of Iowa	72.2	24.1	38.0	58.9	25.3	15.2

Cost Burden is housing cost that equals 30 percent or more of household income
Source: U.S. Department of Housing and Urban Development (HUD), 2013-2017 Comprehensive Housing Affordability Strategy

Employment Characteristics

The following table presents the unemployment trends for the counties within the assessment area and the state of Iowa from 2017 to 2021. Both counties within the assessment area, as well as the state of Iowa, experienced stable unemployment rates leading up to 2020, when overall rates increased. In 2021, the unemployment rate in Hancock County was 3.8 percent, which is below the unemployment rate in the state of Iowa at 4.2 percent. During this same time, Cerro Gordo County experienced unemployment at a rate of 4.3 percent, which is similar to the state as a whole.

Community representatives indicated that while unemployment rates were high in 2020 due to the COVID-19 pandemic, most areas have since returned to pre-pandemic employment levels. Both representatives listed the labor shortage as one of the biggest challenges in the area. In response to the labor shortage, employers have been active in trying to obtain a requisite level of workforce development by offering flexible work arrangements and higher wages. Businesses have partnered with community colleges to train for specific skills that are needed in the local economy. One community representative said that these initiatives have been helpful, particularly in addressing youth unemployment.

Unemployment Rates (%)					
Area	2017	2018	2019	2020	2021
Assessment Area	2.9	2.5	2.5	5.0	4.2
Cerro Gordo County, IA	3.0	2.6	2.6	5.1	4.3
Hancock County, IA	2.6	2.3	2.3	4.5	3.8
State of Iowa	3.1	2.5	2.6	5.1	4.2

Source: Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics

Industry Characteristics

According to the U.S. Bureau of Labor Statistics, the assessment area contains a diverse employment base and is most heavily impacted by the industries of manufacturing, healthcare, accommodation and food services, and retail trade. Both representatives noted stability in industry conditions, despite challenges such as the COVID-19 pandemic. One representative noted that federal relief funds have been invested towards projects that will be beneficial to the economy, such as the revitalization of areas that were previously neglected, as well as new development projects that will incentivize economic growth.

Community Representatives

Two community representatives were contacted during the evaluation to provide information regarding local economic conditions and demographics. The representatives provided information on housing, employment, and economic development needs within the assessment area, as well as providing information regarding the effects of the economy due to the COVID-19 pandemic. The representatives listed two major concerns within the assessment area, a labor shortage and affordable housing. One representative noted that while a declining population in rural areas has been one of the reasons for the labor shortage, this trend has slowed in recent years due to an increased preference of individuals to move to less populated communities. While business conditions are stable, lack of housing options for workers and aging residents continues to be a challenge. Lastly, representatives stated that local financial institutions have positive reputations in the communities they serve and are willing to help support credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

Clear Lake Bank and Trust Company's performance relative to the lending test is Satisfactory. Overall, the bank is meeting the credit needs of its assessment areas based on an analysis of the bank's lending activities. The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The majority of small business and home mortgage loans were originated in the assessment area. The geographic distribution of loans reflects reasonable dispersion throughout the assessment area, and lending activity reflects reasonable penetration among individuals of different income levels and businesses of different revenue sizes. Lastly, no CRA-related complaints were received by the institution nor this Reserve Bank since the previous evaluation.

Loan-to-Deposit Ratio

Clear Lake Bank and Trust Company's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. As of June 30, 2022, the bank's LTD

ratio averaged 76.3 percent over a 12-quarter period. The LTD ratio has decreased since the previous examination, during which time the bank had an average LTD ratio of 88.0 percent over a 16-quarter period ending June 30, 2019. Bank management attributed the decrease in LTD ratio to lending constraints caused by emergency closures, the economic downturn, and increased deposits experienced during the COVID-19 pandemic. The bank's LTD ratio remains similar to those of comparable institutions. The following table compares the bank's LTD ratio to its local competitors.

