



Office of the
Comptroller of the Currency
Washington, DC 20219

LIMITED PURPOSE BANK

PUBLIC DISCLOSURE

January 13, 2020

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

John Deere Financial, f.s.b.
Charter Number: 715685

8402 Excelsior Drive
Madison, WI 53717

Office of the Comptroller of the Currency

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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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Overall CRA Rating

Institution's CRA Rating: This institution is rated *Satisfactory*.

The major factors that support this rating include:

- The institution demonstrates an adequate level of community development (CD) loans, CD services, and CD investment activity, particularly investments that are not routinely provided by private investors. The institution provided \$12.0 million in CD loans and \$12.9 million in CD investments throughout the evaluation period. Bank management and employees contributed 130 hours of community service throughout the evaluation period.
- The institution demonstrates limited use of innovative or complex qualified CD investments, CD loans, and CD services.
- The institution exhibits adequate responsiveness to credit and CD needs in its assessment area (AA). Qualified CD activity supported affordable housing, community service, and economic development initiatives in the AA and in the broader statewide area.

Description of Institution

John Deere Financial, f.s.b. (JDF) is a \$3.9 billion financial institution located in Madison Wisconsin. JDF does not have branches and does not accept retail deposits. JDF received its designation as a limited purpose institution for CRA purposes from the OCC on March 2, 2014. JDF received its designation based on its business strategy, primary focus, and product offering. There have been no changes to strategies, focus, or product offerings since the previous public evaluation. JDF is a wholly owned subsidiary of John Deere Capital Corporation, which is wholly owned by John Deere Financial Services, a wholly owned subsidiary of Deere and Company. There have been no merger or acquisition activity since the prior evaluation. JDF has the Madison metropolitan statistical area (MSA) as the only AA. We considered CD grants from two affiliates: The John Deere Foundation and John Deere Des Moines Operation.

JDF is focused on providing proprietary credit products. JDF offers three proprietary credit products in the United States, the Multi-Use, John Deere Financial Revolving Plan (JDFRP), and the PowerPlan. The most used consumer product is the Multi-Use, which finances the sale of goods and services at John Deere outlets and independently owned John Deere dealers. The JDFRP and PowerPlan are offered through independently owned John Deere dealerships.

Table 1: Financial Information (000s)

	Year-end 2017	Year-end 2018	Year-end 2019	Average for Evaluation Period
Tier 1 Capital	\$543,665	\$584,878	\$629,880	\$586,141
Total Income	\$313,174	\$343,910	\$366,010	\$341,031
Net Operating Income	\$147,172	\$147,905	\$164,680	\$153,252
Total Assets	\$2,856,384	\$3,001,664	\$2,832,231	\$2,896,759
Pass Through Receivables /Managed Assets	\$2,844,006	\$2,992,211	\$2,821,571	\$2,885,929

Source: Consolidated Report of Condition and Income and bank reported data. **Annualized data reported.

Scope of the Examination

Evaluation Period/Products Evaluated

In evaluating JDF's performance under the CRA, we reviewed CD activities from October 3, 2017 through December 31, 2019. We reviewed the level and nature of qualified CD investments, CD lending, and CD services. At management's request, we also considered qualified CD investments provided by its affiliates. At the prior examination dated October 2, 2017, we rated the bank Satisfactory.

JDF has adequately addressed the needs of its AA, and therefore, outside of the AA qualified CD investments were considered in evaluating JDF performance. There are no legal, financial, or other factors impeding the bank's ability to meet the credit needs of its AA.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC will consider evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution or any affiliate whose loans have been considered as part of the institution's lending performance has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

State of Wisconsin

CRA Rating for Wisconsin: *Satisfactory*

The major factors that support this rating include:

- JDF demonstrates an adequate level of CD loans, CD services, and qualified investment activity in the state of Wisconsin, particularly investments that are not routinely provided by private investors.
- JDF demonstrates limited use of innovative or complex qualified investments, CD loans, or CD services in the state of Wisconsin.
- JDF exhibits adequate responsiveness to credit and CD needs in the state of Wisconsin. JDF, through its affiliates, made additional qualified grants outside of their AA. The affiliate CD grants were responsive to community needs and provide community service to low- and moderate-income (LMI) people.

Description of Assessment Area

JDF's AA consists of the Madison, WI MSA #31540 (Madison MSA). The Madison MSA is comprised of four counties: Columbia, Dane, Greene, and Iowa. The Madison MSA is centrally located in the southern part of Wisconsin. The Madison MSA consists of a diverse geographic profile including urban, rural, and suburban geographies. There are no AA barriers to providing lending, investment, and financial services. The AA does not arbitrarily exclude LMI geographies.

The Madison MSA had population growth of 1.5 percent 2018 through 2019. When compared to the U.S. population, the population of the Madison MSA is generally younger and higher educated. The Madison MSA has diverse credit needs. Credit is needed for housing, small businesses, small farms, and consumer financing.

