



Office of the
Comptroller of the Currency
Washington, DC 20219

SMALL BANK

PUBLIC DISCLOSURE

February 2, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Frontier Bank
Charter Number 712117

301 1st Avenue
Rock Rapids, IA 51246

Office of the Comptroller of the Currency

Sioux Falls Field Office
4900 S Minnesota Avenue, Suite 300
Sioux Falls, SD 57108-2865

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 Satisfactory

The major factors that support this rating include:

- Frontier Bank's (Frontier) net loan-to-deposit (LTD) ratio is reasonable, averaging 80 percent over the 19 quarters since the prior CRA examination.
- Frontier originates a substantial majority of its loans to borrowers located inside its designated assessment area (AA).
- Frontier's distribution of loans reflects reasonable penetration among businesses and farms of different sizes and families of different income levels.
- Frontier's geographic distribution of loans reflects reasonable dispersion throughout census tracts (CTs) of different income levels.

SCOPE OF EXAMINATION

Examiners evaluated Frontier using the small bank examination procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The lending test evaluation period for Frontier covers its performance from January 1, 2012 through December 31, 2014.

To determine the bank's primary loan products, examiners selected a sample of originated and purchased loans during the evaluation period by loan product type. Based on the number and dollar volume of loans originated and purchased during the evaluation period, Frontier's primary products in the Sioux Falls Metropolitan Statistical Area (MSA) AA are business and home loans. The primary products in the Iowa Non-MSA AA are farm and consumer loans.

Frontier Bank was rated Satisfactory at its prior CRA examination dated February 26, 2010.

DESCRIPTION OF INSTITUTION

Frontier is a federally chartered stock savings institution headquartered in Rock Rapids, Iowa. As of September 30, 2014, Frontier had total assets of \$173 million and tier one capital of \$15.4 million. The thrift is wholly owned by Rock Rivers Bancorp, a one-bank holding company. There have been no significant changes to the bank's corporate structure, including merger or acquisition activities, since the last CRA examination.

Frontier is affiliated with Frontier Insurance and Real Estate, and Alasca Farms. These affiliates do not have loans that qualify under the CRA examination. The bank operates four full-service branches, three located in Rock Rapids, Little Rock, and George, all in Iowa, and a fourth branch located in Sioux Falls, South Dakota. The bank is in the

process of opening a full-service branch in downtown Sioux Falls, which is scheduled to open in late February or early March 2015. The bank has one branch located in a moderate-income CT. The bank operates one cash-dispensing automated teller machine (ATM) in George, IA. The Sioux Falls branch operates a deposit-taking ATM.

Frontier primarily offers traditional loan and deposit products and services to its customers. As of the September 30, 2014, the loan portfolio was comprised of commercial loans (44 percent), farm loans (40 percent), consumer loans (10 percent), and one-to-four family residential home loans (6 percent). There have been no changes in the bank's business strategy since the last CRA examination. Management's business strategy is to serve the needs of the community, primarily through farm lending in the Iowa non-MSA AA and through small business and residential real estate lending in the Sioux Falls MSA AA. As of September 30, 2014, Frontier reported net loans of \$60 million, which represents 61 percent of total assets.

There are no legal, financial, or other factors impeding the bank's ability to meet the credit needs of its AAs.

DESCRIPTION OF ASSESSMENT AREA(S)

Frontier has two designated AAs, one in Iowa (non-MSA AA) and the other in Sioux Falls, SD (MSA AA). The Sioux Falls MSA includes CTs located in Minnehaha County and Lincoln County. There is one branch in Lincoln County. The MSA AA includes 53 CTs, including 14 moderate income, 27 middle income, and 12 upper income. There are no low-income CTs in the AA. The Iowa non-MSA AA includes all of Lyon County, Iowa. The non-MSA AA includes three CTs, which are all middle-income CTs. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income CTs.

According to the Bureau of Labor Statistics, South Dakota and Iowa unemployment rates rank below the national average. As of December 2014, South Dakota ranks third lowest nationally with an unemployment rate of 3.3 percent and Iowa ranks tenth nationally with an unemployment rate of 4.1 percent.