Comparative Loan-to-Deposit Ratios as of June 30, 2022	
Comparative Data	12-Quarter Average (%)
Clear Lake Bank and Trust Company	76.3
Peer Avg – Local	80.6
Competitors	
Farmers Trust and Savings Bank, Buffalo Center, Iowa	95.6
NSB Bank, Mason City, Iowa	84.9
Manufacturers Bank & Trust Company, Forest City, Iowa	83.3
Iowa State Bank, Algona, Iowa	76.0
First Citizens Bank, Mason City, Iowa	74.9
First Security Bank and Trust Company, Charles City, Iowa	68.6

Assessment Area Concentration

Clear Lake Bank and Trust Company originated a majority of loans in the assessment area. During the evaluation period, the bank originated 80.4 percent of its total loans by volume and 72.6 percent by dollar amount inside the assessment area. The bank originated 81.6 percent by number and 82.0 percent by dollar amount of its home mortgage loans inside its assessment area. The bank also originated 77.9 percent by number and 51.7 percent by dollar amount of its small business loans inside its assessment area. The bank's small business lending inside the assessment area by dollar amount increased since the previous exam, where the bank originated 76.6 percent inside the assessment area. Bank management attributed this to a strategic change since the last exam, as they now participate in higher dollar volume loans in the Des Moines metropolitan area. Ultimately, the percentage of home mortgage and small business originations within the assessment area indicates the bank remains committed to serving the credit needs of the local community.

The following table summarizes the bank's lending inside and outside its assessment area for home mortgage loans and small business loans from January 1, 2021, to December 31, 2021.

Lending Inside and Outside the Assessment Area								
Loan Types	Inside				Outside			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Residential Loans	120	81.6	\$19,745	82.0	27	18.4	\$4,335	18.0
Small Business	60	77.9	\$5,598	51.7	17	22.1	\$5,221	48.3
Total Loans	180	80.4	\$25,343	72.6	44	19.6	\$9,557	27.4

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion of loans throughout the assessment area. A sample of the bank's home mortgage and small business loans originated from January 1, 2021 through December 31, 2021 were reviewed to determine the dispersion of loans among assessment area geographies, particularly low- and moderate-income census tracts. In 2021, the bank originated small business loans in 11 out of 15 census tracts and originated residential real estate loans in 14 of 15 census tracts. The bank reached its lone moderate-income census tract for both its small business and residential real estate lending. Based upon this analysis, there are no conspicuous lending gaps.

Home Mortgage Loans

The geographic distribution of home mortgage lending reflects reasonable dispersion throughout the assessment area. In 2021, the bank originated 9.2 percent of total home mortgage loans in moderate-income census tracts, which is slightly above the percentage of owner-occupied units located within those geographies at 6.5 percent. The limited amount of low- and moderate-income census tracts and owner-occupied units in the assessment area presents challenges to lend in these geographies. The majority (67.5 percent) of the bank's home mortgage loans were originated in middle-income census tracts, which is below the percentage of owner-occupied units located within those geographies at 83.6 percent. Additionally, the bank originated 23.3 percent of home mortgage loans in upper-income census tracts, which is above the percentage of owner-occupied units in those geographies at 9.9 percent.

Geographic Distribution of Home Mortgage Loans						
Assessment Area: 2021 IA Non MSA						
	Tract Income Levels	Bank & Demographic Comparison				Owner Occupied % of Units
		2021				
		Count Bank		Dollar Bank		
		#	%	\$ (000s)	\$ %	
Totals	Low	0	0.0	0	0.0	0.0
	Moderate	11	9.2	1,148	5.8	6.5
	Middle	81	67.5	12,803	64.8	83.6
	Upper	28	23.3	5,794	29.3	9.9
	Unknown	0	0.0	0	0.0	0.0
	Total		120	100.0	19,745	100.0
2021 FFIEC Census Data						
<i>Note: Percentages may not add to 100.0 percent due to rounding</i>						

Small Business Loans

The geographic distribution of small business lending reflects reasonable dispersion throughout the assessment area. The bank’s lending volume in moderate-income census tracts at 13.3 percent is above the percentage of total businesses located in moderate-income census tracts at 11.1 percent. A majority (78.3 percent) of the bank’s small business loans were originated in middle-income census tracts, which is below the percentage of total businesses located in those geographies at 81.6 percent. The bank originated 8.3 percent of its small business loans in upper-income census tracts, in line with the percentage of total businesses located in those geographies at 7.3 percent.

