

PUBLIC DISCLOSURE

February 20, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First State Bank Southwest
202 Eighth Avenue Southeast
Pipestone, Minnesota 56164
RSSD 823656

**Federal Reserve Bank of Minneapolis
90 Hennepin Avenue, P.O. Box 291
Minneapolis, MN 55480-0291**

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 the 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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Definitions for many of the terms used in this performance evaluation can be found in section 228.12 of Regulation BB. For additional convenience, a Glossary of Common CRA Terms is attached as Appendix A at the end of this performance evaluation.

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

Examiners evaluated the Community Reinvestment Act (CRA) performance of First State Bank Southwest, Pipestone, Minnesota, using the Small Bank CRA Examination Procedures. Based on the bank's asset size and financial condition, the bank effectively meets the credit needs of small farms, small businesses, and residents in its assessment area. Several factors support the bank's Outstanding rating:

- Overall, the bank's lending to farms and businesses of different sizes and to borrowers of different income levels is reasonable.
- Overall, the geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The bank's net loan-to-deposit ratio is more than reasonable given the bank's asset size and financial condition as well as the credit needs of the assessment area. The bank's community development lending supplements its lending performance.
- The bank originated a majority of its loans within the assessment area.
- The bank's qualified investments and community development services enhance credit availability in the assessment area. The level of qualified investments in the form of donations is notable given the bank's asset size.

The bank received an Outstanding rating at the previous CRA evaluation, conducted December 3, 2012.

SCOPE OF EVALUATION

Examiners based the evaluation on a statistical sample of 133 small farm loans (originated from November 1, 2016, through October 31, 2017) and 63 small business, 49 residential real estate, and 102 consumer loans (originated from May 1, 2017, through October 31, 2017).

The sample represents the bank's major product lines by number of loans or total loan dollars originated in 2016, as shown in Table 1.

TABLE 1¹				
Loan Originations From January 1, 2016, through December 31, 2016				
<i>Loan Type</i>	<i>Number of Loans</i>	<i>Percentage of Total Number</i>	<i>Total Loan Dollars</i>	<i>Percentage of Total Dollars</i>
Construction/Land Development	2	0.3	\$481,860	1.0
Consumer	162	23.9	2,059,130	4.3
Dealer Loans (Floor Plan)	71	10.5	1,196,460	2.5
Home Equity Line of Credit	17	2.5	478,479	1.0
Residential Real Estate	144	21.2	17,818,275	36.8
Small Business (\leq \$1 million)	132	19.4	10,624,728	22.0
Small Farm (\leq \$500,000)	145	21.4	11,767,923	24.3
Agricultural ($>$ \$500,000)	3	0.4	2,393,000	5.0
Tax Exempt	3	0.4	1,559,962	3.2
Total	679	100.0	\$48,379,817	100.0

¹Note: Because the percentages presented in the tables are rounded to the nearest tenth, some columns or rows may not total 100.0%.

Examiners analyzed the following performance criteria to determine the bank's CRA rating:

- Lending to farms and businesses of different sizes and to borrowers of different income levels.
- Geographic distribution of loans.
- Net loan-to-deposit ratio.
- Lending inside the assessment area.
- Record of responding to complaints about the bank's CRA performance.

Of the five core criteria, examiners placed the greatest weight on the first three criteria listed above, followed by lending inside the assessment area. The bank has not received any CRA-related complaints since the previous evaluation. By product, examiners placed the most weight on small farm loans because agricultural loans represent the largest portion of the bank's loan portfolio, then less but equal weight on small business, residential real estate, and consumer loans, based on lending activity.

At the option of bank management, and in accordance with the Small Bank CRA Examination Procedures, examiners reviewed the bank's qualified investments and community development services. Examiners also reviewed the bank's community development loans. The bank's high level of community development activities enhances the overall CRA rating. The evaluation period for community development activities is December 3, 2012, to February 19, 2018.

The evaluation is based in part on information from bank management and from community contacts. Examiners interviewed individuals familiar with the economic issues and demographic characteristics of the bank's assessment area. Examiners used information from these sources to evaluate the bank's CRA performance.

