

PUBLIC DISCLOSURE

April 12, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Peoples State Bank
Certificate Number: 13196

110 Main Street
Westhope, North Dakota 58793

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.

The bank's satisfactory Community Reinvestment Act (CRA) performance under the Lending Test supports the overall rating. The following points summarize the institution's performance:

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.
- The bank made a substantial majority of its small farm loans in the 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 has not received any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the rating.

DESCRIPTION OF INSTITUTION

Peoples State Bank is owned by Peoples State Holding Company, a one-bank holding company located in Westhope, North Dakota. Peoples State Bank received a Satisfactory rating at its previous FDIC Performance Evaluation, dated April 13, 2015, based on Interagency Small Institution Examination Procedures.

The bank operates its main office in Westhope and a limited service facility in Newburg, North Dakota. The bank offers a variety of loan products, including agricultural, commercial, and consumer loans, and the primary lending focus continues to be agricultural lending. In addition to conventional lending, Peoples State Bank participates in special loan programs through the Farm Service Agency, Bank of North Dakota, and Small Business Administration. These programs are typically designed to assist beginning farmers and small businesses that may not qualify for loans through conventional financing methods. Furthermore, the bank originated 249 loans totaling \$7.4 million through the Small Business Administration's Paycheck Protection Program, which assisted small businesses struggling with the impact of the Coronavirus pandemic. Peoples State Bank also provides a variety of traditional deposit services, including checking, savings, and certificates of deposit accounts. Finally, alternative banking services include telephone banking and two cash-dispensing ATMs in Westhope, one of which is new since the previous evaluation.

As of December 31, 2020, Peoples State Bank reported total assets of \$69.0 million, total loans of \$31.9 million, and total deposits of \$59.5 million; the table below illustrates the loan portfolio. Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet assessment area credit needs.

Loan Portfolio Distribution as of 12/31/2020		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	0	0.0
Secured by Farmland	11,484	36.0
Secured by 1-4 Family Residential Properties	75	0.2
Secured by Multifamily (5 or more) Residential Properties	0	0.0
Secured by Nonfarm Nonresidential Properties	658	2.1
Total Real Estate Loans	12,217	38.3
Commercial and Industrial Loans	1,378	4.3
Agricultural Production and Other Loans to Farmers	17,405	54.5
Consumer Loans	921	2.9
Obligations of State and Political Subdivisions in the U.S.	0	0.0
Other Loans	0	0.0
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	31,921	100.0
<i>Source: Reports of Condition and Income</i>		

DESCRIPTION OF ASSESSMENT AREA

Peoples State Bank has designated a single nonmetropolitan assessment area. The assessment area, which remains unchanged since the previous evaluation, is comprised of all of Bottineau County, located in north central North Dakota. According to 2015 American Community Survey (ACS) data, the assessment area consists of three middle-income census tracts.

Economic and Demographic Data

Bank management stated that the area’s economy is primarily dependent on the agricultural industry, followed by the oil industry. Overall, the economy has been relatively stable. Management noted that the agricultural economy is doing well and has improved in recent years due to government payments, good yields, and rebounding crop prices. The majority of farm operations are crop procedures; however, there are some livestock operations. Management stated that the livestock industry has been more challenging due to decreased prices and less government funding.

In addition to the agricultural sector, major area employers include oil service-related companies, local school districts, government entities, and healthcare facilities. Management indicated that most residents commute for employment, with a large number being employed by oil service businesses. The oil industry has been less stable with large swings in prices. Management said that oil-related businesses have experienced layoffs, but government payments helped curve the impact. They estimate that approximately 75 percent of employees are back to work. 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)	3	0.0	0.0	100.0	0.0	0.0
Population by Geography	6,634	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	4,342	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	2,257	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	778	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	1,307	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	788	0.0	0.0	100.0	0.0	0.0
Farms by Geography	158	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	1,867	21.3	16.9	23.2	38.6	0.0
Household Distribution by Income Level	3,035	26.4	16.3	16.4	40.8	0.0
Median Family Income Nonmetropolitan ND		\$72,414	Median Housing Value			\$130,354
			Median Gross Rent			\$611
			Families Below Poverty Level			4.4%

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.*

Competition

Peoples State Bank operates in a moderately competitive banking market. According to June 30, 2020 FDIC Summary of Deposit data, five FDIC-insured institutions operate six offices within the assessment area. Of these institutions, Peoples State Bank ranked third with 20.6 percent of the deposit market. In comparison, First National Bank and Trust Co. of Bottineau had the largest deposit market share at 47.9 percent. Furthermore, the bank also faces competition from non-bank lenders such as Farm Credit Services and agricultural implement dealers.

