

PUBLIC DISCLOSURE

April 3, 2023

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Bank Blue Earth
RSSD# 147857

306 South Main Street
Blue Earth, Minnesota 56013

Federal Reserve Bank of Minneapolis
90 Hennepin Avenue
Minneapolis, Minnesota 55401

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.

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INSTITUTION'S COMMUNITY REINVESTMENT ACT RATING

First Bank Blue Earth (the bank) is rated **Satisfactory**. This rating is based on the following conclusions with respect to the performance criteria:

- The bank's net loan-to-deposit ratio (NLTD) is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- A majority of the bank's loans are originated inside the AA.
- A reasonable distribution of loans occurs throughout the bank's AA.
- Overall, lending reflects a reasonable distribution among individuals of different income levels, including low- and moderate-income (LMI), and businesses and farms of different sizes.
- Neither the bank nor this Reserve Bank received any CRA-related complaints since the previous evaluation.

SCOPE OF EXAMINATION

Examiners utilized the Federal Financial Institutions Examination Council's (FFIEC's) *Interagency Examination Procedures for Small Institutions* to evaluate the bank's CRA performance. The evaluation considered CRA performance context, including the bank's asset size, financial condition, business strategy and market competition, as well as AA demographic and economic characteristics, and credit needs. Examiners reviewed the following data:

- The bank's 17-quarter average NLTD ratio.
- A statistical sample of 125 small farm loans originated between January 1, 2022, and December 31, 2022, and 59 small business loans and 69 consumer loans originated between July 1, 2022, and December 31, 2022.¹ Small farm, small business, and consumer loans represent a significant portion of originations, by dollar amount or volume of loans.

Of the five core performance criteria, examiners placed the greatest weight on borrower distribution. They placed equal weight on NLTD ratio and lending inside the AA. Examiners placed the least weight on geographic distribution of loans. By loan product, examiners placed the greatest weight on small farm loans. Small business and consumer loans received equal weight. The bank and the Reserve Bank have not received any CRA complaints since the previous evaluation.

¹In 2020 and 2021, the bank participated in Paycheck Protection Program (PPP) lending through the Federal Reserve System and the Small Business Administration (SBA). These loans are designed to help businesses, including farms, keep their workforces employed during the COVID-19 pandemic. Examiners considered the bank's PPP loans in their evaluation of the bank's small farm and small business loans.

DESCRIPTION OF INSTITUTION

First Bank Blue Earth is a community bank headquartered in Blue Earth, Minnesota. The bank's characteristics include:

- The bank is a wholly owned subsidiary of FNB Bancshares, Inc.
- The bank has total assets of \$318.1 million as of December 31, 2022. Total assets increased 38.8% since the previous evaluation.
- The bank's only office is in Blue Earth. The bank offers drive-up services, with extended weekday and Saturday hours, and operates two cash dispensing-only ATMs there.
- The bank operates three additional cash-dispensing-only ATMs at local retail/convenience stores in Blue Earth.
- As shown in the table below, the bank's primary business focus is agricultural lending. The bank also offers consumer, residential real estate, and small business loans. The overall composition of the loan portfolio has not changed significantly since the previous evaluation. However, all loan types saw increases, except for consumer loans, which experienced a small decrease.

Table 1		
Composition of Loan Portfolio as of December 31, 2022		
Loan Type	\$(000)	%
Agricultural	121,191	63.1%
Commercial and Industrial	48,550	25.3%
Residential Real Estate	15,736	8.2%
Consumer	3,860	2.0%
Other	2,823	1.5%
Gross Loans	192,160	100.0%
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>		

The bank was rated Satisfactory under the CRA at its January 14, 2019, performance evaluation. There are no known legal, financial, or other factors impeding the bank's ability to help meet the credit needs in its communities.

DESCRIPTION OF ASSESSMENT AREA

The bank's AA consists of Faribault County. See Appendix A for an AA map and Appendix B for additional demographic data.

- The bank has not changed its AA since the previous evaluation.
- The AA consists of six middle-income census tracts. The tracts have been classified as distressed since the previous examination.

