

PUBLIC DISCLOSURE

March 1, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First State Bank of Malta
RSSD #615253

1 South First Street East
P.O. Box 910
Malta, Montana 59538-0910

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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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 C at the end of this performance evaluation.

INSTITUTION'S CRA RATING

The First State Bank of Malta (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 (NLTD) ratio 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.
- Lending reflects a reasonable penetration 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

The Federal Financial Institutions Examination Council's (FFIEC's) Interagency Examination Procedures for Small Institutions were utilized 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. Lending performance was assessed within the bank's Phillips County AA. The following data was reviewed:

- The bank's 19-quarter average NLTD ratio.
- Statistical sample of 106 small farm loans originated between December 1, 2019, and November 30, 2020, and 97 consumer loans originated between June 1, 2020, and November 30, 2020. As Table 1 shows, agricultural loans represent 87.0% 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, equally. Examiners placed the least weight on geographic dispersion of loans. The bank and the Reserve Bank have not received any complaints since the previous evaluation.

DESCRIPTION OF INSTITUTION

The First State Bank of Malta is a community bank headquartered in Malta, Montana. The bank's characteristics include the following:

- The bank is a wholly owned subsidiary of FS Banco, Inc.
- The bank has total assets of \$159.8 million as of December 31, 2020. Total assets increased 14.8% since the previous evaluation.

- The bank’s only office is in Malta. The bank offers drive-up services and operates a cash-dispensing-only ATM here. The bank offers Saturday hours at the drive-up.
- The bank operates three additional cash-dispensing-only ATMs: two in Malta, and one in Saco, Montana. One of the Malta ATMs is new since the previous evaluation.
- The bank’s primary business focus is agricultural lending. The bank also offers commercial loans and consumer loans. The bank does not offer purchase or refinance residential real estate loans, but it does offer home equity lines of credit and construction loans.
- The overall composition of the loan portfolio did not change significantly since the previous evaluation. However, commercial loans and residential real estate loans decreased by 37.3% and 53.9%, respectively (see Table 1).

Table 1		
Composition of Loan Portfolio as of December 31, 2020		
Loan Type	\$(000s)	%
Agricultural	63,104	87.0
Commercial	6,523	9.0
Residential Real Estate	474	0.6
Consumer	2,151	3.0
Other	271	0.4
Gross Loans	72,526	100.0

Note: Percentages may not total 100.0 due to rounding

The bank was rated Satisfactory under the CRA at its June 14, 2016, 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 Phillips 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 one middle-income tract. This tract has been classified as underserved since the previous evaluation.
- According to the June 30, 2020, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, the bank ranks first out of three FDIC-insured institutions with offices in Phillips County, and holds 67.1% of the deposits.
- Examiners spoke with community contacts who work at an organization that specializes in the agricultural economy.

Table 2			
Population Change			
Area	2010 Population	2015 Population	% Change
Phillips County	4,253	4,167	-2.0
State of Montana	989,415	1,014,699	2.6

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

- The population in Phillips County has decreased slightly since the 2010 census, as shown in Table 2.
- Community contacts and bank management indicated that the population is aging, but that some adult children are returning home to work on their family farms.

Table 3			
Median Family Income Change			
Area	2010 Median Family Income	2015 Median Family Income	% Change
Phillips County	\$60,287	\$49,535	-17.8
State of Montana	\$60,682	\$61,271	1.0

*Source: 2006-2010 U.S. Census Bureau: American Community Survey
2011-2015 U.S. Census Bureau: American Community Survey
Median Family Incomes have been inflation-adjusted and are expressed in 2015 dollars*

- The median family income in Phillips County decreased significantly since the 2010 census and is now considerably below the median family income for the state of Montana (see Table 3).
- Community contacts and bank management estimated that the average annual income for individuals in Phillips County is approximately \$35,000.
- Based on 2020 FFIEC adjusted census data, low- and moderate-income households make up 50.4% of all households in Phillips County.
- The same data indicates that 16.9% of households in Phillips County live below the poverty line, which is higher than the percentage for the state at 14.5%.