Geographic Distribution of Small Business Loans						
Assessment Area: 2021 IA Non MSA						
	Tract Income Levels	Bank & Demographic Comparison				Total Businesses %
		2021				
		Count Bank		Dollar Bank		
		#	%	\$ 000s	\$ %	
Small Business	Low	0	0.0	0	0.0	0.0
	Moderate	8	13.3	629	11.2	11.1
	Middle	47	78.3	4,789	85.5	81.6
	Upper	5	8.3	180	3.2	7.3
	Unknown	0	0.0	0	0.0	0.0
	Total		60	100.0	5,598	100.0
2021 FFIEC Census Data & 2021 Dun & Bradstreet information according to 2015 ACS						
<i>Note: Percentages may not add to 100.0 percent due to rounding</i>						

Lending to Borrowers of Different Income Levels and Businesses of Different Sizes

Clear Lake Bank and Trust Company’s distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes. A sample of the bank’s home mortgage and small business loans originated during the January 1, 2021 to December 31, 2021 evaluation period was reviewed to determine the dispersion of loans among borrowers of different income levels, particularly those designated as low- and moderate- income, and to businesses with revenues of \$1 million or less.

Home Mortgage Loans

The borrower distribution of home mortgage loans reflects reasonable penetration among individuals of different income levels. In 2021, the bank originated 13.3 percent of its home mortgage loans to low-income borrowers, which is below the percentage of low-income families in the assessment area at 18.2 percent. The bank originated 30.8 percent of its home mortgage loans to moderate-income borrowers, which is above the percentage of families designated as moderate-income in the assessment area at 18.9 percent. The bank originated 16.7 percent of home mortgage loans to middle-income borrowers, which is below the demographic at 23.4 percent. The bank originated most of its home mortgage loans to upper-income borrowers (38.3 percent), which was comparable to the demographic (39.5 percent).

Borrower Distribution of Home Mortgage Loans						
Assessment Area: 2021 IA Non MSA						
	Borrower Income Levels	Bank & Demographic Comparison				Families by Family Income
		2021				
		Count		Dollar		
		#	%	\$ (000s)	\$ %	%
Totals	Low	16	13.3	1,991	10.1	18.2
	Moderate	37	30.8	4,674	23.7	18.9
	Middle	20	16.7	2,783	14.1	23.4
	Upper	46	38.3	10,086	51.1	39.5
	Unknown	1	0.8	212	1.1	0.0
	Total		120	100.0	19,746	100.0
2021 FFIEC Census Data						
<i>Note: Percentages may not add to 100.0 percent due to rounding</i>						

Small Business Loans

The distribution of small business loans reflects reasonable penetration among businesses of different revenue sizes. The bank originated 76.7 percent of its small business loans to businesses with gross revenues of \$1 million or less. This is below the gross revenue composition of small businesses in the assessment area, at 90.6 percent. However, a large percentage (76.1 percent) of those loans were in amounts of \$100,000 or less, demonstrating the bank’s willingness to meet

small business credit needs. Additionally, to further address the small business lending needs of the assessment area during the COVID-19 pandemic, the bank actively participated in providing Paycheck Protection Program (PPP) loans, further showing the responsiveness to the ongoing credit needs of the businesses within the assessment area.

Small Business Lending By Revenue & Loan Size							
Assessment Area: 2021 IA Non MSA							
Product Type		Bank & Demographic Comparison					
		2021		2021		Total Businesses %	
#	%	\$ 000s	\$ %	Count Bank			
				Total			
Small Business	Revenue	\$1 Million or Less	46	76.7	4,000	71.5	90.6
		Over \$1 Million	14	23.3	1,598	28.5	7.9
		Unknown	0	0.0	0	0.0	1.5
		Total	60	100.0	5,598	100.0	100.0
	Loan Size	\$100,000 or Less	44	73.3	1,514	27.0	
		\$100,001 - \$250,000	11	18.3	1,716	30.6	
		\$250,001 - \$1 Million	5	8.3	2,369	42.3	
		Total	60	100.0	5,599	100.0	
	Loan Size & Rev \$1 Mill or Less	\$100,000 or Less	35	76.1	1,034	25.9	
		\$100,001 - \$250,000	7	15.2	1,012	25.3	
		\$250,001 - \$1 Million	4	8.7	1,954	48.9	
		Total	46	100.0	4,000	100.0	
Originations & Purchases							
2021 FFIEC Census Data & 2021 Dun & Bradstreet information according to 2015 ACS							
<i>Note: Percentages may not add to 100.0 percent due to rounding</i>							

Response to Complaints

Neither Clear Lake Bank and Trust Company nor this Reserve Bank received any CRA-related complaints since the previous examination.