The unemployment rate in the Madison MSA was relatively consistent throughout the evaluation period. According to the Bureau of Labor Statistics, the unemployment rate was 2.0 percent in November 2017 and 2.3 percent in December 2019. The unemployment rate in the Madison MSA has been lower than national unemployment rate throughout the evaluation period. Madison is the capital of Wisconsin and has robust public sector employment. Some of the top employment sectors in the Madison MSA include university education, health care, and technology.

According to the Federal Housing Finance Agency house price index, the average price of a single-family home has increased 9.0 percent fourth quarter 2017 through third quarter 2019.

Table 2: Wisconsin Assessment Area Description

Table 2 – Demographic Information of the Assessment Area						
Assessment Area: Madison, MSA 2018						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	133	3.0	20.3	50.4	21.8	4.5
Population by Geography	627,618	3.4	16.4	53.8	23.5	2.9
Housing Units by Geography	273,289	2.9	17.8	54.7	22.8	1.9
Owner-Occupied Units by Geography	157,819	0.6	13.7	60.0	25.6	0.0
Occupied Rental Units by Geography	100,418	6.6	23.2	46.0	19.5	4.7
Vacant Units by Geography	15,052	2.0	23.8	56.1	15.2	3.0
Businesses by Geography	42,588	2.2	17.5	50.3	28.2	1.8
Farms by Geography	2,513	0.3	15.1	62.4	22.0	0.2
Family Distribution by Income Level	154,158	19.8	17.7	23.4	39.0	0.0
Household Distribution by Income Level	258,237	23.2	16.9	18.9	41.1	0.0
Median Family Income MSA - 31540 Madison, WI MSA		\$81,321	Median Housing Value			\$225,082
			Median Gross Rent			\$917
			Families Below Poverty Level			6.4%
<i>Source: 2015 ACS Census and 2018 D&B Data</i>						
<i>Due to rounding, totals may not equal 100.0</i>						
<i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

We considered feedback from one community contact as part of this evaluation. The community contact came from an economic development agency serving the bank’s AA. The community contact identified community needs for affordable housing, small business loans for start-ups, and increased collaboration between banks and state/municipal agencies. The community contact suggested increased collaboration should include incentives for developers to create affordable housing and shared risks for small business start-up loans.

Conclusions About Performance

Summary

- JDF provided an adequate level of qualified CD investments, loans, and service activities. JDF provided \$12.9 million in qualified CD investments and \$12.0 million in qualified CD loans throughout the evaluation period. JDF employees provided CD organizations with 130 CD service hours.
- JDF demonstrates limited use of innovative or complex qualified investments, CD loans, or CD services.
- JDF demonstrates adequate responsiveness to the identified needs of their community. CD investments are responsive to identified economic development needs. CD loans are

responsive to identified affordable housing needs. CD grants focus on community service initiatives.

Qualified Investments

JDF and affiliates made a total of \$12.9 million in qualified CD investments and grants throughout the evaluation period. JDF made three qualified CD investments totaling \$617 thousand. Additionally, JDF’s ongoing prior period CD investments totaled \$9.1 million. Qualified CD investments totaled \$9.7 million. CD investments were responsive to economic development needs identified in the AA. All CD investments benefitted JDF’s AA. Through investments by affiliates (John Deere Foundation and John Deere Des Moines Operation) the bank received credit for \$3.2 million in qualified CD grants. The CD grants targeted needed community services in the AA and throughout the greater regional area. JDF makes limited use of innovative and complex qualified investments and grants. Table 3 provides the aggregate dollar volume of CD investments and grants. Table 4 provides the volume of qualified CD investments and grants as percentage of average tier 1 capital, average total income, and average pass-through receivables.

Table 3: Qualified Investment Activity (000s)

	Benefits AA	Outside AA*	Totals
Originated Investments	\$617	\$0	\$617
Originated Grants	\$152	\$3,090	\$3,242
Prior-Period Investments that Remain Outstanding	\$9,045	\$0	\$9,045
Total Qualified Investments	\$9,814	\$3,090	12,904
Unfunded Commitments	\$0	\$0	\$0

* Investments included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA. ** “Unfunded Commitments” means legally binding investment commitments that are tracked and recorded by the bank’s financial reporting system.

Table 4: Qualified Investment Percentages

	Benefits AA (%)*	Outside AA (%)**
Total Investments/Average Tier 1 Capital	1.7%	0.5%
Total Investments/Average Total Income	2.9%	0.9%
Total Investments/Average Pass-Through Receivables	0.3%	0.1%

* Investments included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA.

Examples of CD investments and grants:

- JDF made three investments into a Community Development Financial Institution totaling \$617 thousand. The CDFI’s purpose is to promote permanent job creation, retention, and improvement in LMI areas and for LMI people. Those investments benefitted the economic development needs in the AA.

