

PUBLIC DISCLOSURE

February 2, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Citizens State Bank of Hayfield
Certificate Number: 10957

216 1st Avenue Northeast
Hayfield, Minnesota 55940

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	3
SCOPE OF EVALUATION.....	4
CONCLUSIONS ON PERFORMANCE CRITERIA	5
DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW.....	7
APPENDICES	8
SMALL BANK PERFORMANCE CRITERIA	8
GLOSSARY	9

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.

Citizens State Bank of Hayfield's (Citizens State Bank) satisfactory Community Reinvestment Act (CRA) performance under the applicable performance criteria supports the overall rating. The following points summarize the bank's performance.

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- A majority of the small farm and small business loans reviewed were located inside the assessment area.
- The assessment area does not include any low- or moderate-income geographies, and a review of the Geographic Distribution criterion would not result in a meaningful conclusion. Therefore, this criterion was not evaluated.
- The distribution of borrowers reflects reasonable penetration 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.

DESCRIPTION OF INSTITUTION

Citizens State Bank is chartered in Hayfield, Minnesota. The institution continues to be controlled by Country Bankers, Inc., Blooming Prairie, Minnesota, a two-bank holding company that also owns Farmers and Merchants State Bank of Blooming Prairie, Blooming Prairie, Minnesota. Examiners did not consider affiliate lending as part of this evaluation. Since the previous CRA evaluation, the bank did not open or close any branches, and no merger or acquisition activities have occurred. The institution received a Satisfactory rating at its previous FDIC Performance Evaluation dated March 30, 2015, which was based on Interagency Small Institution Examination Procedures.

Citizens State Bank operates three full-service offices in Hayfield, Dodge Center, and Mantorville, Minnesota. The bank offers various loan products including agricultural, commercial, residential real estate, and consumer loans. Agricultural lending is the bank’s primary business focus followed by commercial lending. The bank also offers loans through the Farm Service Agency and Small Business Administration (SBA). The bank participated in the Paycheck Protection Program, administered by the SBA, by originating 145 loans totaling \$5.2 million from April 13, 2020, to August 5, 2020.

The institution provides a variety of deposit services including checking, savings, money market, individual retirement accounts, health savings accounts, and certificates of deposit. In addition to traditional banking services, customers have access to ATMs; online banking, including electronic bill pay and periodic statements; telephone banking; and mobile banking, including mobile deposit.

As of September 30, 2020, assets totaled approximately \$122,197,000, loans totaled \$75,014,000, and deposits totaled \$112,020,000.

Loan Portfolio Distribution as of September 30, 2020		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	3,907	5.2
Secured by Farmland	13,475	18.0
Secured by 1-4 Family Residential Properties	12,261	16.3
Secured by Multi-family (5 or more) Residential	1,610	2.1
Secured by Nonfarm Nonresidential Properties	9,230	12.3
Total Real Estate Loans	40,483	53.9
Commercial and Industrial Loans	18,094	24.1
Agricultural Production and Other Loans to Farmers	12,881	17.2
Consumer Loans	3,165	4.2
Obligations of State and Political Subdivisions in the U.S.	347	0.5
Other Loans	44	0.1
Total Loans	75,014	100.0
<i>Source: Reports of Condition and Income</i>		
<i>Due to rounding, totals may not equal 100.0%</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 CRA performance will be evaluated. Citizens State Bank designated a single assessment area located in southeastern Minnesota, which has not changed since the previous performance evaluation. The assessment area includes all census tracts in Dodge County, census tract 22 in Olmsted County, and census tract 12 in Mower County. Dodge and Olmsted counties are part of the Rochester, Minnesota Metropolitan Statistical Area (MSA) while Mower County is part of the nonmetropolitan area of Minnesota.