COMMUNITY DEVELOPMENT TEST

The bank’s performance relative to the community development test is Satisfactory. The bank’s community development performance demonstrates adequate responsiveness to the community development needs of its assessment area through community development loans, qualified donations, and community development services, as appropriate, considering the bank’s capacity and the need and the availability of such opportunities for community development in the bank’s assessment area.

Lending, Investment, and Services Activities

Lending

During the evaluation period, the bank originated 34 qualified loans totaling approximately \$27.9

million within the assessment area and portions of the state. Of these loans, 15 totaling \$1.4 million, went toward providing affordable housing within the assessment area. Community representatives stated affordable housing is greatly needed within the assessment area, and as such the bank's ability to find opportunities to lend on affordable housing projects is particularly responsive. Additionally, the bank originated seven community development loans within the assessment area, totaling \$15.9 million, as part of the SBA's PPP. As PPP loans are in direct response to the COVID-19 pandemic and are specifically designed to revitalize and stabilize the community by benefiting small businesses and retain jobs during the pandemic, these loans are also considered responsive.

The bank significantly increased the total dollar amount of community development lending since the previous evaluation period, during which time the bank originated 75 qualified loans totaling approximately \$7.8 million.

Investments

The bank did not make any new investments or have any outstanding prior-period investments. This performance is consistent with the previous evaluation. Although there is a lack of investments for this evaluation period, the bank made 92 qualified donations totaling \$192,854.46 to community organizations in the assessment area. Recipient organizations focus primarily on community services, but also included economic development, affordable housing, and revitalization and stabilization efforts. This represents an increase since the previous evaluation period, during which time the bank made 83 qualified community development donations totaling approximately \$74,556.

Services

During the evaluation period, bank staff provided 779.5 hours of community development services. Of the total number of service hours, 455.5 were dedicated to organizations with a community service focus, 167 were dedicated to affordable housing organizations, 153 went towards economic development organizations, and four went towards revitalization and stabilization efforts. This represents an increase in the total number of qualified service hours compared to the previous evaluation period, during which time the bank completed 450 hours of community development services.

The table below presents the bank's community development activities during the evaluation period.

Community Development Activities October 22, 2019 to November 7, 2022								
Assessment Area	Loans		Investments		Donations		Services	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	Hours
Full Review								
Iowa Non-MSA	22	17,334	0	0	92	193	90	779.5
Other								
Regional	12	10,659	0	0	0	0	0	0
Total	34	27,993	0	0	0	0	0	0

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

APPENDIX B – Scope of Examination

SCOPE OF EXAMINATION			
TIME PERIOD REVIEWED		Lending Test: Home Mortgage loans (sample): January 1, 2021 to December 31, 2021 Small Business loans (sample): January 1, 2021 to December 31, 2021 Community Development Test: October 22, 2019 to November 7, 2022	
FINANCIAL INSTITUTION			PRODUCTS REVIEWED
Clear Lake Bank and Trust Company			Home Mortgage Loans Small Business Loans
AFFILIATE(S)	AFFILIATE RELATIONSHIP		PRODUCTS REVIEWED
None	N/A		N/A
LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
Non-MSA Iowa	Full scope review	None	N/A

APPENDIX C – Glossary

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Affordability ratio: To determine housing affordability, the affordability ratio is calculated by dividing median household income by median housing value. This ratio allows the comparison of housing affordability across assessment areas and/or communities. An area with a high ratio generally has more affordable housing than an area with a low ratio.

