PUBLIC DISCLOSURE

October 25, 2021

COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION

Welcome State Bank
RSSD# 215653

111 Guide Street North
P.O. Box 238
Welcome, MN 56181

Federal Reserve Bank of Minneapolis

90 Hennepin Ave
Minneapolis, MN 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

Welcome State Bank (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 and dispersion of loans occurs throughout the bank's AA.
- Overall, lending reflects an excellent distribution among individuals of different income levels, including low- and moderate-income (LMI), 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 16-quarter average NLTD ratio.
- A statistical sample of 62 small farm loans originated between July 1, 2020, and June 30, 2021, and 51 consumer loans originated between January 1, 2021, and June 30, 2021.[1] As Table 1 shows, agricultural loans represent 45.1% of the bank's loan portfolio.

Of the five core performance criteria, examiners placed the greatest weight on borrower distribution, followed by NLTD ratio and lending inside the AA, weighted equally. Examiners placed the least weight on geographic dispersion of loans. By loan product, examiners weighted small farm loans greater than consumer loans, based on loan portfolio concentration. The bank and the Reserve Bank have not received any complaints since the previous evaluation.

DESCRIPTION OF INSTITUTION

Welcome State Bank is a community bank headquartered in Welcome, Minnesota. The bank's characteristics include:

- The bank is a wholly owned subsidiary of Welcome Bancshares, Inc.
- The bank has total assets of $37.6 million as of June 30, 2021.

[1] In 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 loans

- The bank's only office is in Welcome. It features drive-up services with extended hours Monday through Friday, and it offers extended hours in the lobby on Friday.
- The bank currently operates three cash-dispensing-only ATMs at local businesses. One ATM is in Welcome, MN, and two are in Fairmont, MN. Prior to this evaluation, the bank had one additional ATM in Welcome, which has been temporarily removed. The bank plans to re-install the ATM when the hosting business reopens under new ownership.
- As shown in Table 1, the bank's primary business focus is agricultural lending. The bank also offers commercial loans, residential real estate loans, and consumer loans.
- Although the overall composition of the loan portfolio did not change significantly since the previous evaluation, residential real estate loans more than doubled. However, residential real estate lending remains a relatively small portion of the portfolio.

Table 1
Composition of Loan Portfolio as of June 30, 2021

Loan Type	$(000)	%
Agricultural	11,337	45.1
Commercial	7,336	29.2
Residential Real Estate	4,624	17.0
Consumer	2,189	8.7
Other	4	<0.1
Gross Loans	25,130	100.0

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

The bank was rated Satisfactory under the CRA at its October 16, 2017, 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 Martin 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 bank's AA consists of six middle-income census tracts. These tracts are all classified as underserved. At the previous evaluation, the AA had one moderate-income tract, which has since been categorized as middle-income.
- According to the June 30, 2021, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, the bank ranks seventh out of 10 FDIC-insured institutions with offices in Martin County and holds 3.7% of the deposits.
- Examiners spoke with a community contact who works at an organization that specializes in the agricultural economy.

Table 2 Population Change Welcome Assessment Area			
Area	**2010 Population**	**2015 Population**	**% Change**
Martin County	20,840	20,350	-2.4%
Non-MSA Minnesota	1,246,842	1,243,105	-0.3%
Minnesota	5,303,925	5,419,171	2.2%
Source: 2010 U.S. Census Bureau: Decennial Census 2011 – 2015 U.S. Census Bureau: American Community Survey			

- The population in Martin County has decreased slightly since the 2010 census, as shown in Table 2.
- Bank management indicated that the population is aging overall, but that some adult children remain in Martin County to work on their family farms.

Table 3 Median Family Income Change Welcome Assessment Area			
Area	**2010 Median Family Income**	**2015 Median Family Income**	**% Change**
Martin County	$62,222	$62,397	0.3%
Non-MSA Minnesota	$61,945	$63,045	1.8%
Minnesota	$77,650	$77,055	-0.8%
Source: 2006 – 2010 U.S. Census Bureau: American Community Survey 2011 – 2015 U.S. Census Bureau: American Community Survey Note: Median family incomes have been inflation-adjusted and are expressed in 2015 dollars.			

- The median family income in Martin County remained steady since the 2010 census and is only slightly below the median family income for Non-MSA Minnesota. The median family income for Martin County and Non-MSA Minnesota is considerably lower than the median family income for the state of Minnesota (see Table 3).
- Based on 2020 FFIEC adjusted census data, low- and moderate-income households make up 39.3% of all households in Martin County.
- The same data indicates that 11.5% of households in Martin County live below the poverty line, which is consistent with the state's percentage at 10.8%.

