

PUBLIC DISCLOSURE

August 5, 2019

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Gary State Bank
Certificate Number: 16472

112 Main Street
Gary, Minnesota 56545

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 **Outstanding**. An institution in this group has an outstanding 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.

The Gary State Bank's outstanding Community Reinvestment Act (CRA) performance under the Lending Test supports the overall rating. Examiners placed more weight on borrower profile than the other criteria when assigning the overall rating. Examiners did not identify any evidence of discriminatory or illegal credit practices. The following points summarize the bank's Lending Test performance.

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

SCOPE OF EVALUATION

General Information

Examiners used the Interagency Small Institution Examination Procedures to evaluate The Gary State Bank's CRA performance for the time period from the prior CRA evaluation dated February 10, 2014, to the current evaluation dated August 5, 2019 (evaluation period). Small Institution Examination Procedures evaluate an institution's performance according to the following Lending Test criteria: Loan-to-Deposit Ratio, Assessment Area Concentration, Geographic Distribution, Borrower Profile, and Response to CRA-Related Complaints. This evaluation does not include lending activity performed by affiliates.

Loan Products Reviewed

Examiners determined that the bank's major product lines are agricultural and commercial loans. This conclusion considered the bank's business strategy, primary credit needs of the area in which the bank operates, and the number and dollar volume of loans originated, renewed, or extended during the evaluation period. Bank records, including Consolidated Reports of Condition and Income, revealed that the lending focus and product mix remained relatively consistent throughout the evaluation period. However, agricultural loans now comprise a larger percentage of the overall portfolio than at the previous evaluation, while commercial loans comprise a smaller percentage. Discussions with management revealed that the bank does not originate home mortgage loans. As such, this product type is not considered to be a major product line for the bank and home mortgage lending activity was not analyzed for this evaluation.

To help assess whether the bank is meeting the credit needs of the communities in which it operates, examiners analyzed small farm and small business loans originated, renewed, or extended by the bank in 2018 (review timeframe). Discussion with management indicated that the selected review timeframe would be representative of the entire evaluation period. D&B demographic data for 2018 provided a standard of comparison against the bank's performance. More weight was placed on the institution's small farm lending activities when drawing overall conclusions.

The entire universe of small farm and small business loans was used to conduct the Assessment Area Concentration analysis. The universe for small farms included 38 loans totaling \$2,338,000, and the universe for small business loans included 16 loans totaling \$528,000. Loans located within the assessment area were further reviewed to determine the distribution of lending to farms and businesses of different sizes.

While both the number and dollar volume of loans are presented throughout this evaluation, 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

The Gary State Bank continues to operate as a family-owned institution with no lending-related affiliates. The bank's primary business focus is agricultural lending. At the previous evaluation, dated February 10, 2014, the FDIC evaluated the institution under the Small Institution Examination Procedures, with an overall Satisfactory rating assigned.

Operations

The Gary State Bank operates from its sole office in Gary, Minnesota. The bank has not opened or closed any branches since the previous FDIC CRA evaluation.

The bank offers agricultural, commercial, and consumer loan products. In addition, the bank makes available loan programs through government entities including the U.S. Department of Agriculture Farm Service Agency and the State of Minnesota Department of Agriculture.

The Gary State Bank offers traditional deposit services including checking and savings accounts, and certificates of deposit.

Ability and Capacity

The Gary State Bank reported total assets of \$13,869,000 as of the March 31, 2019, Reports of Condition and Income, including total loans of \$10,444,000. Total loans have decreased approximately six percent since the previous CRA evaluation, at which time the bank reported total loans of \$11,107,000. The following table illustrates the current loan portfolio breakdown.