DESCRIPTION OF INSTITUTION

Offices and Delivery Systems. The bank's main office is located in Pipestone, and the bank operates branches in Worthington, Edgerton, Rushmore, and Leota, as well as in the Worthington Walmart Supercenter. All offices are in Minnesota. Bank staff from the Edgerton branch visit a senior living center in Edgerton twice a month to assist residents with their banking needs, such as accepting deposits and cashing checks. The bank has not closed any facilities since the previous evaluation, and the bank's office hours appear reasonable for the communities it serves. The Pipestone and Edgerton offices, as well as both Worthington branches, offer extended and weekend hours.

The Pipestone, Worthington, Edgerton, and Leota offices have drive-up facilities. The bank operates one deposit-taking ATM, located at the Worthington branch. The bank's three cash-dispensing-only ATMs are located at the Pipestone and Edgerton offices and the Worthington Walmart Supercenter branch. The bank offers online banking and bill-payment services, and customers can apply online for home mortgage loans. Since the previous evaluation, the bank has introduced mobile banking services.

Loan Portfolio. According to the December 31, 2017, Report of Condition, the bank's assets total \$285.9 million. The bank's \$148.2 million loan portfolio consists of 50.8% agricultural, 31.4% commercial, 7.7% residential real estate, 5.8% consumer, and 4.3% other loans, which is generally consistent with the composition at the previous evaluation. The loan portfolio increased by 37.3% since the previous evaluation, primarily because of growth in agricultural, commercial, and residential real estate lending.

Credit Products. The bank offers a variety of loan products to help meet the credit needs of the farms, businesses, and residents in the assessment area, including agricultural, commercial, residential, and consumer loans. In addition to offering conventional loan products, the bank participates in government-sponsored loan programs through the U.S. Small Business Administration (SBA), the Farm Service

Agency (FSA), the U.S. Department of Agriculture Rural Development (RD), and the Minnesota Housing Financing Agency.

Deposit Market Share. According to the June 30, 2017, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, the bank ranks first out of 13 FDIC-insured institutions operating in Nobles and Pipestone counties,² with 22.0% of the market share.

DESCRIPTION OF ASSESSMENT AREA

Assessment Area. The bank has one assessment area, which includes Pipestone and Nobles counties, plus census tract 5701.00 in Rock County, tract 4802.00 in Jackson County, tracts 9001.00 and 9002.00 in Murray County (all in Minnesota), and tract 4601.00 in Osceola County (Iowa), for a total of 16 tracts. The bank has not changed its assessment area since the previous examination. However, the income classifications of some tracts changed from 2016 to 2017, as described further in the Geographic Distribution of Loans section, based on the 2017 Federal Financial Institutions Examination Council (FFIEC) adjusted census data.³ Overall, the number of moderate-income tracts increased from one to two, and the number of middle-income tracts decreased from 15 to 14. The middle-income tracts in Murray County continue to be classified as underserved.

Table 2 shows the demographic characteristics of the assessment area based on 2017 FFIEC census data and 2016 Dun & Bradstreet data.

TABLE 2								
Assessment Area Demographics								
<i>Income Categories</i>	<i>Tract Distribution</i>		<i>Families by Tract Income</i>		<i>Families < Poverty Level as % of Families by Tract</i>		<i>Families by Family Income</i>	
	#	%	#	%	#	%	#	%
Low Income	0	0	0	0	0	0	2,346	19.9
Moderate Income	2	12.5	1,488	12.6	256	17.2	2,260	19.1
Middle Income	14	87.5	10,319	87.4	820	7.9	2,883	24.4
Upper Income	0	0	0	0	0	0	4,318	36.6
Total Assessment Area	16	100.0	11,807	100.0	1,076	9.1	11,807	100.0
<i>Income Categories</i>	<i>Housing Units by Tract</i>	<i>Housing Types by Tract</i>						
		<i>Owner-Occupied</i>			<i>Rental</i>		<i>Vacant</i>	
		#	%	%	#	%	#	%
Low Income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate Income	2,378	1,280	9.9	53.8	912	38.4	186	7.8
Middle Income	17,125	11,704	90.1	68.3	3,347	19.5	2,074	12.1
Upper Income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	19,503	12,984	100.0	66.6	4,259	21.8	2,260	11.6

²All of the bank's offices are located in Nobles and Pipestone counties.

³The FFIEC adjusted census data is based on decennial U.S. Census data and American Community Survey five-year estimate data, and it also reflects the Office of Management and Budget's metropolitan statistical area revisions.