Table 4 Unemployment Rates Welcome Assessment Area			
Area	**2018**	**2019**	**2020**
Martin County	3.25%	3.68%	5.20%
Non-MSA Minnesota	3.74%	3.93%	5.86%
Minnesota	3.02%	3.16%	6.18%
Source: Bureau of Labor Statistics: Local Area Unemployment Statistics			

- The unemployment rates in Martin County and the state have been increasing since the previous evaluation, as Table 4 shows. Martin County's unemployment rate continues to be slightly lower than the Non-MSA Minnesota rate and lower than the statewide rate.
- The economy is primarily based on agricultural activity. A community contact and bank management indicated that the agricultural economy has seen a rebound following the slowdown related to the COVID-19 pandemic. Grain prices have since risen, and livestock prices have increased slightly beyond pre-pandemic levels. Local farmers have benefited greatly from pandemic-related relief, allowing them to withstand the economic decline.
- The main nonfarm employers in the area include healthcare clinics, hospitals, schools, and manufacturing.

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 in light of performance context, such as the bank's capacity to lend, the availability of lending opportunities, the demographic and economic factors present in the AA, and in comparison to similarly situated FDIC-insured institutions. The similarly situated institutions were selected based on asset size, product offerings, market share, and location (operating within the AA). The bank's NLTD ratio is reasonable.

The bank's average NLTD for the past 16 quarters is 85.3%. At the previous evaluation, the bank's 13-quarter average NLTD was 81.1%. Since then, the bank's NLTD has ranged from a low of 73.2% to a high of 103.8%. Bank management indicated that the 2018 spike in NLTD was caused by a sudden decrease in deposits, coupled with strong loan demand.

As of June 30, 2021, the bank's NLTD ratio was 73.3%, which is above the peer group ratio of 53.5%. The bank's ratio was at its lowest levels during the most recent three quarters, mainly due to increased deposits and slightly decreased loan demand.

Table 5
Comparative NLTD Ratios as of June 30, 2021

Institution	Location	Asset Size $(000)	NLTD Ratio (%) 16-Quarter Average
Welcome State Bank	Welcome, Minnesota	37,601	85.3%
Similarly Situated Institutions			
Triumph State Bank	Trimont, Minnesota	89,256	66.8%
Farmers Sate Bank of Trimont	Trimont, Minnesota	70,195	60.4%

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 dollars, inside the AA (see Table 6).

Table 6
Lending Inside and Outside the Assessment Area

Loan Type	Inside				Outside			
	#	#%	$(000)	$%	#	#%	$(000)	$%
Consumer Loans	41	80.4	452	64.6	10	19.6	248	35.4
Small Farm Loans	60	96.8	2,420	86.4	2	3.2	381	13.6
Total Loans	**91**	**89.4**	**2,872**	**82.0**	**12**	**10.6**	**629**	**18.0**

Note: Percentages may not total 100.0 percent 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 consists entirely of middle-income census tracts. The geographic distribution of loans reflects reasonable dispersion throughout the AA. No unexplained gaps in lending were identified.

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

This performance criterion evaluates the bank's lending to borrowers of different income levels and farms of different revenue sizes. Overall, the bank's lending has an excellent distribution among farms of different sizes and individuals of different income levels.

Small Farm Lending

The borrower distribution of small farm lending is excellent. The bank originated 76.7% 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 below demographics, which indicate that 98.7% of farms in the AA have gross annual revenues of $1 million or less. Although the bank's lending is below demographics, both bank management and the community contact noted that there are numerous large farming operations in the AA with revenues over $1 million.

Bank management indicated that the bank has strong relationships with several large farms, and this view is supported by the bank's lending data. For example, the 14 loans made to farms with gross annual revenues over $1 million were extended to only five borrowers, and one borrower accounts for eight of these loans. A majority (93.5%) of the loans the bank originated to small farms were for $100,000 or less. Finally, the bank was active in originating PPP loans, which was particularly responsive to the credit needs of small farms during the pandemic. Specifically, 43.3% of the small farm loans originated in the AA were PPP loans and all these loans were for less than $25,000. The bank's lending indicates its willingness to serve the needs of small farms in the AA.

