

# **PUBLIC DISCLOSURE**

February 4, 2020

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Merchants State Bank  
RSSD# 289757

305 South Main Street  
P.O. Box 399  
Freeman, South Dakota 57029

Federal Reserve Bank of Minneapolis  
90 Hennepin Avenue, P. O. Box 291  
Minneapolis, Minnesota 55480

**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 CRA RATING

Merchants 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 substantial majority of the bank's loans are originated inside the AAs.
- A reasonable dispersion of loans occurs throughout the bank's AAs.
- Overall, lending reflects a reasonable penetration 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

The Federal Financial Institutions Examination Council's (FFIEC) Interagency Examination Procedures for Small Institutions were used to evaluate the bank's CRA performance. The evaluation considered the 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. The bank has two AAs for CRA purposes: the Freeman and Viborg/Hurley AAs. Examiners conducted full-scope reviews of both AAs. Examiners weighted the Freeman and Viborg/Hurley AAs equally. Examiners reviewed the following data:

- The bank's 17-quarter average NLTD ratio.
- Statistical samples of 75 consumer and 54 small business loans originated between July 1, 2018, and December 31, 2018, and 135 small farm loans originated between January 1, 2018, and December 31, 2018. Examiners weighted small farm loans highest, followed by small business loans and then consumer loans. As shown in Table 1, agricultural loans represent the largest percentage of the bank's loan portfolio; however, commercial loans are also significant. Consumer loans represent the smallest percentage of the portfolio loan dollars, but a large number of originations.

Of the five core criteria, examiners placed the greatest weight on lending penetration among borrowers of different income levels and farms and businesses of different sizes, followed by lending inside the AAs. Examiners weighted the NLTD ratio and dispersion of loans throughout the AAs equally, but slightly lower than lending inside the AAs

## DESCRIPTION OF INSTITUTION

Merchants State Bank is a community bank headquartered in Freeman, South Dakota. The bank's characteristics include the following:

- The bank is a wholly owned subsidiary of H&W Holding Company.
- The bank has total assets of \$175.6 million as of December 31, 2019.
- In addition to its main office in Freeman, the bank has three full-service branches located in Irene, Viborg, and Hurley, South Dakota.<sup>1</sup>
- The bank operates two cash-dispensing-only ATMs, at the Freeman and Viborg offices.
- The bank’s primary business focus is agricultural lending. The bank also offers commercial and consumer loan products that meet the credit needs of the businesses and residents in the AAs. In addition to offering conventional loan products, the bank offers government sponsored loan programs through the U.S. Department of Agriculture Farm Service Agency and U.S. Small Business Administration.
- The bank’s loan portfolio composition did not change significantly since the previous evaluation, but agricultural lending grew by 43.1%, followed by residential real estate lending (by 11.8%) and commercial lending (by 2.3%); consumer lending decreased (by 4.8%).

<b>Table 1</b>		
<b>Composition of Loan Portfolio as of December 31, 2019</b>		
<b>Loan Type</b>	<b>\$(000)</b>	<b>%</b>
Agricultural	103,440	74.1
Commercial	25,607	18.3
Residential Real Estate	3,642	2.6
Consumer	2,721	1.9
Other	4,280	3.1
Gross Loans	139,690	100.0
<i>Note: Percentages may not total 100.0% due to rounding.</i>		

The bank was rated Satisfactory under the CRA at its November 17, 2015, 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.

**OVERALL CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The CRA requires a separate analysis for the bank’s performance in each AA. The separate AA sections of this evaluation contain detailed descriptions of the bank’s lending to borrowers of different income levels, and to farms and businesses of different sizes, as well as the geographic distribution of the bank’s loans. Examiners analyzed the NLTD ratio and the comparison of lending inside and outside of the AAs at the bank level. These two criteria are discussed below.

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<sup>1</sup> The Freeman and Irene offices are in the Freeman AA, and the Viborg and Hurley offices are in the Viborg/Hurley AA.

**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, and the demographic and economic factors present in the AAs. The bank’s NLTD ratio is reasonable. Table 2 shows the bank’s NLTD, as well as the ratios of two similarly situated banks operating in the bank’s AAs.

<b>Table 2 Comparative NLTD Ratios</b>			
<b>Institution</b>	<b>Location</b>	<b>Asset Size (\$000s)</b>	<b>NLTD Ratio (%)</b>
			<b>17 Quarter Average</b>
Merchants State Bank	Freeman, SD	175,599	88.9
Farmers State Bank	Parkston, SD	225,262	57.2
Rivers Edge Bank	Marion, SD	211,909	99.5

The bank’s 17-quarter average NLTD ratio is 88.9%. At the previous evaluation, the bank’s 17-quarter average NLTD ratio was 69.0%. Since then, the bank’s quarterly NLTD ratio has ranged from 80.0% to 97.7% and has a generally increasing trend. Bank management indicated that small farm and small business loan demand has been strong in recent years. Bank management also noted that the closing of a national bank’s branch in Viborg in 2017 helped increase deposits after the influx of new customers.