During our evaluation, we contacted two local community organizations to better understand the AA demographics and to determine the primary needs of the AAs. We also relied on previous community contacts made by this and other governmental agencies. The top needs of the AAs are low-income housing and small business lending. The community contacts stated local institutions are meeting the demands of the community by offering small business loans and low interest rates with longer amortization periods. The contact also stated there are a number of institutions that provide agricultural loans in the AA, which is the bank's primary product in the Iowa non-MSA AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Frontier LTD ratio is reasonable given the bank's size, financial condition, and AA credit needs. The bank's LTD ratio averaged 80 percent over the 19 quarters since the prior CRA examination, from March 30, 2010 through September 30, 2014. The ratio ranged from a quarterly low of 74 percent to a high of 85 percent during the period. The bank's LTD ratio is reasonable when compared to other similarly situated institutions. Frontier ranks third in deposit market share among seven similarly situated banks. The other six banks had LTD ratios averaging 79 percent and ranging from a low of 38 percent to a high of 107 percent over the same 19 quarters.

Lending in Assessment Area

Frontier originated a substantial majority of its loans to borrowers located inside its designated AA. Examiners sampled loans from three primary products and analyzed the bank's Home Mortgage Disclosure Act (HMDA) data to assess the lending within the AA. The loan sample included 20 business loans, 20 farm loans, 20 consumer loans, and the HMDA data originated or purchased from both Sioux Falls MSA AA and Iowa non-MSA AA during the evaluation period. Frontier originated 89 percent of its loans by number and 90 percent of its loans by dollar volume within its AA.

Table 1 below details the bank's lending within its AA by number and dollar volume.

Table 1 - Lending in the Assessment Area											
Loan Type	Number of Loans				Dollars of Loans (000's)					Total	
	Inside		Outside		Total	Inside		Outside			
	#	%	#	%		\$	%	\$	%		
Business	19	95%	1	5%	20	5,243	97%	161	3%	5,404	
Farm	18	90%	2	10%	20	2,974	96%	135	4%	3,109	
Consumer	17	85%	3	15%	20	129	73%	47	27%	176	
Home (HMDA)	281	89%	35	11%	316	48,356	89%	5,976	11%	54,332	
Total	335	89%	41	11%	376	56,702	90%	6,319	10%	63,021	

Source: loan sample and HMDA LAR data (2012-2014).

State of Iowa

CRA Rating for Iowa: Satisfactory The Lending test is rated: Satisfactory

The distribution of loans reflects reasonable penetration among farms of different sizes and families of different income levels.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN IOWA

During the evaluation period, Frontier had one AA comprised of non-MSA AA in Lyon County, Iowa. The bank's operates three Iowa branches in three cities, which are Rock Rapids, Little Rock, and George. The non-MSA AA includes three CTs that are all middle-income CTs. The non-MSA AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income CTs.

Current economic conditions in the non-MSA AA are sound. The past two years were challenging due to flooding in the area. Primary employment sectors in the AA include agriculture, educational, health, and social services. According to the Bureau of Labor Statistics, as of December 30, 2014 the unemployment rate in Lyon County, Iowa was 2 percent. This is lower than the State of Iowa unemployment rate of 4.1 percent and the national rate of 5.8 percent.

Competition from other financial institutions is moderate in the non-MSA AA. The bank's competitors include several local community banks and branches of regional mid-size and large banks. Frontier ranks second in deposit market share in the AA as of June 30, 2014, with 24.4 percent of the market share.

Loan origination volume is higher in the Iowa non-MSA AA. The Iowa non-MSA accounted for 68 percent of loans by number and 54 percent of loans by dollar.

Table 2 below summarizes key demographic data for the Non-MSA AA.

Table 2 - Demographic Data	Non-MSA AA
Population	11,581
Total Families	3,192
Households Below the Poverty Level	272
1-4 Family Units	4,536
Multi-family Units	173
Owner-occupied Units	3,576
Percent Owner-occupied Units	74.10%
Median Housing Value	98,714
HUD Adjusted Median Family Income (2012)	59,300
HUD Adjusted Median Family Income (2013)	59,800
HUD Adjusted Median Family Income (2014)	60,700
Percent of households in AA that are low-income	17%
Percent of households in AA that are moderate-income	16%
Percent of households in AA that are middle-income	23%
Percent of households in AA that are upper-income	44%

Source: 2010 U.S. Census and Housing and Urban Development (HUD)

In conducting the assessment of the bank's performance, examiners contacted one local business development organization. The contact indicated the credit needs in the area are small business loans. Frontier meets the credit needs within its AA by providing small business lending to qualified applicants. Financial institutions in the AA are active and work well with local organizations to promote community development.

LENDING TEST

Frontier's performance under the lending test is satisfactory. Farm loans in the borrower distribution portion of the test received the majority of the weight as farm loans had the highest number and dollar volume in this AA.