Economic and Demographic Data

According to 2015 American Community Survey (ACS) data, the assessment area is comprised of six middle-income census tracts and one upper-income census tract. 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)	7	0.0	0.0	85.7	14.3	0.0
Population by Geography	26,157	0.0	0.0	82.4	17.6	0.0
Housing Units by Geography	10,416	0.0	0.0	84.1	15.9	0.0
Owner-Occupied Units by Geography	8,281	0.0	0.0	82.3	17.7	0.0
Occupied Rental Units by Geography	1,549	0.0	0.0	88.7	11.3	0.0
Vacant Units by Geography	586	0.0	0.0	96.9	3.1	0.0
Businesses by Geography	2,084	0.0	0.0	83.6	16.4	0.0
Farms by Geography	332	0.0	0.0	84.0	16.0	0.0
Family Distribution by Income Level	7,338	16.5	19.1	26.6	37.7	0.0
Household Distribution by Income Level	9,830	18.6	15.7	20.8	44.9	0.0
Median Family Income MSA - 40340 Rochester, MN MSA		\$81,036	Median Housing Value			\$177,018
Median Family Income Nonmetropolitan MN		\$63,045	Median Gross Rent			\$677
			Families Below Poverty Level			4.0%

*Source: 2015 ACS and 2020 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.*

According to 2020 D&B data, service industries represent the largest portion of farm and business operations at 29.2 percent; followed by non-classifiable establishments at 14.5 percent; and agriculture, forestry, and fishing at 13.7 percent. Additionally, 71.2 percent of assessment area farms and businesses have 4 or fewer employees, and 93.4 percent operate from a single location.

Competition

The assessment area operates in a moderately competitive market for credit products and financial services. According to Consolidated Report of Condition and Income (Report of Condition) data filed by financial institutions, there were 6 financial institutions operating 8 locations within the assessment area. These institutions range from small community banks to larger regional financial institutions. Citizens State Bank is ranked 1st with 32.9 percent of the deposit market share.

Community Contact

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

For this evaluation, examiners reviewed a community contact conducted in early 2020 with a representative of an economic development entity that serves the assessment area. The contact stated that housing prices are more affordable than adjacent metropolitan areas such as Rochester, Minnesota. Many residents commute to Rochester or Owatonna, Minnesota for employment, with Mayo Clinic being the largest regional employer. The contact stated that there has been some small business development in the area, although not within retail given the accessibility to large retailers and online shopping. There has been more hobby farming present in southern Minnesota and some older farms are being purchased for event venue purposes.

According to the contact, commercial and residential financing, including small business loans, are most prevalent in the area and continue to be a credit need. The contact was not aware of any unmet credit needs within the community. Lastly, the contact specifically mentioned that Citizens State Bank has participated in local lending initiatives that promote business development.

Credit Needs

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that small farm, small business, and home mortgage lending represent the primary credit needs of the assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the previous evaluation dated March 30, 2015, to the current evaluation dated February 2, 2021. Examiners used Interagency Small Institution Examination Procedures to evaluate Citizens State Bank's CRA performance. These procedures focus on the bank's performance under the Lending Test as outlined in the Small Bank Performance Criteria Appendix.

Activities Reviewed

Examiners determined that the bank's major product lines include small farm and small business loans. This conclusion considered discussions with management regarding the bank's business strategy, review of bank records of the number and dollar volume of loans originated during the evaluation period, and a review of the bank's Report of Condition data. Small farm lending

received the most weight when deriving overall conclusions. This is consistent with the bank’s loan portfolio composition, management’s stated business focus, and volume of loans originated. Management stated, and examiners confirmed, that the increase in small business loans originated in 2020 stems from the bank’s participation in the SBA’s Paycheck Protection Program.

Discussions with bank management indicate that the bank’s lending focus in 2020 was generally consistent with the rest of the evaluation period. Therefore, examiners reviewed all small farm and small business loans originated or renewed in 2020. D&B data for 2020 provided a standard of comparison for the bank’s small farm and small business lending performance.

Examiners did not analyze the bank’s home mortgage lending activity because it was too limited to yield meaningful results or to provide material support for conclusions. Additionally, management indicated that home mortgage lending is not a focus of the institution and is primarily commercial-related.