As of December 31, 2019, the bank’s NLTD ratio was 97.7%, which is above the peer group NLTD ratio of 77.5%. The bank’s peer group includes insured commercial banks not located in a metropolitan statistical area (MSA) that have assets between \$100 million and \$300 million and three or more full-service banking offices. The bank operates in a competitive environment, which includes branches of large national banks as well as community banks. Finally, the bank’s NLTD ratio is reasonable when compared to similarly situated banks operating in the bank’s AAs.

**Assessment Area Concentration**

This performance criterion evaluates the percentage of lending extended inside and outside of the AAs. A substantial majority of the bank’s loans, by number and dollar, are originated inside the AAs, as shown in Table 3.

Table 3 Lending Inside and Outside the AAs								
Loan Type	Inside				Outside			
	#	#%	\$(000)	\$%	#	#%	\$(000)	\$%
Consumer Loans	64	85.3	531	79.0	11	14.7	141	21.0
Small Business Loans	47	87.0	3,368	91.1	7	13.0	329	8.9
Small Farm Loans	130	96.3	12,438	95.3	5	3.7	620	4.7
<b>Total Loans</b>	<b>241</b>	<b>91.3</b>	<b>\$16,337</b>	<b>93.7</b>	<b>23</b>	<b>8.7</b>	<b>\$1,090</b>	<b>6.3</b>

*Note: Percentages may not add to 100.0% due to rounding.*

### Geographic and Borrower Distribution of Loans

The geographic distribution performance criterion evaluates the bank’s distribution of lending within its AAs by income level of census tracts. The bank’s geographic distribution of loans reflects reasonable dispersion among the different census tracts within the AAs.

The borrower distribution performance criterion evaluates the bank’s lending to borrowers of different income levels, with emphasis placed on lending to LMI individuals, as well as to farms and businesses of different revenue sizes, with emphasis placed on lending to those with gross annual revenues of \$1 million or less. Overall, the bank’s lending reflects a reasonable penetration among individuals of different income levels and farms and businesses of different sizes.

The individual AA sections include a more detailed discussion of these criteria.

### FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

An evaluation of the bank’s fair lending activities was conducted during the examination to determine compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

**METROPOLITAN AREA**  
 (Full Review)

**DESCRIPTION OF THE VIBORG/HURLEY ASSESSMENT AREA**

The bank’s Viborg/Hurley AA is comprised of Turner County and part of McCook County; both counties are part of the Sioux Falls, South Dakota, MSA (see Appendix A for an AA map).

- The AA is comprised of three middle-income census tracts.
- The bank changed this AA since the previous evaluation by removing the northern census tract in McCook County (9646.00).
- According to the June 30, 2019, Federal Deposit Insurance Corporation (FDIC) Market Share Report, the bank ranks fourth out of eight FDIC-insurance financial institutions with offices in McCook and Turner counties, with 14.4% of deposits.
- Examiners used information from a community contact conducted by the FDIC with a representative from an organization familiar with agricultural conditions in the region.

<b>Table 4</b>			
<b>Population Change</b>			
<b>Area</b>	<b>2010 Population</b>	<b>2015 Population</b>	<b>% Change</b>
McCook County	5,618	5,613	(0.1)
Turner County	8,347	8,302	(0.5)
Sioux Falls SD MSA	228,261	242,731	6.3
State of South Dakota	814,180	843,190	3.6
<i>Source: 2010 U.S. Census Bureau Decennial Census                  2011-2015 U.S. Census Bureau: American Community Survey</i>			

- The populations in McCook and Turner counties have stayed relatively stable since the 2010 census. South Dakota is experiencing modest growth in population. The Sioux Falls MSA population growth is outpacing the rest of the state.

<b>Table 5</b>			
<b>Median Family Income Change</b>			
<b>Area</b>	<b>2010 Median Family Income</b>	<b>2015 Median Family Income</b>	<b>% Change</b>
McCook County	57,287	68,871	20.2
Turner County	57,881	64,484	11.4
Sioux Falls SD MSA	66,496	72,948	9.7
State of South Dakota	58,958	65,237	10.6
<i>Source: 2006-2010 U.S. Census Bureau: American Community Survey                  2011-2015 U.S. Census Bureau: American Community Survey</i>			

- The 2015 median family income for McCook and Turner counties is similar to that of the state of South Dakota. The change in median family income in the two counties is higher than the change for the state.