Table 7
Small Farm Lending By Revenue & Loan Size
Welcome Assessment Area

Product Type			**Bank & Demographic Comparison #N/A**				
			Count		**Dollar**		**Total Farms**
			#	**%**	**$ 000s**	**$ %**	**%**
Small Farm	Revenue	$1 Million or Less	46	76.7	1,477	61.0	98.7
		Over $1 Million or Unknown	14	23.3	943	39.0	1.3
		Total	**60**	**100.0**	**2,420**	**100.0**	**100.0**
	Loan Size	$100,000 or Less	53	88.3	1,362	56.3	
		$100,001 - $250,000	6	10.0	783	32.4	
		$250,001 - $500,000	1	1.7	275	11.4	
		Total	**60**	**100.0**	**2,420**	**100.0**	
	Loan Size & Rev $1 Mill or Less	$100,000 or Less	43	93.5	1,067	72.2	
		$100,001 - $250,000	3	6.5	410	27.8	
		$250,001 - $500,000	0	0.0	0	0.0	
		Total	**46**	**100.0**	**1,477**	**100.0**	

Source: 2021 FFIEC Census Data
2011-2015 U.S. Census Bureau: American Community Survey
Note: Percentages may not add to 100.0 percent due to rounding

<u>Consumer Lending</u>

The borrower distribution of consumer lending is reasonable. Overall, 14.6% 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 7.3%, is below demographics, which indicates that 23.9% of households in the AA are low income. The bank's lending to moderate-income borrowers, also at 7.3%, is below demographics, at 15.4%. Despite the lower level of lending to LMI borrowers, the overall income distribution of the bank's consumer loans is reasonable. Most of the consumer loans in the sample were made to borrowers of unknown incomes; the bank does not collect updated income information from its well-known customers who have a history of timely payments. Ten of the 33 loans to unknown-income borrowers are for amounts of $3,000 or less. These smaller-dollar loans typically help meet the needs of LMI borrowers. Further, bank management confirmed that many of the loans to unknown-income borrowers had loan purposes consistent with the needs of LMI borrowers, such as medical bills, emergency home repairs, or other unexpected expenses.

Table 8
Distribution of 2021 Consumer Lending By Borrower Income Level
Assessment Area: Martin County

Borrower Income Level	Bank Loans				Households by Household Income %
	#	#%	$(000)	$%	
Low	3	7.3	18	4.0	23.9
Moderate	3	7.3	9	2.0	15.4
Middle	1	2.4	18	4.0	18.9
Upper	1	2.4	48	10.6	41.8
Unknown	33	80.5	359	79.4	0.0
Total	41	100.0	452	100.0	100.0

Source: 2021 FFIEC Census Data
2011-2015 U.S. Census Bureau: American Community Survey
Note: Percentages may not total 100.0 percent due to rounding.

Response to Complaints

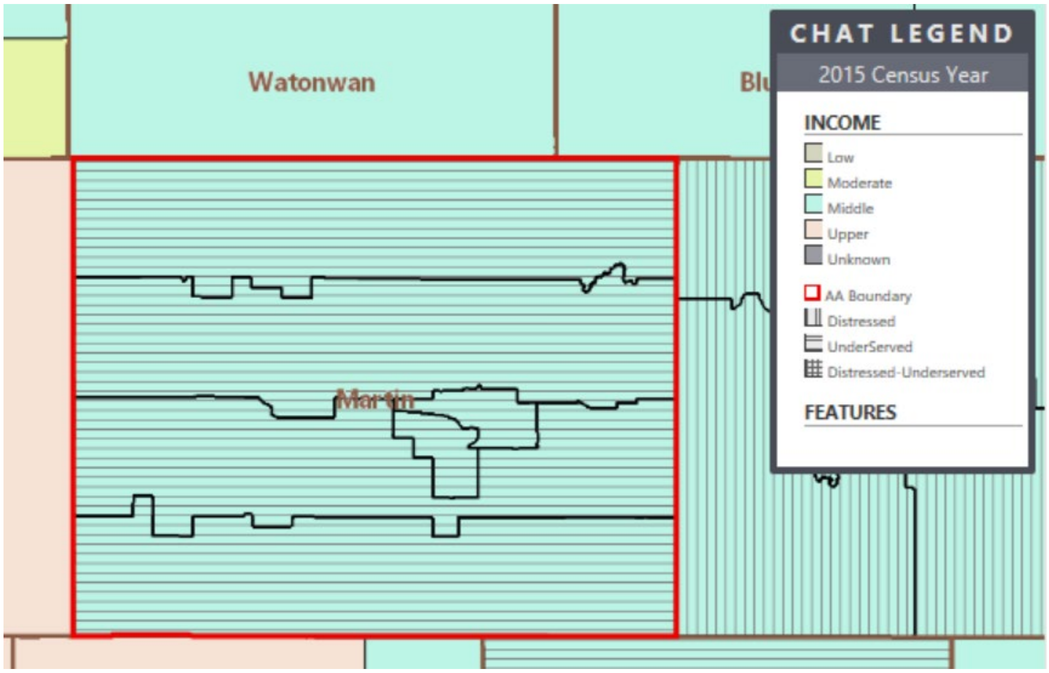
Neither the bank nor the Reserve Bank has received any CRA-related complaints concerning the bank since the previous evaluation.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

