

PUBLIC DISCLOSURE

October 13, 2020

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The State Bank
Certificate Number: 13715

1902 Hill Avenue
Spirit Lake, Iowa 51360

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.

Satisfactory performance under the Lending Test supports the rating. The following points summarize the bank's performance.

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and the assessment area's credit needs.
- The overall majority of the small farm, small business, and home mortgage loans reviewed were located inside the assessment area.
- The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes and individuals of different income levels.
- The assessment area does not contain any low- or moderate-income census tracts. Therefore, examiners did not evaluate the geographic distribution of loans.
- The institution did not receive any complaints regarding its Community Reinvestment Act (CRA) performance since the previous evaluation. As a result, examiners did not evaluate the bank's record of responding to CRA-related complaints.

DESCRIPTION OF INSTITUTION

Background

The State Bank is a community financial institution operating in northwest Iowa. State Banco, LTD, a one-bank holding company, owns the institution. The bank received a Satisfactory rating at its previous FDIC Performance Evaluation, dated July 21, 2014, using Interagency Small Institution Examination Procedures.

Operations

The State Bank's main office is in Spirit Lake, Iowa. In addition, the institution operates a branch facility in Terril, Iowa. The bank offers several credit products, including agricultural, commercial, consumer, and home mortgage loans. In addition, the institution provides a variety of deposit services including checking, savings, money market deposit accounts, and certificates of deposit. Alternative banking services include internet and mobile banking and two ATMs. The institution has not opened or closed any offices or been involved in any mergers or acquisitions since the prior evaluation.

Ability and Capacity

Assets total approximately \$73.1 million as of June 30, 2020, including loans of \$35.9 million. Deposits totaled \$63.5 million as of the same date. The loan portfolio is relatively split between three main products. Agricultural loans, including loans secured by farmland, represent the largest segment at 35.3 percent, followed by home mortgage loans at 32.0 percent, and commercial and commercial real estate loans at 28.0 percent. The following table reflects the loan portfolio distribution.

Loan Portfolio Distribution as of 6/30/2020		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	512	1.4
Secured by Farmland	8,532	23.8
Secured by 1-4 Family Residential Properties	9,838	27.4
Secured by Multifamily (5 or more) Residential Properties	1,637	4.6
Secured by Nonfarm Nonresidential Properties	5,777	16.1
Total Real Estate Loans	26,296	73.3
Commercial and Industrial Loans	4,283	11.9
Agricultural Production and Other Loans to Farmers	4,115	11.5
Consumer Loans	811	2.3
Obligations of State and Political Subdivisions in the U.S.	343	1.0
Other Loans	27	<0.1
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	35,875	100.0
<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 its 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 performance will be evaluated. The State Bank designated Dickinson County, Iowa as its assessment area. Dickinson County is located in the northwest part of the state and is not part of a metropolitan statistical area.

Economic and Demographic Data

According to the 2015 American Community Survey, Dickinson County contains two middle-income and three upper-income census tracts. The following table illustrates select demographic characteristics of the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	5	0.0	0.0	40.0	60.0	0.0
Population by Geography	16,967	0.0	0.0	43.2	56.8	0.0
Housing Units by Geography	13,087	0.0	0.0	50.1	49.9	0.0
Owner-Occupied Units by Geography	5,891	0.0	0.0	42.5	57.5	0.0
Occupied Rental Units by Geography	1,913	0.0	0.0	48.7	51.3	0.0
Vacant Units by Geography	5,283	0.0	0.0	59.1	40.9	0.0
Businesses by Geography	1,961	0.0	0.0	45.3	54.7	0.0
Farms by Geography	206	0.0	0.0	42.2	57.8	0.0
Family Distribution by Income Level	5,162	11.4	15.1	26.1	47.4	0.0
Household Distribution by Income Level	7,804	20.2	14.1	17.6	48.0	0.0
Median Family Income – Nonmetropolitan Iowa		\$61,681	Median Housing Value			\$202,361
			Median Gross Rent			\$643
			Families Below Poverty Level			3.6%
<i>Source: 2015 ACS and 2019 D&B Data. Due to rounding, totals may not equal 100.0 percent. (*) The NA category consists of geographies that have not been assigned an income classification.</i>						

Dickinson County is home to the Iowa Great Lakes region, which is one of the state’s most popular vacation destinations. Consequently, tourism plays an important role in the local economy. East Okoboji, Spirit Lake, and West Okoboji are the primary lakes in the area.