Loan Portfolio Distribution as of 3/31/19		
Loan Category	\$(000s)	%
Construction and Land Development	0	0.0
Secured by Farmland	4,003	38.4
Secured by 1-4 Family Residential Properties	170	1.6
Secured by Multifamily (5 or more) Residential Properties	0	0.0
Secured by Nonfarm Nonresidential Properties	689	6.6
Total Real Estate Loans	4,862	46.6
Commercial and Industrial Loans	1,404	13.4
Agricultural Loans	3,240	31.0
Consumer Loans	938	9.0
Other Loans	0	0.0
Less: Unearned Income	0	0.0
Total Loans	10,444	100.0
<i>Source: Reports of Condition and Income</i>		

As of March 31, 2019, the bank reported total deposits of \$11,130,000. Total deposits have increased approximately 9.4 percent since the previous evaluation, at which time total deposits were reported at \$10,172,000.

Examiners identified no financial, legal, or other impediment that affects the bank's ability to meet the assessment area's 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. The Gary State Bank has designated one assessment area, a nonmetropolitan geographical area located in northwestern Minnesota consisting of the eastern half of Norman County (Census Tract 9601) and the western portion of Mahnomon County (Census Tract 9401). The assessment area has not changed geographically since the previous evaluation. It also includes a portion of the White Earth Indian Reservation.

Comprehensive background, demographic, and economic information for the assessment area is detailed in subsequent sections of this evaluation.

Economic and Demographic Data

The following table provides pertinent demographic data for the bank’s assessment area.

Table A – Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	2	0.0	0.0	100.0	0.0	0.0
Population by Geography	5,652	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	2,627	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	1,659	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	539	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	429	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	378	0.0	0.0	100.0	0.0	0.0
Farms by Geography	121	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	1,497	26.2	17.4	24.2	32.3	0.0
Household Distribution by Income Level	2,198	28.5	15.8	19.6	36.1	0.0
Median Family Income Non-MSAs - MN		\$63,182	Median Housing Value			\$86,305
			Median Gross Rent			\$580
			Families Below Poverty Level			12.9%
<i>Source: 2015 ACS Census and 2018 D&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.</i>						

Per the 2015 ACS Census data, both census tracts in the bank’s assessment area are designated as middle-income. Census Tract 9401 in Mahnommen County was previously designated as a moderate-income geography. The bank’s sole office is located in Census Tract 9601 in Norman County.

According to the 2018 D&B data, there are 121 farms operating in the assessment area. Management indicated that the farm economy has slowed somewhat since the previous evaluation, due to adverse weather conditions as well as lower commodity prices. However, agricultural land values and rental rates have remained strong. Primary crops grown are soybeans, wheat, corn, and sugar beets. Management noted that off farm income plays an important role in many farming operations. Local businesses are holding their own. Good quality housing is in short supply.

The 2018 D&B data further reports that there are 378 businesses operating in the assessment area. Management indicated that much of the population in the assessment area commutes for employment. Major employers in the area include the local school district, a casino, and several employers in Crookston, Minnesota (36 miles). Data from the Bureau of Labor Statistics for

May 2019 reports the unemployment rates for Norman and Mahnomen counties at 3.7 and 3.5 percent, respectively. A comparable figure for the state of Minnesota was 2.9 percent.

Competition

The assessment area has a competitive banking environment. FDIC Deposit Market Share data reports that as of June 30, 2018, there were eight financial institutions that operated nine offices in Norman and Mahnomen counties. The Gary State Bank had the lowest deposit market share in the assessment area comprising 3.8 percent of the deposit market. Management opined that the primary competitors for loans in the assessment area include AgCountry Farm Credit Services and various auto dealers.

Community Contact

As part of the evaluation process, examiners contact third parties knowledgeable of the assessment area to assist in identifying the credit needs of the area. This information helps determine whether local financial institutions are responsive to these needs and what credit opportunities are available.

Examiners performed one community contact in conjunction with this evaluation. The community contact discussion primarily focused on the agriculture economy, with the contact stating that the overall farm economy has slowed down somewhat due to lower commodity prices and adverse weather conditions. The contact added that many farming operations rely on off-farm income to meet living expenses and provide health insurance coverage. Despite, the weakened farm economy, farm land values and rental rates remain strong. The contact opined that agriculture-related credit is a primary need of the assessment area.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

The Gary State Bank demonstrated outstanding performance under the Lending Test. The loan-to-deposit ratio, assessment area concentration, and borrower profile performance support this conclusion.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is more than reasonable given the institution's size, financial condition, and credit needs of the assessment area. The Gary State Bank's loan-to-deposit ratio, calculated from Reports of Condition and Income data, averaged 98.9 percent over the past 21 calendar quarters. This ratio does not include loan participations sold totaling approximately \$1,680,000. The bank has loan participations purchased of only \$300,000.