- Based on 2018 FFIEC adjusted census data, the percentage of households living below poverty in McCook and Turner counties is 8.0% and 10.1%, respectively. The state percentage is 12.8%.
- Bank management indicated that the cost of living in the rural areas is lower than that in the cities.

<b>Table 6</b>				
<b>Unemployment Rates</b>				
<b>Region</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
McCook County	2.4	2.3	2.7	2.5
Turner County	2.7	2.7	3.1	2.7
Sioux Falls SD MSA	2.6	2.3	2.7	2.5
State of South Dakota	3.1	2.8	3.2	3.0

*Source: Bureau of Labor Statistics: Local Area Unemployment Statistics*

- The unemployment rate has remained steady in both McCook and Turner counties; both are slightly lower than the state rate.
- The primary industry in the AA is agriculture and farming-related business and services.
- The farm economy has been stressed recently due to wet conditions, which resulted in crops being planted late and a difficult harvest. Agriculture-related businesses also struggle during these difficulties.
- Many people in the rural areas commute to Sioux Falls for work.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

**Geographic Distribution of Loans**

This performance criterion evaluates the bank’s distribution of lending within its AA by income level of census tracts. The Viborg/Hurley AA contains only three middle-income census tracts. The geographic distribution of loans reflects reasonable dispersion throughout the Viborg/Hurley 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. The bank’s lending has a reasonable penetration among individuals of different income levels and businesses and farms of different sizes.

Small Farm Lending

The borrower distribution of small farm lending is reasonable. The bank originated 87.7% of its small farm loans to farms with gross annual revenues of \$1 million or less, as shown in Table 7.



Although the bank’s lending is below demographics (at 98.4%), it is reasonable. Bank management indicated there is competition for small farm loans in the AA, including from another local bank with several branches in the AA. The bank originated 66.7% of the loans to small farms in amounts of \$100,000 or less, which demonstrates a willingness to serve the credit needs of small farms.

Table 7 Small Farm Lending By Revenue & Loan Size Assessment Area: Viborg/Hurley AA 2018							
Product Type		Bank & Demographic Comparison 2018					
		Count Bank		Dollar Bank		Total Farms	
		#	%	\$ 000s	\$ %	%	
Revenue	\$1 Million or Less	57	87.7	5,692	90.0	98.4	
	Over \$1 Million or Unknown	8	12.3	630	10.0	1.6	
	<b>Total</b>	<b>65</b>	<b>100.0</b>	<b>6,322</b>	<b>100.0</b>	<b>100.0</b>	
Small Farm Loan Size	\$100,000 or Less	43	66.2	1,390	22.0		
	\$100,001 - \$250,000	14	21.5	2,195	34.7		
	\$250,001 - \$500,000	8	12.3	2,737	43.3		
	<b>Total</b>	<b>65</b>	<b>100.0</b>	<b>6,322</b>	<b>100.0</b>		
Loan Size & Rev \$1 Mill or Less	\$100,000 or Less	38	66.7	1,284	22.6		
	\$100,001 - \$250,000	12	21.1	1,951	34.3		
	\$250,001 - \$500,000	7	12.3	2,457	43.2		
	<b>Total</b>	<b>57</b>	<b>100.0</b>	<b>5,692</b>	<b>100.0</b>		
Originations & Purchases 2018 FFIEC Census Data & 2018 Dun & Bradstreet information according to 2015 ACS <i>Note: Percentages may not add to 100.0% due to rounding</i>							

### Small Business Lending

The borrower distribution of small business lending is reasonable. The bank extended 83.9% of its small business loans to businesses with gross annual revenues of \$1 million or less, as shown in Table 8. Although the bank’s lending is below demographics (at 89.0%), it is reasonable. Bank management indicated there is strong competition in the AA; several larger regional and national banks operate in the MSA. Of the bank’s loans to small businesses, 88.5% were in amounts of \$100,000 or less, which indicates a willingness to serve the credit needs of smaller entities. Finally, the contact noted that local banks are meeting small business credit needs.