- According to the June 30, 2022, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, the bank ranks first out of eight FDIC-insured financial institutions with offices in the AA, capturing 45.2% of the deposits.
- Examiners spoke with two community contacts, one who works at an organization that specializes in the agricultural economy and another who specializes in the needs of local businesses.

Table 2			
Faribault County AA Population Change			
Area	2015 Population	2020 Population	Percent Change
Faribault County AA	14,230	13,921	-2.17%
NonMSA Minnesota	1,243,105	1,259,719	1.34%
Minnesota	5,419,171	5,706,494	5.30%
<i>Source: 2011-2015 U.S. Census Bureau American Community Survey 2020 U.S. Census Bureau Decennial Census</i>			

- The population in Faribault County decreased slightly since 2015, as shown in Table 2.
- Bank management and community contacts indicated that the population of the AA is aging. Although younger people often move away for education and/or career opportunities, some return when they are older to raise families. A community contact indicated that the area lacks people in the 20- to 35-year-old range.

Table 3			
Faribault County AA Median Family Income Change			
Area	2015 Median Family Income	2020 Median Family Income	Percent Change
Faribault County AA	\$63,744	\$71,931	12.84%
NonMSA Minnesota	\$68,881	\$74,737	8.50%
Minnesota	\$84,188	\$92,692	10.10%
<i>Source: 2011 - 2015 U.S. Census Bureau American Community Survey 2016 - 2020 U.S. Census Bureau American Community Survey Median Family Incomes have been inflation-adjusted and are expressed in 2020 dollars.</i>			

- As shown in Table 3, the median family income for Faribault County is significantly below that of the state of Minnesota but is consistent with the non-metropolitan areas of the state.
- Based on 2022 FFIEC-adjusted census data, low- and moderate-income households make up 42.9% of all households in the AA. In addition, 12.1% of AA households are below the poverty level.
- Bank management indicated that the average wage in the AA is around \$15 per hour; \$30,000 per year is the minimum salary needed to attract workers. Management and a community contact also stated that many farm families have at least one family member working off the farm for benefits.

Table 4			
Faribault County AA Unemployment Rates			
Area	2019	2020	2021
Faribault County AA	4.40%	6.33%	3.79%
NonMSA Minnesota	4.27%	6.07%	3.56%
Minnesota	3.45%	6.32%	3.41%
<i>Source: Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics</i>			

- As shown in Table 4, the unemployment rates in the AA and the state have fluctuated, with a spike in rates in 2020 due to the COVID-19 pandemic. According to BLS data, the January 2023 unemployment rate in the AA was 4.2%, which was above the Minnesota statewide rate of 3.3% for that same period.
- The economy is primarily based on agriculture. Community contacts and bank management noted that the agricultural economy has remained strong through the pandemic due to strong crop prices and yields.
- The main nonfarm employers include schools, the hospital, and food-related manufacturing. Bank management and a community contact stated that there have been no recent noticeable shifts in employment.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Net Loan-to-Deposit Ratio

This performance criterion evaluates the bank’s average NLTD ratio to determine the reasonableness of lending considering performance context, such as the bank’s capacity to lend, the availability of lending opportunities, and the demographic and economic factors present in the AA. There are no similarly situated FDIC-insured institutions operating in the bank’s AA for comparison purposes. The bank’s NLTD ratio is reasonable.

The bank’s average NLTD ratio for the past 17 quarters is 68.1%. At the previous evaluation, the bank’s 16-quarter average NLTD ratio was 77.3%. Since then, the bank’s quarterly NLTD ratio has ranged from a low of 56.3% (in March 2022) to a high of 77.2% (in June 2019). The bank’s NLTD steadily decreased during the evaluation period, primarily due to lower loan demand and higher deposits. According to bank management, agricultural producers have done very well and have significant deposit balances.

As of December 31, 2022, the bank’s NLTD ratio was 68.1%, which is below the peer group NLTD ratio of 73.8%. The bank’s peer group includes insured commercial banks having assets between \$300 million and \$1 billion.

Assessment Area Concentration

This performance criterion evaluates the percentage of lending extended inside and outside of the AA. The bank originated a majority of the bank’s loans, by number and dollar, inside the AA, as shown in Table 5.