TABLE 2
Assessment Area Demographics

Income Categories	Total Businesses by Tract		Businesses by Tract and Revenue Size					
			≤\$1 Million		> \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	382	17.5	323	16.6	56	32.6	3	4.5
Middle Income	1,798	82.5	1,619	83.4	116	67.4	63	95.5
Upper Income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	2,180	100.0	1,942	100.0	172	100.0	66	100.0
Percentage of Total Businesses:				89.1		7.9		3.0
Income Categories	Total Farms by Tract		Farms by Tract and Revenue Size					
			≤\$1 Million		> \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	22	2.2	22	2.2	0	0.0	0	0.0
Middle Income	998	97.8	993	97.8	5	100.0	0	0.0
Upper Income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	1,020	100.0	1,015	100.0	5	100.0	0	0.0
Percentage of Total Farms:				99.5		0.5		0.0

Income. For purposes of classifying borrowers by income level, this evaluation uses the FFIEC's estimated median family income for the nonmetropolitan areas of Minnesota and Iowa. For 2017, this figure is \$65,300 for Minnesota and \$63,900 for Iowa. For purposes of classifying census tracts by income level, this evaluation relies on the FFIEC adjusted census data median family income for the relevant area. For the nonmetropolitan areas of Minnesota and Iowa, the 2017 figures are \$63,182 and \$61,934, respectively; the 2016 figures are \$57,683 and \$56,190.

Population. According to 2017 FFIEC adjusted census data, the population of the bank's assessment area is 44,102, which is slightly below the population of 45,147 at the time of the previous evaluation.⁴ Pipestone is the county seat of Pipestone County; the city has a 2016 ACS five-year population estimate of 4,149. Worthington is the county seat of Nobles County; the city has a 2016 ACS five-year population estimate of 13,036. Based on 2017 FFIEC adjusted census data, 14.9% of the population in the assessment area is of Hispanic origin. Community contacts indicated that the area has become more diverse because of an increasing immigrant population. Further, in general, the population is aging.

General Economic and Business Characteristics. According to bank management and contacts, the local economy depends heavily on agriculture, which consists primarily of livestock operations and grain farming. The agricultural industry has experienced a downturn over the past few years, driven largely by low commodity prices. Although high yields have helped to make up for lower corn and soybean prices, farm incomes have generally decreased. The agricultural downturn has slowed the growth of the overall economy and businesses tied closely to the agricultural industry, such as implement dealers, have been the most impacted.

Overall, the economy is stable despite the agricultural downturn. A contact indicated that food processing, bioscience, manufacturing, and retail are the other primary industries in the area. JBS USA, a pork processing plant in Worthington, is the largest employer. The availability of jobs at JBS USA has supported an increasing immigrant population and more diversity in Nobles County, according to a

⁴Based on 2000 U.S. Census data.

contact. Some small businesses, many of which are minority-owned, have opened over the past several years to serve the needs of the diverse population. These small businesses have helped to strengthen the local economy.

Contacts indicated that the labor market is relatively competitive, and some local employers find it difficult to attract skilled and unskilled workers. The limited supply of available workers can be an obstacle for new businesses or existing businesses looking to expand or relocate to Nobles County. According to the Bureau of Labor Statistics, the November 2017 nonseasonally adjusted unemployment rate was 2.1% for both Nobles and Pipestone counties. This rate is lower than the Minnesota statewide rate of 2.8% and the national rate of 3.9 % for the same period.

Housing. Contacts and bank management noted that there is not a sufficient supply of quality, affordable housing available to workers and their families. The stock of starter homes is relatively low, and the homes are generally in poor condition and in need of repairs. The demand for affordable rental housing is also increasing and many communities in the area have very low vacancy rates. A contact explained that many jobs in the area pay wages that exceed government affordable-housing income limits. However, the wages are too low to support the development of new housing. In addition, the costs associated with developing housing have been increasing well above the rate of inflation. These challenges make a private market response to the area's housing issues very difficult, according to the contact. Consequently, the demand for housing in the area continues to outpace supply.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs of its assessment area is rated Outstanding. Overall, the bank's lending to farms and businesses of different sizes and to borrowers of different income levels is reasonable. The geographic distribution of loans reflects overall reasonable dispersion throughout the assessment area. The bank's net loan-to-deposit ratio is more than reasonable, and the bank's community development lending supplements its lending performance. The bank originated a majority of its loans within the assessment area. Finally, the bank's qualified investments and services enhance credit availability in the assessment area as well as the bank's overall CRA rating.