The bank’s loan-to-deposit ratio has increased from an average of 85 percent reported at the previous evaluation. The quarterly loan-to-deposit ratios have fluctuated from a low of 78.1 percent as of December 31, 2016, to a high of 108 percent as of June 30, 2015 and reflect a seasonal pattern typically experienced by banks with loan portfolios that are heavily comprised of agricultural-related loans.

The institution’s average net loan-to-deposit ratio reflects a more than reasonable performance when analyzed against comparable institutions. Please refer to the following table for comparable institution information. Examiners selected comparable institutions based on asset size, branching structure, geographic location, and lending focus.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 3/31/2019 (\$000s)	Average Net LTD Ratio (%)
The Gary State Bank Gary, Minnesota	13,869	98.9
American State Bank of Grygla Grygla, Minnesota	54,780	67.2
First National Bank of McIntosh McIntosh, Minnesota	26,343	42.6
Security State Bank of Oklee Oklee, Minnesota	32,242	39.0
<i>Source: Reports of Condition and Income 3/31/14 through 3/31/19</i>		

Assessment Area Concentration

As detailed in the following table, the bank originated a substantial majority of its small farm and small business loans within its assessment area. It should be noted that three of the small business loans that were originated outside of the bank’s assessment area were located just outside of its assessment area.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Farm	36	94.7	2	5.3	38	2,278	97.4	60	2.6	2,338
Small Business	12	75.0	4	25.0	16	379	71.8	149	28.2	528
<i>Source: 1/1/2018 - 12/31/2018 Bank Data Due to rounding, totals may not equal 100.0</i>										

Geographic Distribution

Since the assessment area is comprised of only middle-income geographies, a geographic distribution analysis would not result in meaningful conclusions. Therefore, this criterion was not evaluated.

Borrower Profile

The overall distribution of borrowers reflects excellent penetration among farms and businesses of different revenue sizes.

Small Farm Loans

The bank's performance reflects excellent penetration among farms of different sizes when compared to relevant demographic data. As indicated in the following table, the bank's performance exceeds D&B demographic data, and all of the bank's small farm loans in the assessment area were to farms with gross annual revenues of \$1,000,000 or less. In addition, it should be noted that as of the date of the evaluation, the bank has four guaranteed or subordinated loans outstanding with the U.S. Department of Agriculture Farm Service Agency totaling \$176,549. The bank also has three loans totaling \$64,768 originated through the Minnesota Department of Agriculture's Best Management Practice Loan Program.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	96.7	36	100.0	2,278	100.0
>1,000,000	2.5	0	0.0	0	0.0
Revenue Not Available	0.8	0	0.0	0	0.0
Total	100.0	36	100.0	2,278	100.0

Source: 2018 D&B Data, 1/1/2018 - 12/31/2018 Bank Data.
Due to rounding, totals may not equal 100.0

Small Business Loans

The bank's performance reflects excellent penetration among businesses of different sizes in the assessment area. As indicated in the following table, the bank's performance exceeds D&B demographic data and all of the bank's business loans in the assessment area were to businesses with gross annual revenues of \$1,000,000 or less.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	74.6	12	100.0	379	100.0
>1,000,000	5.8	0	0.0	0	0.0
Revenue Not Available	19.6	0	0.0	0	0.0
Total	100.0	12	100.0	379	100.0
<i>Source: 2018 D&B Data, 1/1/2018 - 12/31/2018 Bank Data. Due to rounding, totals may not equal 100.0</i>					

Response to Complaints

The institution has not received any CRA-related complaints since the previous evaluation. Therefore, this performance criterion did not affect the 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.