Table 4				
Unemployment Rates				
Region	2016	2017	2018	2019
Phillips County	5.3%	4.4%	4.4%	3.7%
State of Montana	4.2%	3.9%	3.6%	3.5%

Source: Bureau of Labor Statistics: Local Area Unemployment Statistics

- The unemployment rates in Phillips County and the state have been decreasing since the previous evaluation, as Table 4 shows. Phillips County’s unemployment rate continues to be slightly higher than the statewide rate.
- The economy is primarily based on agriculture. Community contacts and bank management noted that the agricultural economy has largely rebounded following a

slowdown caused by the COVID-19 pandemic. In particular, the grain market was revived, and prices continue to rise. Livestock prices have returned to pre-pandemic levels and recently started to increase slightly. Local producers benefited from the Coronavirus Aid, Relief, and Economic Security Act, enabling them to withstand the pandemic downturn.

- The main nonfarm employers include local government, schools, the hospital, and oil and gas producers.

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, 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 19 quarters is 77.5%. At the previous evaluation the bank's 17-quarter average NLTD ratio was 52.3%. Since then the bank's quarterly NLTD ratio has ranged from a low of 51.5% to a high of 89.9%. Generally, the NLTD ratio is cyclical in nature, increasing throughout the first three quarters of the year and decreasing in the final quarter, when producers sell crops and livestock. This is expected given the agricultural nature of the economy.

As of December 31, 2020, the bank's NLTD ratio was 51.5%, which is below the peer group NLTD ratio of 63.3%. The bank's peer group includes insured commercial banks having assets between \$100 million and \$300 million, with two or fewer full-service banking offices, and not located in a metropolitan statistical area. The bank's ratio was at its lowest levels during the most recent three quarters, mainly due to increased deposits.

Assessment Area Concentration

This performance criterion evaluates the percentage of lending extended inside and outside of the AA. A majority of the bank's loans, by number and dollar, are originated inside the AA (see Table 5).

Table 5 Lending Inside and Outside the AA								
Loan Type	Inside				Outside			
	#	#%	\$(000s)	%	#	#%	\$(000s)	%
Consumer Loans	89	91.8	528	93.8	8	8.2	35	6.2
Small Farm Loans	92	86.8	8,118	82.4	14	13.2	1,732	17.6
Total Loans	181	89.2	8,646	83.0	22	10.8	1,767	17.0

Note: Percentages may not add to 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. The bank’s AA contains only one middle-income census tract. 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. The bank’s lending has a reasonable penetration among individuals of different income levels and farms of different sizes.

Small Farm Lending

The borrower distribution of small farm lending is reasonable. The bank originated 97.8% 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 farms is comparable to demographics, which indicate that 99.2% of farms in the AA have gross annual revenues of \$1 million or less. A majority (66.7%) of the loans the bank originated to small farms were for \$100,000 or less. In addition, 85.0% of these loans were for \$50,000 or less. This indicates the bank’s willingness to serve the credit needs of smaller farms in the AA.

Table 6 Small Farm Lending by Revenue & Loan Size Assessment Area: Phillips County 2019 & 2020							
Product Type		Bank & Demographic Comparison					
		Count		Dollar		Total Farms	
		#	%	\$(000s)	\$ %	%	
Small Farm	Revenue	\$1 Million or Less	90	97.8	7,988	98.4	99.2
		Over \$1 Million or Unknown	2	2.2	130	1.6	0.8
		Total	92	100.0	8,118	100.0	100.0
	Loan Size	\$100,000 or Less	62	67.4	2,039	25.1	
		\$100,001 - \$250,000	25	27.2	4,052	49.9	
		\$250,001 - \$500,000	5	5.4	2,027	25.0	
		Total	92	100.0	8,118	100.0	
	Loan Size & Rev. \$1 Mill	\$100,000 or Less	60	66.7	1,909	23.9	
		\$100,001 - \$250,000	25	27.8	4,052	50.7	
		\$250,001 - \$500,000	5	5.6	2,027	25.4	
Total		90	100.0	7,988	100.0		
Originations & Purchases 2019 & 2020 FFIEC Census Data and 2019 & 2020 Dun & Bradstreet information according to 2015 ACS <i>Note: Percentages may not add to 100.0 due to rounding</i>							

