

# **PUBLIC DISCLOSURE**

October 15, 2019

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Melvin Savings Bank  
Certificate Number: 256

260 Main Street  
Melvin, Iowa 51350

Federal Deposit Insurance Corporation  
Division of Depositor and Consumer Protection  
Kansas City Regional Office

1100 Walnut Street, Suite 2100  
Kansas City, Missouri 64106

This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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## INSTITUTION RATING

**INSTITUTION'S CRA RATING:** This institution is rated **Satisfactory**. An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Melvin Savings Bank's satisfactory Community Reinvestment Act (CRA) performance under the Lending Test supports the overall rating. Examiners did not identify any evidence of discriminatory or other illegal credit practices. The following points summarize the bank's Lending Test performance.

- The bank's loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- The bank made a majority of its small farm and small business loans in the assessment area.
- The assessment area consists entirely of middle-income geographies and review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.
- The distribution of borrowers reflects reasonable penetration of loans among farms and businesses of different sizes.
- The institution did not receive any CRA-related complaints since its previous evaluation; therefore, this factor did not affect the CRA rating.

## SCOPE OF EVALUATION

### General Information

This evaluation covers the period from the prior evaluation dated October 7, 2013, to the current evaluation dated October 15, 2019. Examiners used Interagency Small Institution Examination Procedures to evaluate Melvin Savings Bank’s CRA performance.

These procedures considered the institution’s performance according to the following criteria.

- Loan-to-deposit ratio
- Assessment area concentration
- Geographic distribution
- Borrower profile
- Response to CRA-related complaints

This evaluation does not include any lending activity performed by affiliates.

### Loan Products Reviewed

Examiners determined the bank’s major product lines are small farm and small business loans. This conclusion considered the bank’s business strategy, the area’s credit needs, and the number and dollar volume of loans originated during the evaluation period. Home mortgage lending was not included in this evaluation because the bank originated a small volume of home mortgage loans.

The bank records indicated that the lending focus and product mix remained consistent throughout the evaluation period. Therefore, examiners reviewed small farm and small business loans originated from January 1, 2018, through December 31, 2018. For the Lending Test, the universes of small farm and small business loans were used to evaluate the Assessment Area Concentration criterion. Additionally, samples of loans originated within the assessment area were used to evaluate the Borrower Profile criterion. The following table details the samples and the corresponding universes from which they were selected.

<b>Loan Products Reviewed</b>				
<b>Loan Category</b>	<b>Universe</b>		<b>Sample</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Small Business	29	1,380	21	727
Small Farm	60	2,307	36	1,464

*Source: Bank Data from 1/1/18 to 12/31/18*

D&B data for 2018 provided a standard of comparison for the bank’s small farm and small business lending performance. Small farm loans contributed the greatest weight to overall conclusions because of the higher volume of loans originated compared to the other loan products. While number and dollar volume of loans are presented, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of farms and businesses served.

## DESCRIPTION OF INSTITUTION

### **Background**

Melvin Savings Bank is headquartered in Melvin, Iowa, and is owned by Benz Holding Company (Melvin, Iowa). This institution received a Satisfactory rating at its previous FDIC Performance Evaluation, dated October 7, 2013, using Interagency Small Institution Examination procedures.

### **Operations**

Melvin Savings Bank operates two full-service offices in Osceola County. The bank offers a variety of lending products, including agricultural, commercial, consumer, and home mortgage loans; primarily focusing on agricultural and commercial lending. The institution also provides a variety of deposit services including checking, savings, money market deposit accounts, and certificates of deposit. Alternative services include internet banking and one bank-owned ATM. The bank did not open or close any branches, and no merger or acquisition activities occurred since the previous evaluation.

### **Ability and Capacity**

Assets total approximately \$72 million as of June 30, 2019, and included total loans of \$25 million and total deposits of \$55 million. The loan portfolio is illustrated in the following table.

<b>Loan Portfolio Distribution as of 6/30/19</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction and Land Development	0	0.0
Secured by Farmland	9,681	38.8
1-4 Family Residential	2,220	8.9
Multi-family (5 or more) Residential	0	0.0
Commercial Real Estate	1,968	7.9
<b>Total Real Estate Loans</b>	<b>13,869</b>	<b>55.6</b>
Commercial and Industrial	3,238	13.0
Agricultural	6,577	26.4
Consumer	1,229	4.9
Other	10	<1.0
Less: Unearned Income	0	0.0
<b>Total Loans</b>	<b>24,923</b>	<b>100.0</b>
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet assessment area credit needs.

## DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. Melvin Savings Bank designated a single assessment area within the nonmetropolitan area of Iowa. The following sections discuss economic and demographic information for the assessment area.