Table 8 Small Business Lending By Revenue & Loan Size Assessment Area: Viborg/Hurley AA 2018							
Product Type		Bank & Demographic Comparison 2018				Total Businesses %	
		Count Bank		Dollar Bank			
		#	%	\$ 000s	\$ %		
Small Business	Revenue	\$1 Million or Less	26	83.9	1,075	66.2	89.0
		Over \$1 Million or Unknown	5	16.1	549	33.8	11.0
		<b>Total</b>	<b>31</b>	<b>100.0</b>	<b>1,624</b>	<b>100.0</b>	<b>100.0</b>
	Loan Size	\$100,000 or Less	25	80.6	930	57.3	
		\$100,001 - \$250,000	6	19.4	694	42.7	
		\$250,001 - \$1 Million	0	0.0	0	0.0	
		<b>Total</b>	<b>31</b>	<b>100.0</b>	<b>1,624</b>	<b>100.0</b>	
	Loan Size & Rev \$1 Mill or Less	\$100,000 or Less	23	88.5	741	68.9	
		\$100,001 - \$250,000	3	11.5	334	31.1	
		\$250,001 - \$1 Million	0	0.0	0	0.0	
<b>Total</b>		<b>26</b>	<b>100.0</b>	<b>1,075</b>	<b>100.0</b>		

Originations & Purchases  
 2018 FFIEC Census Data & 2018 Dun & Bradstreet information according to 2015 ACS  
 Note: Percentages may not add to 100.0 percent due to rounding

Consumer Lending

The borrower distribution of consumer lending is excellent. The bank originated 51.2% of its consumer loans to low-income borrowers and 34.1% to moderate-income borrowers, as shown in Table 9. The bank’s lending significantly exceeds demographics, which indicate that 24.8% and 18.0% of households in the AA are low-income and moderate-income, respectively. Bank management indicated that the bank prioritizes working with all of its customers to find appropriate loan products for their needs.

Table 9 Borrower Distribution of Consumer Loans Assessment Area: Viborg/Hurley AA 2018						
	Borrower Income Levels	Bank & Demographic Comparison 2018				Households by Household Income %
		Count		Dollar		
		#	%	\$ (000s)	\$ %	
Totals	Low	21	51.2	132	33.3	24.8
	Moderate	14	34.1	194	49.0	18.0
	Middle	4	9.8	43	10.9	21.1
	Upper	0	0.0	0	0.0	36.1
	Unknown	2	4.9	27	6.8	
	<b>Total</b>	<b>41</b>	<b>100.0</b>	<b>396</b>	<b>100.0</b>	<b>100.0</b>

2018 FFIEC Census Data  
 Note: Percentages may not add to 100.0 percent due to rounding

**NONMETROPOLITAN AREA**  
 (Full Review)

**DESCRIPTION OF THE FREEMAN ASSESSMENT AREA**

The bank’s Freeman AA is comprised of all of Hanson and Hutchinson counties, and part of Yankton and Clay counties (see Appendix A for an AA map). The Hanson County census tract is classified as distressed, and the Hutchinson County census tracts are classified as underserved.

- The Freeman AA is comprised of five middle- and one upper-income census tracts.
- The bank changed this AA since the previous evaluation by removing six middle-income census tracts as follows: four tracts in Yankton County that include or surround the city of Yankton, and two tracts in Clay County that include or surround the city of Vermillion.
- According to the June 30, 2019, FDIC Deposit Market Share Report, the bank ranks six out of 15 FDIC-insured financial institutions with offices in Hanson, Hutchinson, Yankton, and Clay counties, with 5.2% of deposits.
- Examiners conducted a community contact interview with a representative from an organization familiar with local economic conditions.

<b>Table 10</b>			
<b>Population Change</b>			
<b>Area</b>	<b>2010 Population</b>	<b>2015 Population</b>	<b>% Change</b>
Clay County	13,864	14,011	1.1
Hanson County	3,331	3,386	1.7
Hutchinson County	7,343	7,226	(1.6)
Yankton County	22,438	22,636	0.9
State of South Dakota	814,180	843,190	3.6

*Source: 2010 U.S. Census Bureau Decennial Census  
 2011-2015 U.S. Census Bureau: American Community Survey*

- The populations in Clay, Hanson, Hutchinson, and Yankton counties have stayed relatively stable since the 2010 census.<sup>2</sup> South Dakota is experiencing some population growth, which outpaces the growth in these four counties.

<b>Table 11</b>			
<b>Median Family Income Change</b>			
<b>Area</b>	<b>2010 Median Family Income</b>	<b>2015 Median Family Income</b>	<b>% Change</b>
Clay County	61,159	61,737	0.9
Hanson County	52,425	70,333	34.2

<sup>2</sup> Although the populations of Clay and Yankton counties are significant, the AA includes only part of both counties, and a majority of their populations reside in tracts that are not included in the bank’s AA.