LENDING TO FARMS AND BUSINESSES OF DIFFERENT SIZES AND TO BORROWERS OF DIFFERENT INCOME LEVELS

Small Farm Lending. The bank's lending to small farms is reasonable. Table 3 displays the bank's small farm lending in the assessment area.

TABLE 3				
Small Farm Lending				
<i>Small Farm Originations</i>	<i>≤ \$100,000</i>	<i>> \$100,000 to ≤ \$250,000</i>	<i>> \$250,000 to ≤ \$500,000</i>	<i>Total Originations</i>
Percentage of Small Farm Loans	66.9%	19.5%	13.6%	100.0%
Percentage of Loans to Farms with Revenues of \$1 Million or Less	67.5%	20.2%	12.3%	96.6%

The bank originated 96.6% of its small farm loans to farms with gross annual revenues of \$1 million or less. According to 2016 Dun & Bradstreet data, 99.5% of the farms in the assessment area are small farms. The bank's lending percentage is slightly below demographics but reasonable. Of the small farm loans to farms with revenues of \$1 million or less, 67.5% were in amounts of \$100,000 or less, which indicates a willingness to serve the credit needs of smaller entities. According to bank management,

demand for small farm loans has been strong. The bank participates in FSA guarantee programs, which also helps serve the needs of small farms.

Small Business Lending. The bank's lending to small businesses is reasonable. Table 4 displays the bank's small business lending in the assessment area.

TABLE 4				
Small Business Lending				
<i>Small Business Originations</i>	≤ \$100,000	> \$100,000 to ≤ \$250,000	> \$250,000 to ≤ \$1,000,000	Total Originations
Percentage of Small Business Loans	64.4%	16.9%	18.6%	100.0%
Percentage of Loans to Businesses with Revenues of \$1 Million or Less	78.6%	11.9%	9.5%	71.2%

The bank originated 71.2% of its small business loans to entities that have gross annual revenues of \$1 million or less. According to 2016 Dun & Bradstreet data, 89.1% of businesses in the assessment area are small businesses. Although the bank's lending is below demographics, it is reasonable. The sample includes more than one loan to several entities with gross annual revenues over \$1 million. Bank management also indicated that several of the loans made to borrowers with revenues above \$1 million were to businesses that had revenues below that threshold until recently. The bank maintains ongoing lending relationships with its business customers, regardless of their size. Of the small business loans to businesses with revenues of \$1 million or less, 78.6% were in amounts of \$100,000 or less, which indicates a willingness to serve the credits needs of smaller entities.

Residential Real Estate Lending. Overall, the bank's residential real estate lending to low- and moderate-income borrowers is excellent, primarily because of its strong performance in lending to moderate-income borrowers. Table 5 shows the bank's residential real estate lending by borrower income levels.

TABLE 5										
Distribution of Loans in the Assessment Area by Borrower Income Levels*										
Loan Type	Low Income		Moderate Income		Middle Income		Upper Income		Unknown Income	
	#	\$	#	\$	#	\$	#	\$	#	\$
Consumer	14.6%	5.6%	23.6%	21.1%	23.6%	21.6%	24.7%	28.5%	13.5%	23.1%
Residential Real Estate	5.4%	4.6%	43.2%	31.3%	29.7%	36.4%	21.6%	27.7%	0.0%	0.0%
Percentage of Households by Income Levels**	23.2%		16.8%		19.0%		41.0%		N/A	
Percentage of Families by Income Levels**	19.9%		19.1%		24.4%		36.6%		N/A	
*Median family income for the nonmetropolitan areas of Minnesota is \$65,300 for 2017. Median family income for the nonmetropolitan areas of Iowa is \$63,900 for 2017.										
**Based on 2017 FFIEC adjusted census data.										

The bank originated 5.4% of its residential real estate loans to low-income borrowers and 43.2% to moderate-income borrowers. The bank's lending to low-income borrowers is below demographics, which indicate that 19.9% of families in the assessment area are low income. The bank's lending to moderate-income borrowers greatly exceeds demographics, which indicate that 19.1% of families in the assessment area are moderate income. Combined, the bank extended 48.6% of its residential real estate loans to low- and moderate-income borrowers, which exceeds the overall demographic figure of 39.0%.

