

# **PUBLIC DISCLOSURE**

May 4, 2020

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Ipswich State Bank  
Certificate Number: 15593

301 First Avenue  
Ipswich, South Dakota 57451

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.

## TABLE OF CONTENTS

|  |   |
|--|---|
| INSTITUTION RATING .....                                     | 1 |
| DESCRIPTION OF INSTITUTION .....                             | 2 |
| DESCRIPTION OF ASSESSMENT AREA .....                         | 2 |
| SCOPE OF EVALUATION .....                                    | 4 |
| CONCLUSIONS ON PERFORMANCE CRITERIA.....                     | 5 |
| DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW..... | 6 |
| APPENDICES .....   | 7 |
| SMALL INSTITUTION PERFORMANCE CRITERIA .....                 | 7 |
| GLOSSARY .....   | 8 |

## 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.

The following points summarize the bank's Community Reinvestment Act (CRA) performance:

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- The institution made a majority of its small farm loans within its assessment area.
- The assessment area does not include any low- and moderate-income geographies, and a 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 among farms of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the rating.

## DESCRIPTION OF INSTITUTION

Ipswich State Bank operates a single office in Ipswich, South Dakota. The institution is controlled by Ipswich Community Bancshares, Inc., a one-bank holding company also located in Ipswich, South Dakota. The bank received a CRA rating of “Satisfactory” at its previous FDIC Performance Evaluation, dated June 16, 2014, based on Interagency Small Institution Examination Procedures.

Ipswich State Bank offers agricultural, commercial, and consumer loans; however, the institution’s primary focus is agricultural lending. The bank provides traditional deposit products including checking, savings, money market deposit accounts, certificates of deposit, and Individual Retirement Accounts. Alternative banking services include online banking and electronic bill pay.

As of December 31, 2019, Ipswich State Bank reported total assets of \$55,796,000; total loans of \$29,246,000; and total deposits of \$45,679,000; the following table illustrates the loan portfolio. Examiners did not identify any financial, legal, or other impediments that affect the bank’s ability to meet the credit needs of the assessment area.

| <b>Loan Portfolio Distribution as of December 31, 2019</b> |                 |              |
|--|-----------------|--------------|
| <b>Loan Category</b>                                       | <b>\$(000s)</b> | <b>%</b>     |
| Construction and Land Development                          | 0               | 0.0          |
| Secured by Farmland  | 7,411           | 25.3         |
| Secured by 1-4 Family Residential Properties               | 0               | 0.0          |
| Secured by Multifamily (5 or more) Residential Properties  | 0               | 0.0          |
| Secured by Nonfarm Nonresidential Properties               | 580             | 2.0          |
| <b>Total Real Estate Loans</b>                             | <b>7,991</b>    | <b>27.3</b>  |
| Agricultural Loans   | 17,939          | 61.3         |
| Commercial and Industrial Loans                            | 2,776           | 9.5          |
| Consumer Loans   | 540             | 1.9          |
| Other Loans  | 0               | 0.0          |
| Less: Unearned Income                                      | 0               | 0.0          |
| <b>Total Loans</b>   | <b>29,246</b>   | <b>100.0</b> |
| <i>Source: Reports of Condition and Income</i>             |                 |              |

## DESCRIPTION OF ASSESSMENT AREA

The CRA requires financial institutions to define one or more assessment areas within which its CRA performance will be evaluated. Ipswich State Bank has designated one assessment area in northeastern South Dakota. The assessment area is comprised of Census Tract 9621, which makes up the eastern half of Edmunds County. Census Tract 9621 is an upper-income geography.

### **Economic and Demographic Data**

Bank management stated that agriculture drives the economy in the region. Each year varies dependent on weather and commodity prices. In 2019, which was the primary focus of this evaluation, adverse weather resulted in both difficult planting and harvest conditions for farm operations.

Business opportunities are few as it is hard for small community businesses to survive when people commute out of the area for work, such as to Aberdeen, South Dakota, and then shop there due to the convenience and availability of more retail options. Online shopping has also had an impact. Bank management stated that when small business owners retire, their business may simply be closed; however, for the most part small businesses are generally well-established and remain open.