Table 5 Lending Inside and Outside the AA								
Loan Type	Inside				Outside			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Consumer (Non-Real Estate)	58	84.1	604	80.4	11	15.9	147	19.6
Small Business	44	74.6	3,809	61.9	15	25.4	2,342	38.1
Small Farm	104	83.2	10,847	79.8	21	16.8	2,738	20.2
Total Loans	206	81.4	15,260	74.5	47	18.6	5,226	25.5

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

Geographic Distribution of Loans

This performance criterion evaluates the bank’s distribution of lending within its AA by income level of census tracts, with consideration given to the dispersion of loans throughout the AA. The bank’s AA contains six middle-income census tracts. The bank’s geographic distribution of loans reflects reasonable distribution among the different census tracts and dispersion throughout the AA. No unexplained gaps in lending were identified.

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

This performance criterion evaluates the bank’s lending to borrowers of different income levels and businesses and farms of different revenue sizes. Overall, the bank’s lending has a reasonable distribution among individuals of different income levels and businesses and farms of different sizes.

Small Business Lending

The borrower distribution of small business lending is reasonable. The bank originated 86.4% of small farm loans to farms with gross annual revenues of \$1 million or less, as shown in Table 6. The bank’s lending to small businesses is a bit below demographics, which indicate that 90.1% of businesses in the AA have gross annual revenues of \$1 million or less. A significant majority (97.4%) of the loans the bank originated to small businesses were for \$100,000 or less. In addition, 63.2% of these loans were for less than \$25,000. This indicates the bank’s willingness to serve the credit needs of smaller businesses in the AA. Although a majority of loan dollars were extended

to larger businesses, the bank made these loans to only three borrowers, and one of the loans was for \$1 million.

Finally, the bank also participated actively in PPP lending between April 2020 and May 2021. The bank originated over 200 PPP loans to commercial borrowers. The data indicate that 72.0% of these loans were for loan amounts of less than \$25,000. The bank’s extension of PPP loans during the COVID-19 pandemic was responsive to the credit needs of small businesses.

Table 6					
Distribution of 2022 Small Business Lending By Revenue Size of Businesses					
Faribault County AA					
	Bank Loans				Total Businesses %
	#	#%	\$(000)	%	
By Revenue					
\$1 Million or Less	38	86.4	1,205	31.6	90.1
Over \$1 Million	5	11.4	2,600	68.3	6.5
Revenue Unknown	1	2.3	4	0.1	3.4
Total	44	100.0	3,809	100.0	100.0
By Loan Size					
\$100,000 or Less	39	88.6	849	22.3	
\$100,001 - \$250,000	0	0.0	0	0.0	
\$250,001 - \$1 Million	5	11.4	2,960	77.7	
Total	44	100.0	3,809	100.0	
By Loan Size and Revenues \$1 Million or Less					
\$100,000 or Less	37	97.4	805	66.8	
\$100,001 - \$250,000	0	0.0	0	0.0	
\$250,001 - \$1 Million	1	2.6	400	33.2	
Total	38	100.0	1,205	100.0	
<i>Source: 2022 FFIEC Census Data</i>					
<i>2022 Dun & Bradstreet Data</i>					
<i>2016-2020 U.S. Census Bureau: American Community Survey</i>					

Small Farm Lending

The borrower distribution of small farm lending is reasonable. The bank originated 45.2% of small farm loans to farms with gross annual revenues of \$1 million or less, as shown in Table 7. The bank’s lending to small farms is significantly below demographics, which indicate that 99.2% of farms in the AA have gross annual revenues of \$1 million or less. However, 77.4% of the loans made to larger farms were made to one borrower.

Finally, the bank originated over 250 PPP loans to agricultural borrowers. The data indicate that 97.3% of these loans were for loan amounts of less than \$25,000. The bank’s extension of PPP loans during the COVID-19 pandemic was very responsive to the credit needs of small farms.