As previously noted, affordable housing is a concern for the community. Using the assumption that a borrower can afford a home for approximately three times annual income, an individual with the highest income in the low-income bracket (\$32,649) could afford a \$97,947 home, based on the 2017 FFIEC estimated median family income of \$65,300 for the nonmetropolitan areas of Minnesota. A community contact noted that there is consistently a shortage of homes in the \$60,000 to \$100,000 price range. In addition, these homes are often older and require repairs. The additional costs associated with necessary home repairs prevent many low-income borrowers from purchasing these homes when they are available. Homeownership is more affordable for moderate-income individuals.

The bank offers a number of flexible lending programs that help individuals to purchase or refinance a home. These programs include loans with down payment assistance, affordable interest rates, and flexible terms. The bank uses these programs to help serve the needs of low- and moderate-income borrowers.

Consumer Lending. The bank's consumer lending to low- and moderate-income borrowers is reasonable. Table 5 shows the bank's consumer lending by borrower income levels. The bank originated 14.6% of its consumer loans to low-income borrowers and 23.6% to moderate-income borrowers. The bank's lending to low-income borrowers is below the percentage of low-income households (23.2%) in the assessment area. The bank's lending to moderate-income borrowers (23.6%) exceeds demographics, which indicate that 16.8% of households in the assessment area are moderate income. Combined, the bank extended 38.2% of its consumer loans to low- and moderate-income borrowers, which is slightly below the overall demographic figure of 40.0%. Bank management indicated that the bank faces considerable competition for consumer loans from a credit union operating in the area. Finally, the bank does not have a minimum loan amount, and consumer loan fees are minimal, which helps serve the needs of low- and moderate-income individuals.

GEOGRAPHIC DISTRIBUTION OF LOANS

Overall, the geographic distribution and dispersion of the bank's loans in the assessment area is reasonable and does not reveal any unexplained gaps in lending. The income classification of some tracts changed from 2016 to 2017. According to 2017 FFIEC data, the assessment area includes two moderate-income and 14 middle-income census tracts. There are no low- or upper-income tracts in the assessment area. According to 2016 FFIEC census data,⁵ the assessment area included one moderate-income and 15 middle-income tracts. Specifically, tract 4602.00 in Pipestone County and tract 1054.00 in Nobles County changed from middle income to moderate income, and tract 1055.00 in Nobles County changed from moderate income to middle income.

The bank's main office in Pipestone and the two Worthington branches are located in the moderate-income tracts. The bank originated a majority of the loans in the middle-income tracts, which is reasonable given that the majority of the assessment area's farms, businesses, and residents are located in these tracts. Table 6 shows the geographic distribution of the bank's loans.

⁵As previously mentioned, the small farm loan sample includes loans from 2016 and 2017.

TABLE 6				
Distribution of Loans by Census Tract Income Level*				
Loan Type	Moderate Income		Middle Income	
	#	\$	#	\$
Consumer	18.0%	19.5%	82.0%	80.5%
Residential Real Estate	10.8%	8.8%	89.2%	91.2%
Small Business	30.5%	42.8%	69.5%	57.2%
Small Farm	2.5%	3.4%	97.5%	96.6%
Demographic Data*				
Number of Census Tracts	2		14	
Percentage of Census Tracts	12.5%		87.5%	
Percentage of Households	12.7%		87.3%	
Percentage of Families	12.6%		87.4%	
Percentage of Businesses**	17.5%		82.5%	
Percentage of Farms**	2.2%		97.8%	
*Income classification of census tracts based on 2017 FFIEC census data.				
**Percentages are based on 2016 Dun & Bradstreet data.				

Small Farm Lending. The geographic distribution of small farm loans is reasonable. According to 2016 Dun & Bradstreet data, 2.2% of the farms in the assessment area are located in the moderate-income tracts. These tracts are located in and near the city limits of Worthington and Pipestone. In 2017,⁶ the bank originated 1.9% of its small farm loans in moderate-income tracts, which is generally consistent with demographic data. The bank originated small farm loans in both of the moderate-income tracts. It did not originate small farm loans in four of the middle-income tracts: one each in Osceola and Pipestone counties and two in Nobles County. The bank does not have a branch in Osceola County and the middle-income tracts in Pipestone and Nobles counties with no small farm loans are in and near the city limits of Worthington and Pipestone. In 2016, the bank originated one small business loan (8.3%) in the one moderate-income tract in the assessment area at the time.