Consumer Lending

The borrower distribution of consumer lending is reasonable. Overall, 29.2% of the bank’s consumer loans were made to LMI borrowers, as shown in Table 7. The bank’s lending to low-income borrowers, at 11.2%, is below demographics, which indicates that 30.6% of households in the AA are low income. The bank’s lending to moderate-income borrowers, at 18.0%, is comparable to demographics, at 19.9%. By loan dollars, the bank’s lending to moderate-income borrowers exceeded demographics. Despite the lower level of lending to low-income borrowers, the overall income distribution of the bank’s consumer loans is reasonable. Most of the consumer loans were made to borrowers with unknown incomes. These loans were made under the bank’s Scrip loan program; they are short-term, no cost, small-dollar loans made during the holiday season. The bank does not collect income information for these loans, and bank management indicated that borrowers of all income levels obtain Scrip loans. Given the loan features, it is likely that LMI borrowers benefit from this program.

Table 7 Borrower Distribution of Consumer Loans Assessment Area: Phillips County 2020						
	Borrower Income Levels	Bank & Demographic Comparison				Households by Household Income %
		Count		Dollar		
		#	%	\$(000s)	\$ %	
Totals	Low	10	11.2	65	12.3	30.6
	Moderate	16	18.0	153	28.9	19.8
	Middle	10	11.2	112	21.2	15.9
	Upper	3	3.4	154	29.1	33.6
	Unknown	50	56.2	45	8.5	
	Total	89	100.0	529	100.0	100.0
2020 FFIEC Census Data Note: Percentages may not add to 100.0 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.

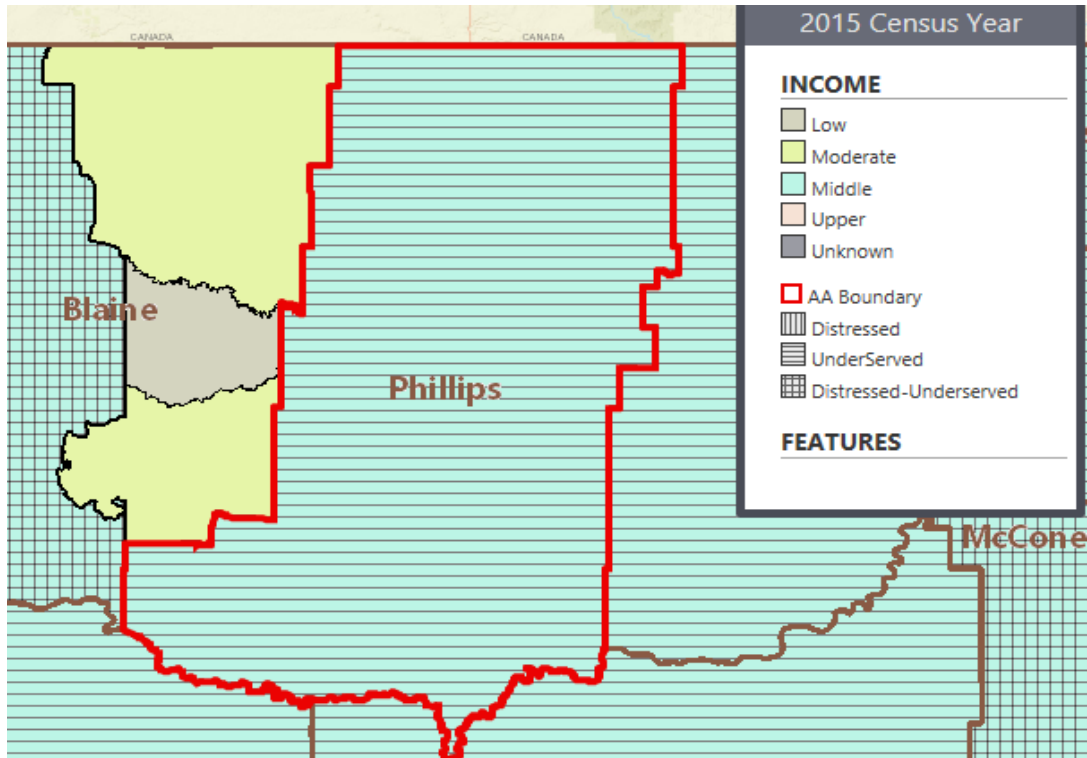
FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

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.