Aggregate lending: The number of loans originated and purchased by all lenders subject to reporting requirements as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

American Community Survey Data (ACS): The American Community Survey (ACS) data is based on a nationwide survey designed to provide local communities with reliable and timely demographic, social, economic, and housing data each year. The Census Bureau first released data for geographies of all sizes in 2010. This data is known as the “five-year estimate data.” The five-year estimate data is used by the FFIEC as the base file for data used in conjunction with consumer compliance and CRA examinations.¹

Area Median Income (AMI): AMI means –

1. The median family income for the MSA, if a person or geography is located in an MSA, or for the metropolitan division, if a person or geography is located in an MSA that has been subdivided into metropolitan divisions; or
2. The statewide nonmetropolitan median family income if a person or geography is located outside an MSA.

Assessment area: Assessment area means a geographic area delineated in accordance with section 228.41

Automated teller machine (ATM): An automated teller machine means an automated, unstaffed banking facility owned or operated by, or operated exclusively for, the bank at which deposits are received, cash dispersed or money lent.

Bank: Bank means a state member as that term is defined in section 3(d)(2) of the Federal Deposit Insurance Act (12 USC 1813(d)(2)), except as provided in section 228.11(c)(3), and includes an

¹ Source: FFIEC press release dated October 19, 2011.

uninsured state branch (other than a limited branch) of a foreign bank described in section 228.11(c)(2).

Branch: Branch refers to a staffed banking facility approved as a branch, whether shared or unshared, including, for example, a mini-branch in a grocery store or a branch operated in conjunction with any other local business or nonprofit organization.

Census tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Combined Statistical Area (CSAs): Adjacent metropolitan statistical areas/metropolitan divisions (MSA/MDs) and micropolitan statistical areas may be combined into larger Combined Statistical Areas based on social and economic ties as well as commuting patterns. The ties used as the basis for CSAs are not as strong as the ties used to support MSA/MD and micropolitan statistical area designations; however, they do bind the larger area together and may be particularly useful for regional planning authorities and the private sector. Under Regulation BB, assessment areas may be presented under a Combined Statistical Area heading; however, all analysis is conducted on the basis of median income figures for MSA/MDs and the applicable state-wide non metropolitan median income figure.

Community Development: The financial supervisory agencies have adopted the following definition for community development:

1. Affordable housing, including for multi-family housing, for low- and moderate-income households;
2. Community services tailored to meet the needs of low- and moderate-income individuals;
3. Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or
4. Activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definitions of community development. Activities that revitalize or stabilize:

- 1) Low- or moderate-income geographies;
- 2) Designated disaster areas; or
- 3) Distressed or underserved nonmetropolitan middle-income geographies

designated by the Board, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency based on:

- a. Rates of poverty, unemployment or population loss; or
- b. Population size, density and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density and dispersion if they help to meet essential community services including the needs of low- and moderate-income individuals.

Community Development Loan: A community development loan means a loan that:

- 1) Has as its primary purpose community development; and
- 2) Except in the case of a wholesale or limited purpose bank –
 - a. Has not been reported or collected by the bank or an affiliate for consideration in the bank’s assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multi-family housing loan (as described in the regulation implementing the Home Mortgage Disclosure Act); and
 - b. Benefits the bank’s assessment area(s) or a broader statewide or regional area that includes the bank’s assessment area(s).

Community Development Service: A community development service means a service that:

- 1) Has as its primary purpose community development; and
- 2) Is related to the provision of financial services.

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

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

Fair market rent: Fair market rents (FMRs) are gross rent estimates. They include the shelter rent plus the cost of all tenant-paid utilities, except telephones, cable or satellite television service, and internet service. HUD sets FMRs to assure that a sufficient supply of rental housing is available to their program participants. To accomplish this objective, FMRs must be both high enough to

permit a selection of units and neighborhoods and low enough to serve as many low-income families as possible. The level at which FMRs are set is expressed as a percentile point within the rent distribution of standard-quality rental housing units. The current definition used is the 40th percentile rent, the dollar amount below which 40 percent of the standard-quality rental housing units are rented. The 40th percentile rent is drawn from the distribution of rents of all units occupied by recent movers (renter households who moved to their present residence within the past 15 months). HUD is required to ensure that FMRs exclude non-market rental housing in their computation. Therefore, HUD excludes all units falling below a specified rent level determined from public housing rents in HUD's program databases as likely to be either assisted housing or otherwise at a below-market rent, and units less than two years old.