Community Contact

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

Examiners relied on a recently conducted interview with an individual familiar with the agricultural industry in the assessment area. The contact indicated that the economy is heavily reliant on the agricultural industry, which improved in 2020 due to farm operators receiving government funds, good yields, and increased commodity prices. In addition, the contact estimates that the average size of a farm is at least \$1 million based on gross annual revenues. The individual stated that the primary credit need in the area is agricultural lending, followed by commercial lending. Finally, the contact stated that local financial institutions are meeting the credit needs of the area.

Credit Needs

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that agricultural lending represents the primary credit need in the assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated April 13, 2015, to the current evaluation dated April 12, 2021. Examiners used the Interagency Small Institution Examination Procedures to evaluate the institution's CRA performance.

Activities Reviewed

Bank records and management indicated that the primary lending focus continues to be agricultural lending. Examiners noted an increase in the number of commercial loans originated in the most recent one year. Management attributed this to the significant number of loans originated through the Small Business Administration Paycheck Protection Program. Specifically, 129 small business loans totaling approximately \$3.6 million were originated, renewed, or extended in 2020. However, this is not representative of the bank's lending throughout the evaluation period, as only 28 of the small business loans were not made through the Paycheck Protection Program. Given this information and the small percentage of commercial loans that comprise the bank's portfolio, commercial lending is not considered a lending focus and small business loans were not analyzed. In addition, the bank discontinued originating home mortgage loans prior to the previous evaluation; therefore, home mortgage lending was not analyzed.

Examiners reviewed all small farm loans originated, renewed, or extended in 2020 for the Assessment Area Concentration criterion. Examiners used the bank’s loan download to determine that the universe for the one-year period was 110 small farm loans totaling \$17.6 million. For the Borrower Profile criterion, examiners selected a sample of 41 small farm loans totaling \$6.8 million originated, renewed, or extended within the assessment area in 2020, as revenue information was not readily available. D&B data for 2020 provided a standard of comparison for small farm lending. While both the 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

Peoples State Bank demonstrated reasonable 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 reasonable given the institution’s size, financial condition, and assessment area credit needs. As shown in the table below, Peoples State Bank net loan-to-deposit ratio averaged 58.0 percent over the past 23 calendar quarters. While the bank’s average net loan-to-deposit ratio is lower than comparable institutions, its lending is highly dependent on agricultural loan demand. Bank management noted that agricultural borrowers have benefited from more government subsidy payments and other programs in recent years, which has resulted in decreased loan demand. Furthermore, the bank’s average net loan-to-deposit ratio has increased since the prior evaluation, when it averaged 50.0 percent. Comparable institutions were selected based on their asset size, branching structure, geographic location, and lending focus.

Loan-to-Deposit (LTD) Ratio Comparison		
Bank	Total Assets as of 12/31/2020 (\$000s)	Average Net LTD Ratio (%)
Peoples State Bank, Westhope, North Dakota	68,964	58.0
First National Bank & Trust Co. of Bottineau, Bottineau, North Dakota	151,469	69.8
Rolette State Bank, Rolette, North Dakota	43,870	87.9
<i>Source: Reports of Condition and Income 06/30/2015 - 12/31/2020</i>		

Assessment Area Concentration

As detailed in the following table, Peoples State Bank originated a substantial majority of its small farm loans within the 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	98	89.1	12	10.9	110	16,654	94.7	929	5.3	17,583
<i>Source: Bank Data Due to rounding, totals may not equal 100.0%</i>										

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 small farm loans to farms with gross annual revenues of \$1 million or less.

Small Farm Loans

As illustrated in the table below, the distribution of borrowers reflects reasonable penetration among farms with gross annual revenues of \$1 million or less when compared to 2020 D&B data. The bank's performance is less than demographic data; however, D&B data is only a general indicator of the economy. D&B data is comprised of information obtained from survey responses and public records. The 2017 Census of Agriculture revealed that only 55.7 percent of producers report their primary occupation as farming and 53.7 percent of farm operations reported having interest expenses. This information indicates that many farms in the assessment area have off-farm income and may not need credit to finance farm operations. Furthermore, the community contact estimated that the average farm in the assessment area has gross annual revenues greater than \$1 million. Given these factors, the bank's performance is reasonable.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	99.4	33	80.5	4,675	69.2
>1,000,000	0.6	8	19.5	2,081	30.8
Revenue Not Available	0.0	0	0.0	0	0.0
Total	100.0	41	100.0	6,756	100.0
<i>Source: 2020 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%</i>					

Response to Complaints

The bank 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 institution'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.