<b>Table 11</b>			
<b>Median Family Income Change</b>			
Hutchinson County	52,390	60,734	15.9
Yankton County	62,070	63,314	2.0
State of South Dakota	58,958	65,237	10.6
<i>Source: 2006-2010 U.S. Census Bureau: American Community Survey                  2011-2015 U.S. Census Bureau: American Community Survey</i>			

- The 2015 median family incomes significantly increased from 2010 in Hanson and Hutchinson counties. The 2015 incomes in all four counties were relatively similar to the state income.
- Based on 2018 FFIEC adjusted census data, the percentage of households living below poverty in the Clay, Hanson, Hutchinson, and Yankton counties is 28.6%, 7.2%, 12.6%, and 15.2% respectively. The state percentage is 12.8%.

<b>Table 12</b>				
<b>Unemployment Rates</b>				
<b>Region</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Clay County	3.0	2.8	3.2	2.9
Hanson County	3.3	3.2	4.0	4.6
Hutchinson County	2.5	2.4	3.0	2.8
Yankton County	2.6	2.4	2.8	2.6
State of South Dakota	3.1	2.8	3.2	3.0
<i>Source: Bureau of Labor Statistics: Local Area Unemployment Statistics</i>				

- The unemployment rate has remained relatively stable in Clay, Hutchinson, and Yankton counties, similar to the state of South Dakota. The unemployment rate in Hanson County has experienced an increasing trend.
- The contact and bank management indicated that the AA relies heavily on the agricultural economy. Agriculture conditions have been poor recently, mainly because of poor weather conditions and low commodity prices.
- Consumer discretionary spending is down.
- The contact noted that the main non-agricultural industries include the school system and healthcare. Bank management stated that there are available jobs in Freeman.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

**Geographic Distribution of Loans**

This performance criterion evaluates the bank’s distribution of lending within its AA by income level of census tracts. The Freeman AA contains five middle- and one upper-income census tracts. The bank made loans in all but one middle-income census tract; the tract is in the northwest corner of Hutchinson County and another local bank is headquartered here. 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 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. The bank’s lending has a reasonable penetration among individuals of different income levels and businesses and farms of different sizes.

Small Farm Lending

The borrower distribution of small farm lending is reasonable. The bank originated 100% of small farm loans to farms with gross annual revenues less than \$1 million, as shown in Table 13. The bank’s lending is comparable to the percentage of small farms located in the AA (98.2%), which demonstrates a willingness to serve the credit needs of small farms. Bank management indicated that the bank maintains strong relationships with agricultural loan borrowers, including smaller operators, regardless of economic conditions.

Table 13 Small Farm Lending By Revenue & Loan Size Assessment Area: Freeman AA 2018						
Product Type		Bank & Demographic Comparison				
		2018		2018		Total Farms %
Revenue	Loan Size	Count Bank	Dollar Bank			
		#	%	\$ 000s	\$ %	
Small Farm	\$1 Million or Less Over \$1 Million or Unknown Total	65	100.0	6,116	100.0	98.2
		0	0.0	0	0.0	1.8
		<b>65</b>	<b>100.0</b>	<b>6,116</b>	<b>100.0</b>	<b>100.0</b>
	\$100,000 or Less \$100,001 - \$250,000 \$250,001 - \$500,000 Total	41	63.1	1,383	22.6	
		20	30.8	3,448	56.4	
		4	6.2	1,285	21.0	
		<b>65</b>	<b>100.0</b>	<b>6,116</b>	<b>100.0</b>	
	Loan Size & Rev \$1 Mill or Less Total	41	63.1	1,383	22.6	
		20	30.8	3,448	56.4	
		4	6.2	1,285	21.0	
		<b>65</b>	<b>100.0</b>	<b>6,116</b>	<b>100.0</b>	

Originations & Purchases  
 2018 FFIEC Census Data & 2018 Dun & Bradstreet information according to 2015 ACS  
 Note: Percentages may not add to 100.0 percent due to rounding

Small Business Lending

The borrower distribution of small business lending is reasonable. The bank extended 87.5% of its small business loans to businesses with gross annual revenues of \$1 million or less, as shown in Table 14. The bank’s lending is slightly above demographics, which indicate that 85.2% of businesses in the AA are small businesses. Bank management indicated there is competition in the AA. In addition, many local agriculture-related businesses struggle if agriculture conditions are poor. Of the bank’s loans to small businesses, 64.3% were for amounts of \$100,000 or less, which indicates a willingness to serve the credit needs of smaller entities.