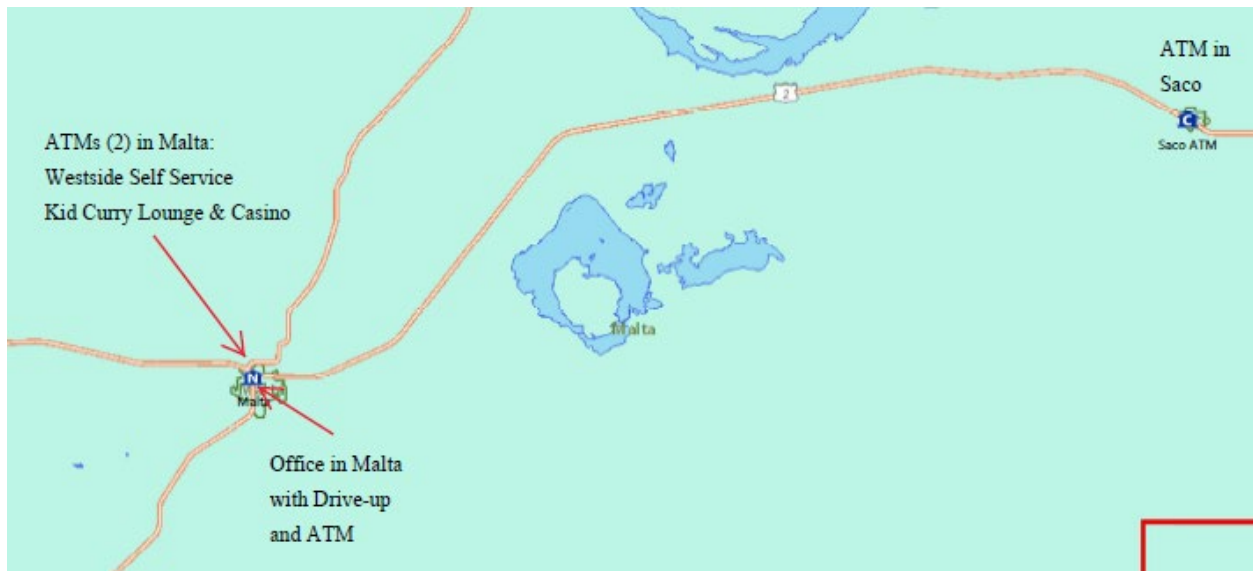
APPENDIX A – MAP OF THE ASSESSMENT AREA

AA Boundary

First State Bank of Malta



Office and ATM Locations



APPENDIX B – DEMOGRAPHIC INFORMATION

PHILLIPS 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	341	28.3
Moderate	0	0.0	0	0.0	0	0.0	246	20.4
Middle	1	100.0	1,204	100.0	176	14.6	248	20.6
Upper	0	0.0	0	0.0	0	0.0	369	30.6
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	1	100.0	1,204	100.0	176	14.6	1,204	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	2,315	1,308	100.0	56.5	500	21.6	507	21.9
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	2,315	1,308	100.0	56.5	500	21.6	507	21.9
	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	252	100.0	220	100.0	24	100.0	8	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	252	100.0	220	100.0	24	100.0	8	100.0
Percentage of Total Businesses:				87.3		9.5		3.2
	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	133	100.0	132	100.0	1	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	133	100.0	132	100.0	1	100.0	0	0.0
Percentage of Total Farms:				99.2		0.8		0.0

Source: 2020 FFIEC Census Data and 2020 D & B Information

NOTE: Percentages may not add up to 100.0 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, 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. An 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 an MSA based on specific criteria including commuting patterns. Only an 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.