### **Economic and Demographic Data**

The assessment area is comprised of O'Brien (census tracts 4901 through 4904) and Osceola (census tracts 4601 and 4602) counties. All six tracts are designated as middle-income geographies. The following table illustrates select demographic characteristics of the assessment area.

<b>Demographic Information of the Assessment Area</b>						
<b>Assessment Area: Melvin</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	6	0.0	0.0	100.0	0.0	0.0
Population by Geography	20,303	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	9,606	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	6,531	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	2,143	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	932	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	1,573	0.0	0.0	100.0	0.0	0.0
Farms by Geography	523	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	5,651	14.5	17.5	28.0	40.0	0.0
Household Distribution by Income Level	8,674	22.4	14.7	18.1	44.8	0.0
Median Family Income Nonmetropolitan Iowa	\$61,934		Median Housing Value			\$100,476
			Median Gross Rent			\$575
			Families Below Poverty Level			4.9%
<small>Source: 2015 ACS Census and 2018 D&amp;B Data            Due to rounding, totals may not equal 100.0            (*) The NA category consists of geographies that have not been assigned an income classification.</small>						

Data from the 2015 American Community Survey (ACS) Census reveals the assessment area population decreased by 557 residents since the 2010 U.S. Census and the total number of housing units decreased by 29. Population loss is associated with the current trend to move from rural to urban areas with higher paying employment opportunities.

The assessment area is rural and dependent on agriculture with 25.0 percent of the businesses operating in agriculture according to 2018 D&B information. Additionally, 98.5 percent of those

farms have gross annual revenues of \$1 million or less. Area farms primarily raise livestock and grain. Livestock farmers typically raise hogs and cattle, while grain farmers mainly grow corn and soybeans. According to the 2017 Census of Agriculture, 65 and 73 percent of the products sold in O'Brien and Osceola counties were livestock and 35 and 27 percent were crop, respectively. The average farm sizes for O'Brien and Osceola counties are 359 and 397 acres, respectively.

Several businesses are also present in the assessment area with service industry businesses representing the largest segment at 31.4 percent. Area businesses and farms are predominantly small operators; with 87.6 percent of the farms and businesses operating from a single location and 76.2 percent employing less than five employees according to 2018 D&B information.

Employment opportunities remain prevalent within or near the assessment area and contribute to the low local unemployment levels. Unemployment levels have steadily declined throughout the evaluation period and current rates are at historic low levels. Data from the U.S. Bureau of Labor and Statistics reveals that as of July 2019, the unemployment rates were 2.2 and 2.1 percent for O'Brien and Osceola counties, respectively. This compares favorably to the state of Iowa rate at 2.7 percent and the national rate at 4.0 percent.

### **Competition**

The assessment area is a competitive market for financial products and services. According to the FDIC Deposit Market Share data as of June 30, 2018, there were 13 financial institutions that operate 18 full-service branches within the bank's assessment area. Of these institutions, Melvin Savings Bank ranked 7<sup>th</sup> with 6.7 percent of the deposit market share. Agricultural financing competition also comes from non-bank entities with options for operating, machinery, and land loans.

### **Community Contact**

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the area's credit needs. This information helps determine whether local financial institutions are responsive to those needs. It also shows what credit opportunities are available.

For this evaluation, examiners reviewed comments from a recently conducted interview with a representative of an economic development organization familiar with the area's needs and initiatives. The contact stated that agricultural, business, and home mortgage loans remain the area's greatest credit needs. Overall, the contact indicated that financial institutions have been responsive and meet the assessment area's credit needs.

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that agricultural loans represent the primary credit need for the assessment area. Small business and home mortgage lending demand and opportunity are also sizable throughout the assessment area.

## CONCLUSIONS ON PERFORMANCE CRITERIA

### LENDING TEST

Melvin Savings Bank demonstrated reasonable performance under the Lending Test. Borrower Profile performance primarily supports this conclusion.

### Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's loan-to-deposit ratio, calculated from Call Report data, averaged 46.5 percent over the past 23 quarters from December 31, 2013, to June 30, 2019, and has fallen from the prior evaluation where it averaged 50 percent. Examiners compared the bank's loan-to-deposit ratio to comparable institutions that were selected based on their asset size, geographic location, and lending focus. Melvin Savings Bank's ratio is below the comparable institutions, as shown in the following table.

Bank management indicated that the loan-to-deposit ratio was low due to large governmental deposits, lack of participations, and farmers receiving financing from non-bank entities. Although the ratio has declined and is below the comparable institutions, the level of lending is reasonable considering the assessment area's current demographics and credit needs.