Table 14 Small Business Lending By Revenue & Loan Size Assessment Area: Freeman AA 2018							
Product Type		Bank & Demographic Comparison 2018					
		Count Bank		Dollar Bank		Total Businesses	
		#	%	\$ 000s	%	%	
Small Business	Revenue	\$1 Million or Less	14	87.5	1,263	72.4	85.2
		Over \$1 Million or Unknown	2	12.5	481	27.6	14.8
		<b>Total</b>	<b>16</b>	<b>100.0</b>	<b>1,744</b>	<b>100.0</b>	<b>100.0</b>
	Loan Size	\$100,000 or Less	9	56.3	436	25.0	
		\$100,001 - \$250,000	6	37.5	958	54.9	
		\$250,001 - \$1 Million	1	6.3	350	20.1	
		<b>Total</b>	<b>16</b>	<b>100.0</b>	<b>1,744</b>	<b>100.0</b>	
	Loan Size & Rev \$1 Mill or Less	\$100,000 or Less	9	64.3	436	34.5	
		\$100,001 - \$250,000	5	35.7	827	65.5	
		\$250,001 - \$1 Million	0	0.0	0	0.0	
<b>Total</b>		<b>14</b>	<b>100.0</b>	<b>1,263</b>	<b>100.0</b>		
Originations & Purchases 2018 FFIEC Census Data & 2018 Dun & Bradstreet information according to 2015 ACS <i>Note: Percentages may not add to 100.0 percent due to rounding</i>							