Full review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and amount of qualified investments) and qualitative factors (for example, innovativeness, complexity and responsiveness).

Geography: A census tract delineated by the U.S. Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act: The statute that requires certain mortgage lenders that do business or have banking offices in metropolitan statistical areas to file annual summary reports of their mortgage lending activity. The reports include data such as the race, gender and income of the applicant(s) and the disposition of the application(s) (for example, approved, denied, and withdrawn).

Home mortgage loans: Are defined in conformance with the definitions of home mortgage activity under the Home Mortgage Disclosure Act and include closed end mortgage loans secured by a dwelling and open-end lines of credit secured by a dwelling. This includes loans for home purchase, refinancing and loans for multi-family housing. It does not include loans for home improvement purposes that are not secured by a dwelling.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Income Level: Income level means:

- 1) Low-income – an individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a census tract;
- 2) Moderate-income – an individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent in the case of a census tract;

- 3) Middle-income – an individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent in the case of a census tract; and
- 4) Upper-income – an individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent in the case of a census tract.

Additional Guidance: .12(m) Income Level: The median family income levels (MFI) for census tracts are calculated using the income data from the United States Census Bureau's American Community Survey and geographic definitions from the Office of Management and Budget (OMB) and are updated approximately every five years (.12(m) Income Level).

Limited-purpose bank: This term refers to a bank that offers only a narrow product line such as credit card or motor vehicle loans to a regional or broader market and for which a designation as a limited-purpose bank is in effect, in accordance with section 228.25(b).

Limited review: Performance under the Lending, Investment, and Services test is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, amount of investments and branch office distribution).

Loan location: Under this definition, a loan is located as follows:

- 1) Consumer loan is located in the census tract where the borrower resides;
- 2) Home mortgage loan is located in the census tract where the property to which the loan relates is located;
- 3) Small business and small farm loan is located in the census tract where the main business facility or farm is located or where the loan proceeds have been applied as indicated by the borrower.

Loan product office: This term refers to a staffed facility, other than a branch, that is open to the public and that provides lending-related services, such as loan information and applications.

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

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development (HUD) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area: A metropolitan statistical area (MSA) or a metropolitan division (MD) as

defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a single core population of at least 2.5 million may be divided into MDs. A metropolitan statistical area that crosses into two or more bordering states is called a multistate metropolitan statistical area.

Multifamily: Refers to a residential structure that contains five or more units.

Nonmetropolitan area: This term refers to any area that is not located in a metropolitan statistical area or metropolitan division. Micropolitan statistical areas are included in the definition of a nonmetropolitan area; a micropolitan statistical area has an urban core population of at least 10,000 but less than 50,000.

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

Qualified Investment: This term refers to any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: This term refers to a state or multistate metropolitan area. For institutions with domestic branch offices in one state only, the institution's CRA rating is the state's rating. If the institution maintains domestic branch offices in more than one state, the institution will receive a rating for each state in which those branch offices are located. If the institution maintains domestic branch offices in at least two states in a multistate metropolitan statistical area, the institution will receive a rating for the multistate metropolitan area.

Small Bank: This term refers to a bank that as of December 31 of either of the prior two calendar years, had assets of less than \$1.252 billion. Intermediate small bank means a small bank with assets of at least \$313 million as of December 31 of both of the prior two calendar years and less than \$1.252 billion as of December 31 of either of the prior two calendar years.

Annual Adjustment: The dollar figures in paragraph (u)(1) of this section shall be adjusted annually and published by the Board, based on the year-to-year change in the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers, not seasonally adjusted, for each 12-month period ending in November, with rounding to the nearest million.

Small Business Loan: This term refers to a loan that is included in "loans to small businesses" as defined in the instructions for preparation of the Consolidated Report of Condition and Income. The loans have original amounts of \$1 million or less and are either secured nonfarm, nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: This term refers to a loan that is included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income. These loans have original amounts of \$500 thousand or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Wholesale Bank: This term refers to a bank that is not in the business of extending home mortgage, small business, small farm or consumer loans to retail customers, and for which a designation as a wholesale bank is in effect, in accordance with section 228.25(b).