The assessment area has experienced modest population growth over the years, increasing from 16,424 in 2000 to 16,967 in 2015, according to the U.S. Bureau. Spirit Lake and Milford are the largest communities in Dickinson County, with populations of 4,948 and 2,971, respectively. All other communities have populations of less than 2,000.

Examiners used the 2019 FFIEC-estimated median family income levels to analyze home mortgage loans under the Borrower Profile criterion. The low-, moderate-, middle-, and upper-income categories for nonmetropolitan Iowa are presented below.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Nonmetropolitan Iowa				
2019 (\$66,900)	<\$33,450	\$33,450 to <\$53,520	\$53,520 to <\$80,280	≥\$80,280
<i>Source: FFIEC</i>				

Competition

The assessment area is highly competitive for financial services. According to the June 30, 2019 FDIC Deposit Market Share data, Dickinson County contains eight financial institutions operating from 14 offices. The State Bank ranked fifth in terms of deposit market share, with 8.0 percent of the county’s deposits. The bank competes with these institutions and other lenders for small farm, small business, home mortgage, and consumer 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.

Examiners contacted an individual with a local economic development organization as part of this evaluation. The person indicated that the area’s economy is somewhat reliant on the agricultural sector, which has been negatively impacted by the low commodity prices. In addition, the contact stated that manufacturing, retail, and tourism play important roles in economy. These sectors were thriving until the COVID-19 pandemic hit. The manufacturing industry has experienced a quick recovery; however, retail and tourism continues to struggle. The contact indicated that agricultural, commercial, and home mortgage loans are the primary credit needs. The contact’s general perception towards local financial institutions was positive and they were unaware of any unmet credit needs.

Credit Needs

Considering information from the community contact, bank management, and demographic and economic data, examiners concluded that agricultural, commercial and home mortgage loans are the assessment area’s primary credit needs.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated July 21, 2014, to the current evaluation dated October 13, 2020. Examiners used the Interagency Small Institution Examination Procedures to conduct the evaluation, which includes a Lending Test. Refer to the Appendices for a description of this test.

Activities Reviewed

Examiners reviewed small farm, small business, and home mortgage loans to evaluate the bank's performance. They selected these products based on the bank's business strategy and the number and dollar volume of loans originated during the evaluation period. No other loan types, such as consumer loans, represent a major product line. As a result, examiners did not review any other loan products, as they would provide no material support for conclusions or the rating.

Examiners reviewed all small farm, small business, and home mortgage loans originated or purchased in 2019 to evaluate the bank's record of lending inside the assessment area (Assessment Area Concentration analysis). This consisted of 61 small farm loans totaling approximately \$7.4 million, 46 small business loans totaling approximately \$7.4 million, and 23 home mortgage loans totaling approximately \$3.1 million. From here, examiners reviewed the small farm, small business, and home mortgage loans located inside the assessment area to evaluate the bank's record of lending to farms and businesses of all sizes and individuals of different income levels (Borrower Profile analysis). This consisted of 28 small farm loans totaling approximately \$3.0 million, 34 small business loans totaling approximately \$4.9 million, and 23 home mortgage loans totaling approximately \$3.1 million. Examiners did not conduct a Geographic Distribution analysis since the assessment area does not contain any low- or moderate-income census tracts. Bank management indicated that the loans reviewed were representative of the institution's performance during the entire evaluation period, and bank data confirms this statement. As a result, examiners did not evaluate any additional years of data. 2019 D&B data provided a standard of comparison for the small farm and small business loans reviewed, while 2015 ACS data provided a standard of comparison for the home mortgage loans reviewed.

Examiners placed greater weight on small farm and small business loans when drawing conclusions since those products represented the majority of the bank's lending activity during the review period. When conducting the Assessment Area Concentration analysis, examiners placed equal weight on the number and dollar volume of loans. When conducting the Borrower Profile analysis, examiners placed greater weight on the number of loans than the dollar volume of loans. This is because the number of loans is a better indicator of the farms, businesses, and individuals served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

The State Bank demonstrated satisfactory performance under the Lending Test. Reasonable performance under the Loan-to-Deposit Ratio, Assessment Area Concentration, and Borrower Profile criterion supports this conclusion.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area's credit needs. The bank's net loan-to-deposit ratio, calculated from Call Report data, averaged 69.1 percent over the past 24 quarters from September 30, 2014, to June 30, 2020.