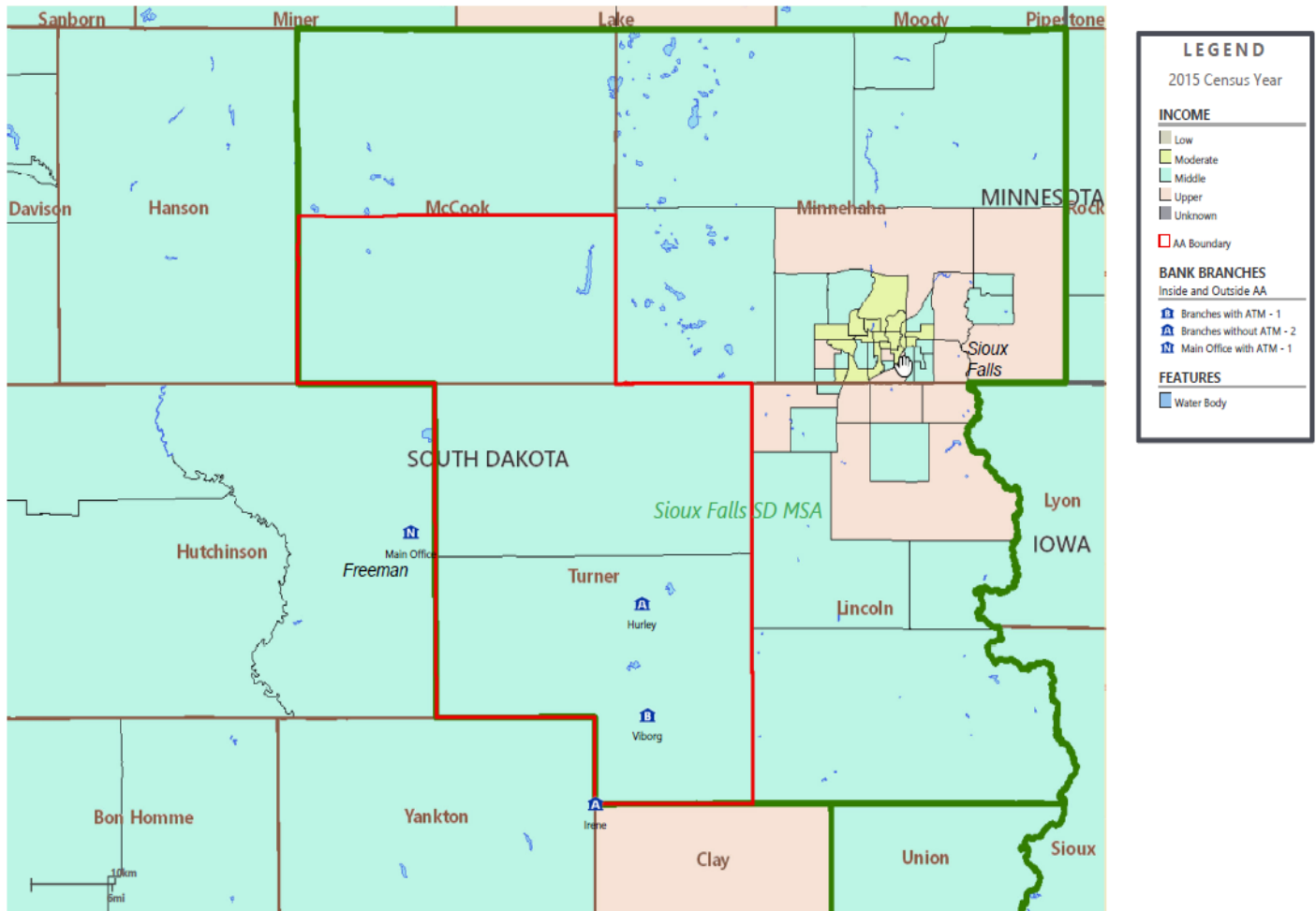
Consumer Lending

The borrower distribution of consumer lending is excellent. The bank originated 26.2% of its consumer loans to low-income borrowers and 26.2% to moderate-income borrowers, as shown in Table 15. The bank’s lending exceeds demographics, which indicate that 18.0% and 15.4% of households in the AA are low-income and moderate-income, respectively. The bank originated 43.5% of consumer loans for amounts of \$3,000 or less; of these loans, 70.0% were made to low- or moderate-income borrowers, which illustrates the bank’s willingness to serve small dollar credit needs of low- and moderate-income borrowers.

Table 15 Borrower Distribution of Consumer Loans Assessment Area: Freeman AA 2018						
	Borrower Income Levels	Bank & Demographic Comparison 2018				Households by Household Income %
		Count		Dollar		
		#	%	\$ (000s)	\$ %	
Totals	Low	6	26.1	22	16.4	18.0
	Moderate	6	26.1	35	26.1	15.4
	Middle	6	26.1	59	44.0	19.5
	Upper	3	13.0	11	8.2	47.1
	Unknown	2	8.7	7	5.2	
	<b>Total</b>	<b>23</b>	<b>100.0</b>	<b>134</b>	<b>100.0</b>	<b>100.0</b>
2018 FFIEC Census Data						
<i>Note: Percentages may not add to 100.0 percent due to rounding</i>						

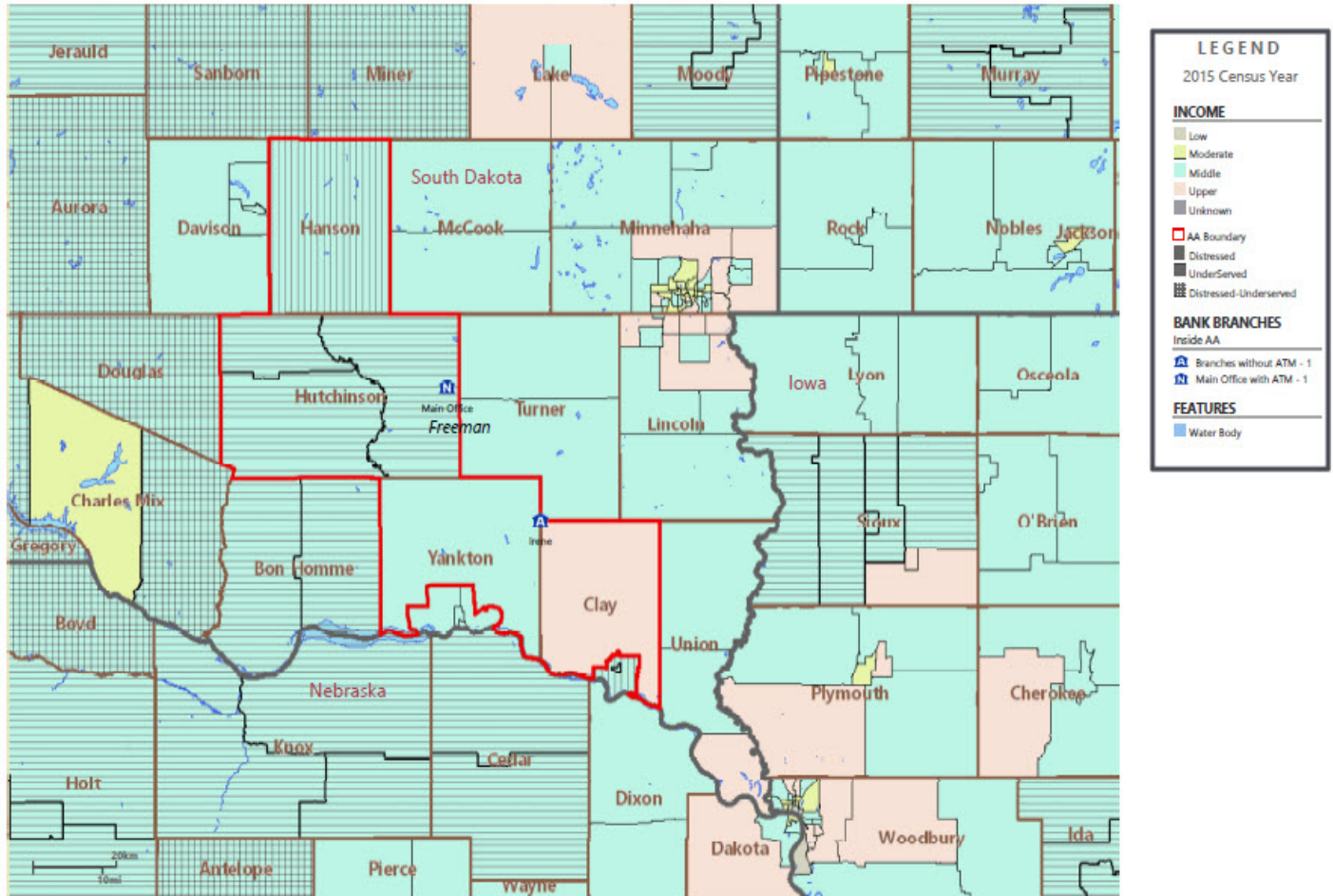
APPENDIX A – MAPS OF THE ASSESSMENT AREAS