The following table illustrates select demographic characteristics of the assessment area.

| <b>Demographic Information of the Assessment Area</b>  |          |                       |                            |                          |                         |
|--|----------|-----------------------|----------------------------|--------------------------|-------------------------|
| <b>Demographic Characteristics</b>   | <b>#</b> | <b>Low<br/>% of #</b> | <b>Moderate<br/>% of #</b> | <b>Middle<br/>% of #</b> | <b>Upper<br/>% of #</b> |
| Geographies (Census Tracts)  | 1        | 0.0                   | 0.0                        | 0.0                      | 100.0                   |
| Population by Geography  | 2,259    | 0.0                   | 0.0                        | 0.0                      | 100.0                   |
| Housing Units by Geography   | 1,034    | 0.0                   | 0.0                        | 0.0                      | 100.0                   |
| Owner-Occupied Units by Geography  | 740      | 0.0                   | 0.0                        | 0.0                      | 100.0                   |
| Occupied Rental Units by Geography   | 134      | 0.0                   | 0.0                        | 0.0                      | 100.0                   |
| Vacant Units by Geography  | 160      | 0.0                   | 0.0                        | 0.0                      | 100.0                   |
| Businesses by Geography  | 227      | 0.0                   | 0.0                        | 0.0                      | 100.0                   |
| Farms by Geography   | 69       | 0.0                   | 0.0                        | 0.0                      | 100.0                   |
| Family Distribution by Income Level  | 565      | 7.1                   | 11.3                       | 21.1                     | 60.5                    |
| Household Distribution by Income Level   | 874      | 16.4                  | 10.9                       | 15.2                     | 57.6                    |
| Median Family Income – Nonmetropolitan SD  |          | \$60,845              | Median Housing Value       |                          | \$167,300               |
| Families Below Poverty Level   |          | 1.1%                  | Median Gross Rent          |                          | \$616                   |
| <i>Source: 2015 ACS Data and 2019 D&amp;B Data<br/>Due to rounding, totals may not equal 100.0</i> |          |                       |                            |                          |                         |

### **Competition**

Ipswich State Bank operates in a relatively competitive market, especially considering its rural nature. The June 30, 2019 FDIC Deposit Market Share data shows 4 financial institutions operating 5 offices in Edmunds County. Ipswich State Bank was ranked second with 29.3 percent of the deposit market share. Management stated that Farm Credit Services of America in Aberdeen is the bank’s main competitor for agricultural loans.

### **Community Contacts**

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying credit needs. This information helps determine what credit opportunities are available and whether local financial institutions are responsive to the credit needs. The community members also provide general economic and demographic information. For this evaluation, examiners contacted a government representative knowledgeable of the area. The contact stated that agricultural lending is the primary credit need within the assessment area. The contact also stated that main street businesses are generally well-established with low credit needs, and that new startups or expansions of existing businesses are rare due to low demand and the increasing use of

online purchases. The contact further stated that local financial institutions are good to work with and appear to be meeting the credit needs of the area.

### **Credit Needs**

The community contact and bank management identified that agricultural credit is the primary need within the assessment area. Management further stated that commercial and consumer loans are also needed.

## **SCOPE OF EVALUATION**

### **General Information**

This evaluation covers the period from the prior CRA evaluation dated June 16, 2014, to the current evaluation dated May 4, 2020. Examiners used the Interagency Small Institution Examination Procedures to evaluate Ipswich State Bank's CRA performance. These procedures evaluate an institution's performance according to the Lending Test criteria as detailed in the Appendices.

### **Activities Reviewed**

Bank records indicated that the lending focus and product mix remained consistent throughout the evaluation period. Given this information, examiners selected 2019, the most recent calendar year, as the review period. This timeframe was considered representative of the bank's performance during the entire evaluation period. As noted earlier, the bank's primary lending focus is agricultural lending. Therefore, examiners reviewed all small farm loans originated or extended in 2019 for the Assessment Area Concentration analysis. During the review period, the bank originated or extended 49 small farm loans totaling approximately \$7,345,000. The universe does not include loans originated or extended and paid off in 2019, as this information was not readily available.