Examiners compared the bank's average net loan-to-deposit ratio to four similarly-situated institutions to help evaluate its performance. The similarly-situated institutions were selected based

on their asset size, geographic location, and lending focus. As shown in the following table, the bank’s average net loan-to-deposit ratio compares reasonably to the similarly-situated institutions’ ratios.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 6/30/2020 \$(000s)	Average Net LTD Ratio (%)
The State Bank, Spirit Lake, Iowa	73,119	69.1
Ashton State Bank, Ashton, Iowa	50,536	84.8
Melvin Savings Bank, Melvin, Iowa	73,155	45.9
Sibley State Bank, Sibley, Iowa	85,727	93.0
State Bank, Spencer, Iowa	74,075	75.4

Source: Reports of Condition and Income 9/30/2014 through 6/30/2020.

Assessment Area Concentration

Collectively, the majority of the small farm, small business, and home mortgage loans reviewed, by number and dollar volume, were located inside the assessment area. A majority of the small business loans, by number and dollar volume, were located inside the assessment area. In addition, all of the home mortgage loans reviewed were located inside the assessment area. Conversely, a majority of small farm loans, by number and dollar volume, were located outside the assessment area. This was primarily due to a large lending relationship from outside the assessment area. The bank participated on 15 operating lines of credit totaling approximately \$1.2 million to one borrower from outside of Dickinson County in 2019. However, this does not detract from the bank’s performance under this criterion. The following table provides details.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total	Dollar Amount of Loans \$(000s)				Total
	Inside		Outside			Inside		Outside		
	#	%	#	%	#	\$	%	\$	%	\$(000s)
Small Farm	28	45.9	33	54.1	61	2,996	40.3	4,432	59.7	7,428
Small Business	34	73.9	12	26.1	46	4,940	67.1	2,426	32.9	7,366
Home Mortgage	23	100.0	0	0.0	23	3,104	100.0	0	0.0	3,104
Total	85	65.4	45	34.6	130	11,040	61.7	6,858	38.3	17,898

Source: 2019 Bank Data. Due to rounding, totals may not equal 100.0 percent.

Borrower Profile

Overall, the distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes and individuals of different income levels. As stated in the “Scope of Evaluation” section, examiners reviewed all 2019 small farm, small business, and home mortgage loans originated from inside the assessment area to evaluate the bank’s performance. Examiners focused on the bank’s record of lending to farms and businesses with gross annual revenues of \$1 million or less and low- and moderate-income borrowers.

Small Farm Lending

The distribution of small farm loans reflects excellent penetration among farms of different sizes. All 28 small farm loans reviewed were to borrowers with gross annual farm revenues of \$1 million or less.

Small Business Lending

The distribution of small business loans reflects reasonable penetration among businesses of different sizes. Lending to businesses with gross annual revenues of \$1 million or less lagged the D&B data. However, two borrowers accounted for all 14 loans in the over \$1 million annual revenue category, which skews the data. When examiners removed duplicate borrowers, including ones in the under \$1 million gross annual revenue category, 90.0 percent of the small business loans were to borrowers with gross annual revenues of \$1 million or less, reflecting reasonable performance. The following table provides details.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	84.3	20	58.8	1,439	29.1
>1,000,000	4.9	14	41.2	3,501	70.9
Revenue Not Available	10.7	0	0.0	0	0.0
Total	100.0	34	100.0	4,940	100.0

Source: 2019 D&B Data, 2019 Bank Data. Due to rounding, totals may not equal 100.0 percent.

Home Mortgage Lending

The distribution of home mortgage loans reflects reasonable penetration among borrowers of all income levels, including low- and moderate-income borrowers. The percentage of home mortgage loans to low- and moderate-income borrowers was relatively consistent with the demographic data. The following table provides details.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	11.4	3	13.0	297	9.6
Moderate	15.1	5	21.7	369	11.9
Middle	26.1	3	13.0	235	7.6
Upper	47.4	8	34.8	1,672	53.9
Not Available	0.0	4	17.4	531	17.1
Total	100.0	23	100.0	3,104	100.0

Source: 2015 ACS Data, 2019 Bank Data. Due to rounding, totals may not equal 100.0 percent.

Geographic Distribution

The assessment area does not contain any low- or moderate-income census tracts. Therefore, examiners did not evaluate the geographic distribution of loans.

Response to Complaints

The bank did not receive any complaints regarding its CRA performance since the previous evaluation. Therefore, examiners did not evaluate the bank's record of responding to CRA-related complaints.

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 CRA rating.

APPENDICES

SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

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.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

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).

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 (e.g., geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g., 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 Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

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 (e.g., 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.

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 (also known as **non-MSA**): 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.