Table 7					
Distribution of 2022 Small Farm Lending By Revenue Size of Farms					
Faribault County AA					
	Bank Loans				Total Farms %
	#	#%	\$(000)	%	
By Revenue					
\$1 Million or Less	47	45.2	5,437	50.1	99.2
Over \$1 Million	53	51.0	5,141	47.4	0.8
Revenue Unknown	4	3.8	270	2.5	0.0
Total	104	100.0	10,847	100.0	100.0
By Loan Size					
\$100,000 or Less	76	73.1	3,805	35.1	
\$100,001 - \$250,000	17	16.3	3,089	28.5	
\$250,001 - \$500,000	11	10.6	3,953	36.4	
Total	104	100.0	10,847	100.0	
By Loan Size and Revenues \$1 Million or Less					
\$100,000 or Less	32	68.1	1,502	27.6	
\$100,001 - \$250,000	10	21.3	2,020	37.2	
\$250,001 - \$500,000	5	10.6	1,915	35.2	
Total	47	100.0	5,437	100.0	
<i>Source: 2022 FFIEC Census Data 2022 Dun & Bradstreet Data 2016-2020 U.S. Census Bureau: American Community Survey</i>					
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>					

Consumer Lending

The borrower distribution of consumer lending is excellent. Overall, 74.1% of the bank’s consumer loans were made to LMI borrowers, as shown in Table 8. The bank’s lending to low-income borrowers, at 44.8%, is significantly above demographics, which indicates that 24.9% of households in the AA are low income. The bank’s lending to moderate-income borrowers, at 29.3%, is also above demographics, at 17.9%. By dollar amount, 63.1% of the bank’s loans were made to LMI borrowers, which further demonstrates the bank’s willingness to serve LMI borrowers.

Table 8					
Distribution of 2022 Consumer Lending By Borrower Income Level					
Faribault County AA					
Borrower Income Level	Bank Loans				Households by Household Income %
	#	#%	\$(000)	%	
Low	26	44.8	235	38.9	24.9
Moderate	17	29.3	146	24.2	17.9
Middle	11	19.0	144	23.8	19.8
Upper	3	5.2	65	10.8	37.3
Unknown	1	1.7	14	2.3	0.0
Total	58	100.0	604	100.0	100.0

*Source: 2022 FFIEC Census Data
2016-2020 U.S. Census Bureau: American Community Survey
Note: Percentages may not total 100.0 percent due to rounding.*

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 B – DEMOGRAPHIC INFORMATION

2022 Faribault County AA Demographics								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	748	19.8
Moderate	0	0.0	0	0.0	0	0.0	778	20.6
Middle	6	100.0	3,785	100.0	277	7.3	918	24.3
Upper	0	0.0	0	0.0	0	0.0	1,341	35.4
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	6	100.0	3,785	100.0	277	7.3	3,785	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	0	0	0.0	0.0	0	0.0	0	0.0
Middle	7,034	4,677	100.0	66.5	1,397	19.9	960	13.6
Upper	0	0	0.0	0.0	0	0.0	0	0.0
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	7,034	4,677	100.0	66.5	1,397	19.9	960	13.6
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	862	100.0	777	100.0	56	100.0	29	100.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	862	100.0	777	100.0	56	100.0	29	100.0
Percentage of Total Businesses:				90.1		6.5		3.4
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	260	100.0	258	100.0	2	100.0	0	0.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	260	100.0	258	100.0	2	100.0	0	0.0
Percentage of Total Farms:				99.2		0.8		0.0
<i>Source: 2022 FFIEC Census Data 2022 Dun & Bradstreet Data 2016-2020 U.S. Census Bureau: American Community Survey</i>								
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>								

APPENDIX C – GLOSSARY

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 area/assessment area.

Census tract: A small subdivision 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. Census tracts 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.

Community development: 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 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, activities that revitalize or stabilize low- or moderate-income geographies, designated disaster areas; or designated distressed or underserved nonmetropolitan middle-income geographies.

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 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 (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, 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 do 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 applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and 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 (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

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 area/assessment area.

Metropolitan area (MA): 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 population of at least 2.5 million may be divided into MDs.

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 metropolitan 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 multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area. For these institutions, no state ratings will be received unless the bank also maintains deposit facilities outside of the multistate metropolitan area. CRA activity is captured in either a state rating or a multistate metropolitan area rating, but not both.

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. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as 'small business loans' if the loans are reported on the TFR as nonmortgage, commercial loans.

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

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 a geography.