Small Business Lending. The distribution of the bank's small business loans is excellent. According to 2016 Dun & Bradstreet data, 17.5% of the businesses in the assessment area are located in the moderate-income tracts. The bank originated 30.5% of its small business loans in moderate-income tracts, which exceeds demographic data. The bank originated several small business loans in both of the moderate-income tracts. The bank did not originate small business loans in three of the middle-income census tracts: one each in Jackson, Murray, and Pipestone counties. The bank does not have offices in Jackson and Murray counties.

Residential Real Estate Lending. The geographic distribution of the bank's residential real estate loans is reasonable. As shown in Table 6, the bank originated 10.8% of its residential real estate loans in the moderate-income tracts, which is slightly below the percentage of families (12.6%) in the assessment area who reside in the moderate-income tracts. Only 9.9% of the assessment area's owner-occupied housing units are located in the moderate-income tracts, which limits home lending opportunities. The bank extended residential real estate loans in the moderate-income tract where its Worthington branches are located. The bank did not originate loans in the remaining moderate-income tract or in three middle-income tracts. One of the three middle-income tracts and the moderate-income tract in which the bank did not originate residential real estate loans are located in Pipestone, where the bank faces competition from several other lenders.

⁶The majority of the bank's small farm loans in the sample were originated in 2017.

Consumer Lending. The distribution of consumer loans is excellent. As shown in Table 6, the bank originated 18.0% of its consumer loans in the moderate-income tracts. The bank's performance exceeds demographics, which indicate that 12.7% of households in the assessment area are in the moderate-income tracts. The bank extended several consumer loans in both moderate-income tracts. The bank did not originate consumer loans in one middle-income tract in Murray County and one in Rock County, which is reasonable. The bank does not have branches in either of these counties.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio is more than reasonable given the bank's asset size and financial condition, as well as the credit needs and competition in the assessment area. The bank's community development lending supplements its lending performance and further illustrates the bank's commitment to meeting the credit needs of the assessment area.

As of December 31, 2017, the bank's net loan-to-deposit ratio is 61.4%, which is below the 77.1% net loan-to-deposit ratio for the peer group. The bank's national peer group includes all insured commercial banks that have assets between \$100 and \$300 million, have three or more full-service banking offices, and are not located in a metropolitan statistical area.

Since the previous evaluation, the bank's quarterly net loan-to-deposit ratio has ranged from 55.0% to 63.1%. The bank's average net loan-to-deposit ratio for the past 21 quarters is 62.1%. At the previous evaluation, the bank's 20-quarter average net loan-to-deposit ratio was 75.1%. The current average net loan-to-deposit ratio (62.1%) is generally consistent with the net loan-to-deposit ratio for the last several quarters of the previous evaluation period.

The bank sells many of its residential real estate loans to secondary market investors; these loans are not captured in the net loan-to-deposit ratio. The bank is also subject to seasonal fluctuations in loans and deposits due to its agricultural profile. Finally, according to bank management, the bank's deposits include public funds, which have increased since the previous evaluation.

The bank operates in a competitive market. Numerous financial institutions operate in the assessment area, including branches of significantly larger institutions. Community contacts indicated that, overall, local financial institutions are meeting credit needs. There are no similarly situated financial institutions operating in the bank's assessment area for comparison purposes.

Community Development Lending. The bank originated 14 community development loans, totaling approximately \$12.4 million, during the evaluation period. Community contacts indicated that there is a need for more affordable housing options in the area, and one of the loans supported affordable housing efforts. Another loan helped fund an addition to an elementary school that serves primarily low- and moderate-income students in the assessment area. The remaining loans are noteworthy and are through the SBA's Certified Development Company (CDC)/504 Loan Program, which promotes business growth and job creation. Four of these loans are renewals.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank originated a majority of its loans to borrowers within the assessment area, specifically 87.3% by number and 81.1% by total dollar amount. Table 7 shows the bank's lending inside and outside its assessment area by loan type.