- JDF affiliates made \$3.2 million in qualified grants. Grants from the John Deere Foundation supported various backpack programs. These programs provide low-income elementary school children with food in their backpacks to take home on weekends and other extended school breaks. Grants from the John Deere Des Moines Operation supported various other initiatives to fight hunger amongst the LMI population, including several food banks throughout the region.

CD Lending

JDF made three CD loans totaling \$12 million throughout the evaluation period. The proceeds from the CD loans supported affordable housing needs within the AA. Table 5 has JDF’s level of CD lending as a percentage of average tier 1 capital, average total income, and average pass-through receivables.

Table 5: CD Lending Percentages

	Benefits AA (%)*
Total CD Lending/Average Tier 1 Capital	2.1%
Total CD Lending/Average Total Income	3.5%
Total CD Lending/Average Pass-Through Receivables	0.4%

* CD loans included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA.

CD Services

JDF had six employees participate in 130 hours of CD services throughout the evaluation period. CD services hours focused on affordable housing and community service needs in JDF’s AA. JDF exhibited leadership in providing service hours, which included participation from executive management and employees on a nonprofit’s board of directors. Additionally, other bank employees provided expertise to a variety of CD organizations within the bank’s AA. Table 6 provides a summary of JDF’s service hours.

Table 6: CD Service Activities

CD Service	Benefits AA* Service Hours
Affordable Housing	90
Community Service	40

* CD services included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA

Some examples of CD services:

- JDF's president provided 24 hours of service throughout the evaluation period. The service hours were for a non-profit dedicated to breaking the cycle of poverty. The nonprofit is also a provider of affordable housing for low-income people. JDF's president demonstrated community leadership while participating as a board member on various committees, including the finance and governance committee. The service hours were responsive to identified affordable housing needs in the AA.
- A JDF employee provided 34 service hours to a nonprofit dedicated to supporting affordable housing in the AA. The nonprofit provides down payment and other assistance to LMI people in the home buying process. The JDF employee provides leadership as a member of the board, participant on the loan committee, and treasurer. This community service is responsive to identified affordable housing needs in the AA.
- A JDF employee provided 40 hours of community service to a non-profit organization. The organization is focused on sustaining and enhancing underserved communities through initiatives, networking, research, and strategic business partnerships to empower people and improve social and economic conditions within those communities. The JDF employee provided free tax preparation and filing services to LMI people in the AA.

Appendix A: Summary of State Ratings

RATINGS: John Deere Financial, f.s.b.	
Overall Bank:	Overall Bank Rating
John Deere Financial, f.s.b.	Satisfactory
State	State Rating
Wisconsin	Satisfactory

Appendix B: Definitions and Common Abbreviations

The following terms and abbreviations may be used in this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

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. For example, a bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending (Aggt.): The number of loans originated and purchased by all reporting lenders (HMDA or CRA) in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the assessment area.

Census Tract (CT): A small, relatively permanent statistical subdivision of a county delineated by a local committee of census data users for the purpose of presenting data. Census tracts nest within counties, and their boundaries normally follow visible features, but may follow legal geography boundaries and other non-visible features in some instances, Census tracts ideally contain about 4,000 people and 1,600 housing units.

Combined Statistical Area (CSA): A geographic entity consisting of two or more adjacent Core Based Statistical Areas with employment interchange measures of at least 15. An employment interchange measure is a measure of ties between two adjacent entities. The employment interchange measure is the sum of the percentage of workers living in the smaller entity who work in the larger entity and the percentage of employment in the smaller entity that is accounted for by workers who reside in the larger entity.

Community Development (CD): Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas.

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its entire community, including LMI areas, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): 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: motor vehicle loans, credit card loans, other secured consumer loans, and other unsecured consumer loans.

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).

Full-Scope Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

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

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: A closed-end mortgage loan or an open-end line of credit as these terms are defined under §1003.2 of this title, and that is not an excluded transaction under §1003.3(c)(1) through (10) and (13) of this title.

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.

Limited-Scope Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income Individual: Individual income that is less than 50 percent of the area median income.

Low Income Geography: A census tract with a median family income that is less than 50 percent.

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 assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. The median is the point at which half of the families have income above, and half below, a range of incomes. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) 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, and half below, a range of incomes.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: 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 geography

Moderate-Income: 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 geography.

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

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: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose CD.

Rating Area: A rated area is a state or multi-state metropolitan statistical area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan statistical area, the institution will receive a rating for the multi-state metropolitan statistical area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in ‘loans to small farms’ as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland or classified as loans to finance agricultural production and other loans to farmers.

Tier 1 Capital: The total of common shareholders’ equity, perpetual preferred shareholders’ equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: 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 geography.