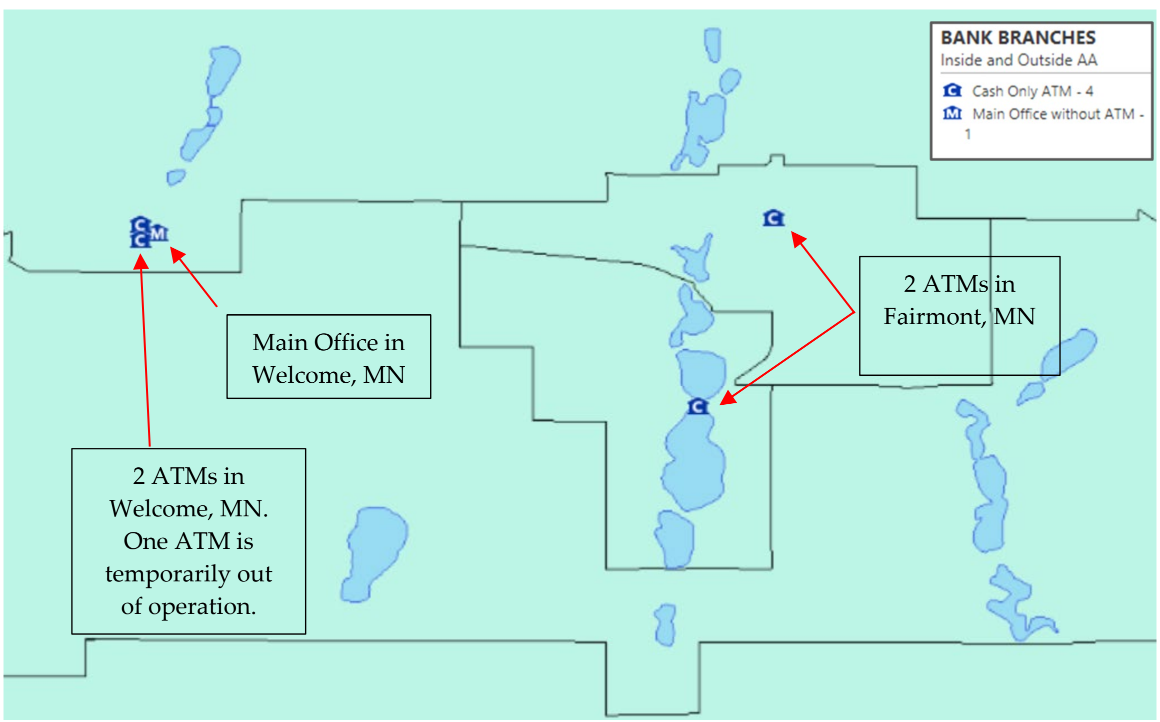
The examination did not reveal any evidence of violations of antidiscrimination laws or regulations (including Regulation B – Equal Credit Opportunity Act and the Fair Housing Act) or other illegal credit practices inconsistent with the bank helping to meet community credit needs.

APPENDIX A – MAP OF THE ASSESSMENT AREA

AA Boundary
Welcome State Bank



Office and ATM Locations



APPENDIX B – DEMOGRAPHIC INFORMATION

Welcome 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	1,017	18.0
Moderate	0	0.0	0	0.0	0	0.0	996	17.7
Middle	6	100.0	5,640	100.0	475	8.4	1,444	25.6
Upper	0	0.0	0	0.0	0	0.0	2,183	38.7
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	**6**	**100.0**	**5,640**	**100.0**	**475**	**8.4**	**5,640**	**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	9,970	6,513	100.0	65.3	2,318	23.2	1,139	11.4
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	**9,970**	**6,513**	**100.0**	**65.3**	**2,318**	**23.2**	**1,139**	**11.4**

	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	1,103	100.0	985	100.0	89	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	**1,103**	**100.0**	**985**	**100.0**	**89**	**100.0**	**29**	**100.0**
Percentage of Total Businesses:				**89.3**		**8.1**		**2.6**

	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	309	100.0	305	100.0	4	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	**309**	**100.0**	**305**	**100.0**	**4**	**100.0**	**0**	**0.0**
Percentage of Total Farms:				**98.7**		**1.3**		**0.0**

Source: *2021 FFIEC Census Data*
2021 Dun & Bradstreet Data
2011 – 2015 U.S. Census Bureau: American Community Survey
Note: *Percentages may not total 100.0 percent due to rounding.*

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.