<b>Loan-to-Deposit Ratio Comparison</b>		
<b>Bank</b>	<b>Total Assets as of 6/30/19 \$(000s)</b>	<b>Average Net Loan- to-Deposit Ratio (%)</b>
<b>Melvin Savings Bank, Melvin, IA</b>	<b>67,684</b>	<b>46.5</b>
Ashton State Bank, Ashton, IA	48,850	83.7
The First National Bank of Primghar, Primghar, IA	34,517	84.1
Sanborn Savings Bank, Sanborn, IA	66,085	91.2
Sibley State Bank, Sibley, IA	79,110	94.7
<i>Source: Reports of Condition and Income 12/31/13 through 6/30/19</i>		

### Assessment Area Concentration

The bank made a majority of small farm and small business loans, by number and dollar volume, within its assessment area. See the following table.

<b>Lending Inside and Outside of the Assessment Area</b>										
<b>Loan Category</b>	<b>Number of Loans</b>				<b>Total #</b>	<b>Dollar Amount of Loans \$(000s)</b>				<b>Total \$(000s)</b>
	<b>Inside</b>		<b>Outside</b>			<b>Inside</b>		<b>Outside</b>		
	#	%	#	%		\$	%	\$	%	
Small Business	21	72.4	8	27.6	29	727	52.7	653	47.3	1,380
Small Farm	51	85.0	9	15.0	60	1,856	80.5	451	19.5	2,307
<i>Source: 1/1/2018 - 12/31/2018 Bank Data Due to rounding, totals may not equal 100.0</i>										

### **Geographic Distribution**

The assessment area consists entirely of middle-income geographies and review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.

### **Borrower Profile**

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes in the assessment area. Although the bank's small business lending performance is excellent, the bank's reasonable small farm lending performance is the driver for this conclusion. Examiners focused on the percentage by number of small farm and small business loans to operations with gross annual revenues of \$1 million or less.

#### ***Small Farm Loans***

The distribution of small farm loans reflects reasonable penetration to farms with gross annual revenues of \$1 million or less. The following table shows that 94.4 percent of the sampled loans were originated to farms with gross annual revenues of \$1 million or less. This number reasonably compares to the percent of farms in this revenue category.

<b>Distribution of Small Farm Loans by Gross Annual Revenue Category</b>					
<b>Gross Revenue Level</b>	<b>% of Farms</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<=\$1,000,000	98.5	34	94.4	1,113	76.0
>1,000,000	1.1	2	5.6	351	24.0
Revenue Not Available	0.4	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>36</b>	<b>100.0</b>	<b>1,464</b>	<b>100.0</b>
<i>Source: 2018 D&amp;B Data, 1/1/2018 - 12/31/2018 Bank Data Due to rounding, totals may not equal 100.0</i>					

#### ***Small Business Loans***

The distribution of small business loans reflects excellent penetration to businesses with gross annual revenues of \$1 million or less. Examiners determined that 95.2 percent of the sampled small business loans within the assessment area were made to businesses with gross annual revenues of \$1 million or less, which exceeds the 78.9 percent of businesses in this revenue category.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<=\$1,000,000	78.9	20	95.2	697	95.9
>1,000,000	6.4	1	4.8	30	4.1
Revenue Not Available	14.7	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>21</b>	<b>100.0</b>	<b>727</b>	<b>100.0</b>
<i>Source: 2018 D&amp;B Data, 1/1/2018 - 12/31/2018 Bank Data. Due to rounding, totals may not equal 100.0</i>					

**Response to Complaints**

The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

**DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution’s overall CRA rating.

## 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.

**Area Median Income:** The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

**Assessment Area:** A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

**Census Tract:** A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

**Combined Statistical Area (CSA):** A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

**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.

**Core Based Statistical Area (CBSA):** The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

**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 non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family 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).

**Family Income:** Includes the income of all members of a family that are age 15 and older.

**FFIEC-Estimated Income Data:** The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

**Full-Scope Review:** A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower profile, 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 applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

**Home Mortgage Disclosure Loan Application Register (HMDA LAR):** The HMDA LARs record all applications received for residential purchase, refinance, home improvement, and temporary-to-permanent construction loans.

**Home Mortgage Loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans to purchase 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.

**Household Income:** Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households are only one person, median household income is usually less than median family income.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

**Limited-Scope Review:** A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (for example, geographic distribution, borrower profile, 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.

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

**Metropolitan Division (MD):** A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area (MSA):** CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**Micropolitan Statistical Area:** CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

**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 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 and less than 80 percent in the case of a geography.

**Multi-family:** Refers to a residential structure that contains five or more units.

**Nonmetropolitan Area:** All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

**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.

**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.

**Rural Area:** Territories, populations, and housing units that are not classified as urban.

**Small Business Loan:** A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

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

**Urban Area:** All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.