TABLE 7								
Distribution of Loans Inside and Outside the Assessment Area								
<i>Loan Category</i>	<i>Inside</i>				<i>Outside</i>			
	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>
Consumer	89	87.3	1,321	80.0	13	12.7	331	20.0
Residential Real Estate	37	75.5	4,351	72.8	12	24.5	1,626	27.2
Small Business	59	93.7	8,879	88.8	4	6.3	1,122	11.2
Small Farm	118	88.7	12,431	79.4	15	11.3	3,227	20.6
Total	303	87.3	26,982	81.1	44	12.7	6,307	18.9

The majority of loans originated outside the assessment area were in tracts adjacent to the bank's assessment area. Bank management indicated that some of the loans originated outside the assessment area were to individuals who moved away from the area but remain bank customers. By number and dollar amount, the largest percentage of lending outside the assessment area was in residential real estate loans. Bank management indicated that the bank originates loans to customers to purchase second homes located outside the assessment area. In addition, the bank originates some home loans in Sioux Falls, South Dakota.

QUALIFIED INVESTMENTS AND SERVICES

Since the previous evaluation, the bank made qualified investments and provided community development services that enhance credit availability in its assessment area as well as the bank's overall CRA rating.

Qualified Investments. Since the previous evaluation, the bank made qualified investments in the form of donations totaling \$271,877. The level of donations is notable given the bank's size and enhances the bank's CRA performance. Most donations were to organizations that help revitalize or stabilize a moderate-income area, or provide essential services to low- and moderate-income individuals. Other donations involve organizations that promote economic development. The bank also purchased one qualifying investment in the form of a bond for \$215,000. The purpose of this bond was to fund several infrastructure projects throughout the city of Worthington, and it helped revitalize and stabilize a moderate-income area.

Community Development Services. The bank provided 48 community development services since the previous evaluation, which enhances its CRA performance. Officers and bank staff provided services to organizations that offer community services to low- and moderate-income individuals, help revitalize or stabilize a moderate-income area, and promote economic development. In addition, three employees provided services to organizations that promote affordable housing, which is particularly noteworthy given the affordable-housing concerns in the assessment area. At these organizations, bank staff members hold a variety of positions, which include serving as board members, treasurers, and financial literacy instructors.

RECORD OF RESPONSE TO CRA-RELATED COMPLAINTS

Neither the bank nor the Federal Reserve Bank of Minneapolis has received any CRA-related complaints concerning the bank since the previous evaluation.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The examination did not reveal any evidence of violations of antidiscrimination laws or regulations (including Regulation B – Equal Credit Opportunity Act and the Fair Housing Act), or other illegal credit practices inconsistent with the bank helping to meet community credit needs.

Appendix A

Glossary of Common CRA Terms

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan statistical area/assessment area.

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

Community development: An activity associated with one of the following five descriptions: (1) affordable housing (including multifamily rental housing) for low- or moderate-income individuals; (2) community services targeted to low- or 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 C.F.R. 121.301) or have gross annual revenues of \$1 million or less; (4) activities that revitalize or stabilize low- or moderate-income census tracts, designated disaster areas, or distressed or underserved nonmetropolitan middle-income census tracts; or (5) Neighborhood Stabilization Program (NSP)-eligible activities in areas with HUD-approved NSP plans, which are conducted within two years after the date when NSP program funds are required to be spent and benefit low-, moderate-, and middle-income individuals and census tracts.

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

Distressed nonmetropolitan middle-income census tract: A middle-income, nonmetropolitan census tract will be designated as distressed if it is in a county that meets one or more of the following triggers: (1) an unemployment rate of at least 1.5 times the national average, (2) a poverty rate of 20.0% or more, or (3) a population loss of 10.0% or more between the previous and most recent decennial census or a net migration loss of 5.0% or more over the 5-year period preceding the most recent census.

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 nonrelatives 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 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., 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 do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include data such as the race, gender, and income of applicants; the amount of loan requested; and the disposition of the application (i.e., approved, denied, or withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancings of home improvement and home purchase loans.

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 is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments).

Low income: 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 geography.

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 metropolitan statistical area/assessment area.

Metropolitan statistical area (MSA): An area, defined by the Office of Management and Budget, based on the concept of a core area with at least one urbanized area that has a population of at least 50,000. The MSA 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 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.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

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 community development.

Rated area: A rated area is a state or multistate MSA. 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 multistate MSA, the institution will receive a rating for the multistate metropolitan area.

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

Small loan to farm: 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.

Underserved middle-income census tract: A middle-income, nonmetropolitan census tract will be designated as underserved if it meets criteria for population size, density, and dispersion that indicate the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

Upper income: Individual income that is more than 120 percent of the area median income or a median family income that is more than 120 percent, in the case of geography.

(For additional information, please see the Definitions sections of Regulation BB at 12 C.F.R. 228.12.)