Viborg/Hurley AA





Freeman AA



**APPENDIX B – DEMOGRAPHIC INFORMATION**

VIBORG/HURLEY AA 2018 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	645	21.3
Moderate	0	0.0	0	0.0	0	0.0	670	22.1
Middle	3	100.0	3,029	100.0	173	5.7	772	25.5
Upper	0	0.0	0	0.0	0	0.0	942	31.1
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total AA</b>	<b>3</b>	<b>100.0</b>	<b>3,029</b>	<b>100.0</b>	<b>173</b>	<b>5.7</b>	<b>3,029</b>	<b>100.0</b>
	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	5,057	3,445	100.0	68.1	1,015	20.1	597	11.8
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
<b>Total AA</b>	<b>5,057</b>	<b>3,445</b>	<b>100.0</b>	<b>68.1</b>	<b>1,015</b>	<b>20.1</b>	<b>597</b>	<b>11.8</b>
	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	575	100.0	512	100.0	42	100.0	21	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
<b>Total AA</b>	<b>575</b>	<b>100.0</b>	<b>512</b>	<b>100.0</b>	<b>42</b>	<b>100.0</b>	<b>21</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>				<b>89.0</b>	<b>7.3</b>	<b>3.7</b>		
	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	255	100.0	251	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
<b>Total AA</b>	<b>255</b>	<b>100.0</b>	<b>251</b>	<b>100.0</b>	<b>4</b>	<b>100.0</b>	<b>0</b>	<b>0.0</b>
<b>Percentage of Total Farms:</b>				<b>98.4</b>	<b>1.6</b>	<b>0.0</b>		

Source: 2018 FFIEC Census Data & 2018 Dun & Bradstreet information according to 2015 ACS  
 Percentages may not add up to 100.0 due to rounding.

FREEMAN AA 2018 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	709	15.3
Moderate	0	0.0	0	0.0	0	0.0	789	17.0
Middle	5	83.3	3,786	81.8	285	7.5	1,072	23.2
Upper	1	16.7	843	18.2	19	2.3	2,059	44.5
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total AA</b>	<b>6</b>	<b>100.0</b>	<b>4,629</b>	<b>100.0</b>	<b>304</b>	<b>6.6</b>	<b>4,629</b>	<b>100.0</b>
	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	6,339	4,319	80.8	68.1	1,192	18.8	828	13.1
Upper	1,449	1,028	19.2	70.9	166	11.5	255	17.6
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
<b>Total AA</b>	<b>7,788</b>	<b>5,347</b>	<b>100.0</b>	<b>68.7</b>	<b>1,358</b>	<b>17.4</b>	<b>1,083</b>	<b>13.9</b>
	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	660	83.0	558	82.4	67	88.2	35	83.3
Upper	135	17.0	119	17.6	9	11.8	7	16.7
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total AA</b>	<b>795</b>	<b>100.0</b>	<b>677</b>	<b>100.0</b>	<b>76</b>	<b>100.0</b>	<b>42</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>				<b>85.2</b>		<b>9.6</b>		<b>5.3</b>
	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	401	81.7	392	81.3	9	100.0	0	0.0
Upper	90	18.3	90	18.7	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total AA</b>	<b>491</b>	<b>100.0</b>	<b>482</b>	<b>100.0</b>	<b>9</b>	<b>100.0</b>	<b>0</b>	<b>0.0</b>
<b>Percentage of Total Farms:</b>				<b>98.2</b>		<b>1.8</b>		<b>0.0</b>
<i>Source: 2018 FFIEC Census Data &amp; 2018 Dun &amp; Bradstreet information according to 2015 ACS                  Percentages may not add up to 100.0 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, home equity 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.

**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 instructions for preparation of the Consolidated Reports of Condition and Income (Call Report). 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.