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

The distribution of loans reflects reasonable penetration to farms of different sizes and excellent dispersion among consumers of different income levels.

Farm Loans

The distribution of loans to farms reflects reasonable penetration among farms of different sizes. Eighty percent of the bank's loans by number and 40 percent by dollar originated to small farms. Small farms are farms with gross annual revenues of one million dollars or less. This is considered reasonable compared to aggregate data that shows 48 percent of loans by number and 49 percent of loans by dollar of the area's businesses and farms are considered small.

Table 3A shows the distribution of farm loans.

Table 3A - Borrower Distribution of Loans to Farms in Iowa Non-MSA AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of Bank Loans in AA by #	80%	20%	0%	100%
% of Bank Loans in AA by \$	40%	60%	0%	100%
% of Aggregate Peer Business/Farm Loans by #	48%	52%	0%	100%
% of Aggregate Peer Business/Farm Loans by \$	49%	51%	0%	100%

Source: *loan sample and 2010 U.S. Census Demographic Data.*

Consumer Loans

The distribution of consumer loans reflects excellent penetration among consumers of different income levels. The bank's level of lending to low- and moderate-income borrowers exceeds the standard of the demographic comparator. The bank originated 494 consumer loans in the AA since January 1, 2012 to December 31, 2014, including 371 loans to low- and moderate-income borrowers.

Table 3B shows the distribution of consumer loans.

Table 3B - Borrower Distribution of Loans to Consumers in Iowa Non-MSA AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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 Loans	17%	45%	16%	30%	23%	10%	44%	15%

Source: *loan sample and 2010 U.S. Census Demographic Data.*

Geographic Distribution of Loans

A geographical distribution of loans was not performed in the Iowa non-MSA AA as there are no low- or moderate-income CTs, which would not provide meaningful analysis under these comparators.

Responses to Complaints

Neither the bank, nor the Office of the Comptroller of the Currency, received any complaints regarding the bank's CRA performance for this AA since the last CRA examination dated February 26, 2010.

State of South Dakota

CRA Rating for South Dakota: Satisfactory

The Lending test is rated: Satisfactory

- The distribution of loans reflects reasonable penetration among businesses of different sizes and families of different income levels.
- The geographic distribution of loans reflects reasonable dispersion throughout CTs of different income levels.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN SOUTH DAKOTA

During the evaluation period, Frontier had one AA in the Sioux Falls MSA AA. There is one branch in Lincoln County. The AA includes 53 CTs, including 14 moderate income, 27 middle income, and 12 upper income. There are no low-income CTs in the AA. The MSA AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income CTs.

Current economic conditions in the Sioux Falls MSA AA are good. Primary employment sectors in the AA include healthcare, education, accommodation, food services, and finance. According to the Bureau of Labor Statistics, as of November 2014, the unemployment rate for the Sioux Falls MSA was 2.7 percent. This is lower than the State of South Dakota unemployment rate of 3.3 percent and lower than the national rate of 5.8 percent.

Competition from other financial institutions is strong within the MSA. Frontier Bank ranks the fifth lowest in deposit market share as of June 30, 2014, with 0.01 percent of the market.

Loan origination volume is higher in the Iowa non-MSA AA. The Sioux Falls MSA accounted for 32 percent of loans by number and 46 percent of loans by dollar.

Table 4 below summarizes key demographic data for the Sioux Falls MSA AA.

Table 4 - Demographic Data	MSA AA
Population	214,296
Total Families	54,233
Households Below the Poverty Level	7,214
1-4 Family Units	65,815
Multi-family Units	17,128
Owner-Occupied Units	55,160
Percent Owner-Occupied Units	63.79%
Median Housing Value	150,614
HUD Adjusted Median Family Income (2012)	68,900
HUD Adjusted Median Family Income (2013)	69,800
HUD Adjusted Median Family Income (2014)	72,200
Percent of households in AA that are low-income	21%
Percent of households in AA that are moderate-income	18%
Percent of households in AA that are middle-income	20%
Percent of households in AA that are upper-income	41%

Source: 2010 U.S. Census and Housing and Urban Development (HUD)

In conducting the assessment of the bank's performance, examiners contacted one local economic development organization. The contact indicated a need to develop low-income housing in the area. In addition, the contact indicated there is no lack of institutions in the area to provide the credit and banking needs. Frontier meets the credit needs of the Sioux Falls MSA AA as it provides home loan financing as a primary product. Financial institutions in the AA are active and work well with local organizations to promote community development.