For the Lending Test, examiners reviewed the entire universe of loans to evaluate the Assessment Area Concentration criterion. To evaluate the Borrower Profile criterion, examiners reviewed a sample of small farm and small business loans originated or renewed inside the assessment area. The following table provides information on the number and dollar volume of loans reviewed.

Loan Products Reviewed				
Loan Category	Universe		Reviewed	
	#	\$(000s)	#	\$(000s)
Small Farm	126	14,996	41	4,145
Small Business	321	19,935	55	2,278
<i>Source: 2020 Bank Records</i>				

While the number and dollar volume of loans are presented, examiners emphasized performance by number of loans because it is a better indicator of the number of farms and businesses served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Citizens State Bank demonstrated satisfactory performance under the Lending Test. The bank’s performance under all of the evaluated criteria supports this conclusion.

Loan-to-Deposit Ratio

The average net loan-to-deposit ratio is reasonable given the institution’s size, financial condition, and assessment area credit needs. The bank’s net loan-to-deposit ratio, calculated from Reports of Condition data, averaged 80.8 percent over the past 23 calendar quarters from March 31, 2015, to September 30, 2020. The ratio ranged from a high of 92.9 percent as of September 30, 2015, to a low of 66.2 percent as of September 30, 2020. The net loan-to-deposit ratio is comparable to similarly situated institutions, as illustrated in the following table. Examiners selected similarly situated institutions based on their asset size, geographic location, and lending focus.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 9/30/20 \$(000s)	Average Net Loan-to-Deposit Ratio (%)
Citizens State Bank of Hayfield Hayfield, Minnesota	122,197	80.8
First Farmers & Merchants Bank Brownsdale, Minnesota	87,187	83.0
First Security Bank Byron, Minnesota	78,411	75.7
First State Bank Minnesota Le Roy, Minnesota	80,789	73.6
United Farmers State Bank Adams, Minnesota	162,787	108.4
<i>Source: Reports of Condition 3/31/2015 through 9/30/2020</i>		

Assessment Area Concentration

Citizens State Bank originated a majority of small farm and small business loans within the assessment area. The following table illustrates the bank's performance.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total	Dollar Amount of Loans \$(000s)				
	Inside		Outside			Inside		Outside		Total
	#	%	#	%	#	\$	%	\$	%	\$(000s)
Small Farm	96	76.2	30	23.8	126	11,351	75.7	3,645	24.3	14,996
Small Business	218	67.9	103	32.1	321	10,745	53.9	9,190	46.1	19,935
<i>Source: 2020 Bank Records Due to rounding, totals may not equal 100.0%</i>										

Geographic Distribution

Citizens State Bank's 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 bank's lending performance demonstrates reasonable penetration among farms and businesses of different revenue sizes. The bank's reasonable small farm lending performance primarily supports this conclusion, with lesser consideration given to the bank's reasonable small business lending performance. Examiners focused on the percentage of lending to farms and businesses with gross annual revenues of \$1 million or less.

Small Farm Loans

The distribution of sampled small farm loans reflects reasonable lending penetration to farms with gross annual revenues of \$1 million or less. As shown in the following table, the bank's lending performance is comparable to demographic data in this revenue category.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	98.5	37	90.2	3,585	86.5
>1,000,000	0.3	4	9.8	560	13.5
Revenue Not Available	1.2	0	0.0	0	0.0
Total	100.0	41	100.0	4,145	100.0
<i>Source: 2020 D&B Data; 2020 Bank Records Due to rounding, totals may not equal 100.0%</i>					

Small Business Loans

The distribution of sampled small business loans reflects reasonable lending penetration to businesses with gross annual revenues of \$1 million or less. As shown in the following table, the bank's lending performance is similar to demographic data in this revenue category.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	88.4	50	90.9	1,735	76.2
>1,000,000	3.8	5	9.1	543	23.8
Revenue Not Available	7.8	0	0.0	0	0.0
Totals	100.0	55	100.0	2,278	100.0
<i>Source: 2020 D&B Data; 2020 Bank Records 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 criterion did not affect the rating.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

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.