The Borrower Profile analysis was performed using all of the loans determined to be within the assessment area. Specifically, in 2019, the bank originated or extended 40 small farms loans within its assessment area totaling approximately \$6,036,000. D&B data for 2019 provided a standard of comparison for the small farm loans. D&B is a business that maintains a database of information on farms using a variety of resources including public records, trade references, and surveys. D&B data is used as a general indicator of the local economy.

Although commercial loans comprise 11.5 percent of the bank's loan portfolio, commercial lending is not a primary business focus for the bank, and management and the community contact noted that local demand for these loans is very limited. Given this information, small business loans were excluded from this evaluation. Furthermore, the bank does not originate home mortgage loans.

For the Lending Test, examiners reviewed the number and dollar volume of small farm loans. While both 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 served.

## CONCLUSIONS ON PERFORMANCE CRITERIA

### LENDING TEST

Ipswich State Bank demonstrated satisfactory performance under the Lending Test. The bank’s loan-to-deposit ratio, assessment area concentration, and borrower profile performance support 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. As shown in the table below, Ipswich State Bank’s net loan-to-deposit ratio averaged 67.4 percent over the past 23 calendar quarters, which is similar to the ratios of comparable institutions. Examiners selected comparable institutions based on their asset size, branching structure, geographic location, and lending focus.

| <b>Loan-to-Deposit Ratio Comparison</b>                |   |  |
|--|---|--|
| <b>Bank</b>  | <b>Total Assets as of<br/>12/31/2019<br/>(\$000s)</b> | <b>Average Net<br/>Loan-to-Deposit Ratio<br/>(%)</b> |
| <b>Ipswich State Bank, Ipswich, South Dakota</b>       | <b>55,796</b>   | <b>67.4</b>  |
| First State Bank of Claremont, Groton, South Dakota    | 58,701  | 64.6   |
| The Farmers State Bank of Turton, Turton, South Dakota | 31,674  | 68.6   |

*Source: Reports of Condition and Income 6/30/2014 through 12/31/2019*

#### Assessment Area Concentration

As detailed in the table below, Ipswich State Bank made a majority of its small farm loans within its assessment area.

| <b>Lending Inside and Outside of the Assessment Area</b> |                        |      |                |      |                    |  |      |                |      |                           |
|--|------------------------|------|----------------|------|--------------------|--|------|----------------|------|---------------------------|
| <b>Loan Category</b>                                     | <b>Number of Loans</b> |      |                |      | <b>Total<br/>#</b> | <b>Dollar Amount of Loans \$(000s)</b> |      |                |      | <b>Total<br/>\$(000s)</b> |
|  | <b>Inside</b>          |      | <b>Outside</b> |      |                    | <b>Inside</b>                          |      | <b>Outside</b> |      |                           |
|  | #                      | %    | #              | %    |                    | \$                                     | %    | \$             | %    |                           |
| Small Farm   | 40                     | 81.6 | 9              | 18.4 | 49                 | 6,036                                  | 82.2 | 1,309          | 17.8 | 7,345                     |

*Source: 1/1/2019 - 12/31/2019 Bank Data*

#### Geographic Distribution

The assessment area does not include any low- and moderate-income geographies, and a 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 of different sizes. Examiners focused on the percentage of loans to farms with gross annual revenues of \$1 million or less.

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

The distribution of borrowers reflects reasonable penetration among farms with gross annual revenues of \$1 million or less. Ipswich State Bank originated 95.0 percent of its small farm loans, by number, to operations with gross annual revenues of \$1 million or less. This number compares reasonably with the 92.8 percent of farms in this revenue category reported by D&B for 2019.

### **Response to Complaints**

The institution has not received any CRA-related complaints since the previous evaluation; therefore, this 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 inconsistent with helping meet community credit needs.

## APPENDICES

### SMALL INSTITUTION 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.

**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.

**Multifamily:** 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.