LENDING TEST

Frontier's performance under the lending test is satisfactory. Business loans in the borrower distribution portion of the test received the majority of the weight since business loans had the highest number and dollar volume in this AA.

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

The distribution of business loans reflects reasonable penetration throughout CTs of different income levels and to businesses of different sizes.

Business Loans

The distribution of business loans reflects reasonable penetration throughout CTs of different income levels. Eighty percent of the bank's loans by number and 30 percent by dollar we originated to small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less. This is considered reasonable

compared to aggregate peer data that shows 52 percent of loans by number and 47 percent of loans by dollar of the area's businesses are considered small businesses.

Table 5A shows the distribution of business loans among businesses of aggregate bank peers of different sizes in the AA.

Table 5A - Borrower Distribution of Loans to Businesses in Sioux Falls MSA AA				
Business Revenues (or Sales)	$\leq \$1,000,000$	$> \$1,000,000$	Unavailable/Unknown	Total
% of Bank Loans in AA by #	80%	20%	0%	100%
% of Bank Loans in AA by \$	30%	70%	0%	100%
% of Aggregate Peer Business/Farm Loans by #	52%	48%	0%	100%
% of Aggregate Peer Business/Farm Loans by \$	47%	53%	0%	100%

Source: loan sample and 2010 U.S. Census Demographic Data.

Home Loans

The distribution of home loans reflects excellent penetration throughout CTs of different income levels. The bank originated 194 home loans in the AA, including 41 loans to low- and moderate-income borrowers.

Table 5B shows the distribution of home loans.

Table 5B - Borrower Distribution of Residential Real Estate Loans in Sioux Falls MSA AA					
Borrower Income Level	% of Number of Loans	% of Number of Loans	% of Number of Loans	% of AA Families	% of Aggregate by Income Level (2013 Peer)
Type of Origination	Home Purchase	Home Improvement	Home Refinance		
Low	16%	0%	14%	18%	8%
Moderate	15%	0%	13%	18%	18%
Middle	16%	100%	15%	26%	21%
Upper	52%	0%	58%	38%	28%
Income Not Available	0%	0%	0%	0%	24%

Source: 2012-2014 HMDA data and 2010 U.S. Census Demographic Data.

Geographic Distribution of Loans

The bank's geographic distribution of business and home loans reflects reasonable dispersion throughout CTs of different income levels.

Business Loans

The bank's geographic distribution of business loans reflects reasonable dispersion throughout the CTs of different income levels. The bank's performance reasonably compares to the demographic comparator for moderate-income CTs. Twenty-seven percent of the peer bank businesses are located within moderate-income CTs. The bank originated 25 percent of its business loans to businesses located in moderate-income tracts.

Table 6A details the dispersion of business loan in each CT income level.

Table 6A - Geographic Distribution of Loans to Businesses in Sioux Falls MSA AA				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of Bank Loans in AA by #	0%	25%	65%	10%
% of Bank Loans in AA by \$	0%	9%	79%	12%
% of Aggregate Peer Business/Farm Loans by #	0%	27%	48%	25%
% of Aggregate Peer Business/Farm Loans by \$	0%	31%	48%	21%

Source: *loan sample and 2010 U.S. Census Demographic Data.*

Home Loans

The geographic distribution of home loans reflects reasonable dispersion throughout the CTs of different income levels. The bank's performance reasonably compares to the demographic comparator for moderate-income CTs. Fourteen percent of aggregate bank peers are in the moderate-income level. Nineteen percent of households are in the moderate-income owner occupied housing CTs. The bank originated eight percent of home purchases and seven percent of home refinance by number of loans in these tracts.

Table 6B shows the distribution of home loan products among CTs of aggregate bank peers and different owner-occupied housing.

Table 6B - Geographic Distribution of Residential Real Estate Loans in Sioux Falls MSA AA					
Borrower Income Level	% of Number of Loans (Home Purchase)	% of Number of Loans (Home Improvement)	% of Number of Loans (Home Refinance)	% of AA Owner Occupied Housing	% of Aggregate by Income Level (2013 Peer)
Low	0%	0%	0%	0%	0%
Moderate	8%	0%	7%	19%	14%
Middle	56%	0%	50%	55%	57%
Upper	36%	0%	43%	26%	29%
Income Not Available	0%	0%	0%	0	0%

Source: *2012-2014 HMDA data and 2010 U.S. Census Demographic Data.*

Responses to Complaints

Neither the bank, nor the Office of the Comptroller of the Currency, received any complaints regarding the bank's CRA performance for this AA since the last CRA examination dated February 26, 2010.

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 assessment area 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.