

# **PUBLIC DISCLOSURE**

October 7, 2024

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

State Bank of Scotia  
Certificate Number: 14069

104 S Main Street  
Scotia, Nebraska 68875

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 .....	1
DESCRIPTION OF ASSESSMENT AREA.....	2
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.

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.
- The bank made a majority of its small farm and small business loans inside the assessment area.
- The assessment area does not contain any low- or moderate-income census tracts; therefore, examiners did not evaluate the geographic distribution of loans.
- The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes.
- The bank did not receive any complaints related to its Community Reinvestment Act (CRA) performance since the previous evaluation; therefore, this factor did not affect the rating.

## DESCRIPTION OF INSTITUTION

State Bank of Scotia is a community bank that operates from a single location in Scotia, Nebraska, primarily serving Valley and Greeley counties. The bank continues to be privately owned. The institution received a Satisfactory rating at its previous FDIC Performance Evaluation dated November 13, 2018, using Interagency Small Institution Examination Procedures.

The bank offers traditional credit products including agricultural, commercial, home mortgage, and consumer loans. The bank offers a variety of deposit products including checking, savings, individual retirement accounts, and certificates of deposit. Alternative banking services include internet and mobile banking, electronic bill pay, and remote deposit. The bank does not operate any automated teller machines. The bank did not open or close any branches, and no merger or acquisition activities occurred since the previous evaluation.

As of the June 30, 2024 Reports of Condition and Income (Call Report), the bank reported total assets of \$59.2 million, total loans of \$35.1 million, and total deposits of \$46.8 million. These figures represent a decrease in total loans and an increase in total assets and deposits since the previous CRA evaluation, where assets totaled \$42.8 million, loans totaled \$35.7 million, and deposits totaled \$31.9 million. As illustrated in the following table, the loan portfolio is primarily

composed of agricultural lending; followed by commercial lending, which is consistent with the loan portfolio distribution at the previous evaluation.

<b>Loan Portfolio Distribution as of 6/30/2024</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	0	0.0
Secured by Farmland	11,515	32.8
Secured by 1-4 Family Residential Properties	3,597	10.3
Secured by Multifamily (5 or more) Residential Properties	0	0.0
Secured by Nonfarm Nonresidential Properties	1,944	5.5
<b>Total Real Estate Loans</b>	<b>17,056</b>	<b>48.6</b>
Commercial and Industrial Loans	2,774	7.9
Agricultural Production and Other Loans to Farmers	13,882	39.6
Consumer Loans	1,362	3.9
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
<b>Total Loans</b>	<b>35,074</b>	<b>100.0</b>
<i>Source: Reports of Condition and Income 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 the assessment area 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. State Bank of Scotia designated one assessment area that includes Greeley and Valley counties located within the nonmetropolitan area of central Nebraska.

### **Economic and Demographic Data**

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 #
Geographies (Census Tracts)	3	0.0	0.0	100.0	0.0
Population by Geography	6,247	0.0	0.0	100.0	0.0
Housing Units by Geography	3,575	0.0	0.0	100.0	0.0
Owner-Occupied Units by Geography	2,269	0.0	0.0	100.0	0.0
Occupied Rental Units by Geography	620	0.0	0.0	100.0	0.0
Vacant Units by Geography	686	0.0	0.0	100.0	0.0
Businesses by Geography	971	0.0	0.0	100.0	0.0
Farms by Geography	293	0.0	0.0	100.0	0.0
Family Distribution by Income Level	1,896	19.7	19.5	23.5	37.3
Household Distribution by Income Level	2,889	24.4	19.9	16.9	38.8
Median Family Income – Nonmetropolitan Nebraska		\$71,424	Median Housing Value		\$96,904
Families Below Poverty Level		8.9%	Median Gross Rent		\$576
<i>Source: 2020 U.S. Census and 2023 D&amp;B Data Due to rounding, totals may not equal 100.0%</i>					

The assessment area supports a wide variety of industries. The three largest business segments in the assessment area are services (23.8 percent), agricultural (23.2 percent), and non-classifiable establishments (16.8 percent). Area businesses and farms are predominantly small operations, with 92.1 percent operating from a single location and 69.9 percent employing less than five employees, according to 2023 D&B data. According to the 2022 Census of Agriculture, the area produced \$402.1 million in commodity sales and local farms primarily raise cattle for livestock and grow corn for grain.

### **Competition**

Competition for financial services is moderate in the assessment area. According to 2024 FDIC Deposit Market Share data, 11 financial institutions operate 13 offices within the assessment area. Of these institutions, State Bank of Scotia ranked 2<sup>nd</sup> with 12.5 percent of the deposit market share.

### **Community Contacts**

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

Examiners contacted a representative of an economic development organization that serves the assessment area. The contact indicated that agriculture is the primary driver of the economy which is dependent on commodity prices and currently is experiencing a downfall. Other leading industries include small businesses, ethanol plants, co-ops, and the hospital. According to the contact, the primary credit need of the area is agricultural, with some need for affordable housing and small business loans. The contact stated that local banks were meeting area credit needs.

### **Credit Needs**

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that agricultural and commercial loans are the primary credit needs of the assessment area.

## SCOPE OF EVALUATION

### General Information

This evaluation covers the period from the prior evaluation dated November 13, 2018, to the current evaluation dated October 7, 2024. Examiners used Interagency Small Institution Examination Procedures, which includes the Lending Test, to evaluate the State Bank of Scotia's CRA performance. Refer to the Appendices for a description of the criteria used to evaluate the bank's performance under the Lending Test.

### Activities Reviewed

State Bank of Scotia's primary lending focus is agricultural and commercial lending; therefore, examiners reviewed small farm and small business loans to evaluate the bank's CRA performance. Examiners selected the loan products based on the bank's business strategy, assessment area credit needs, and the number and dollar volume of loans originated during the evaluation period. Examiners did not review home mortgage loans since residential and multifamily real estate lending do not represent a significant portion of the loan portfolio or the origination volume during the evaluation period. Further, bank management and records indicated that the lending focus and product mix remained consistent throughout the evaluation period.

Examiners reviewed the universe of small farm and small business loans originated or purchased in 2023 to assess the bank's performance under the Assessment Area Concentration criterion. This period was representative of the bank's lending activities during the entire evaluation period; therefore, examiners did not review additional years of data. For the Borrower Profile analysis, examiners reviewed a sample of small farm loans made in the assessment area, and the universe of small business loans originated inside the assessment area. D&B data for 2023 provided a standard of comparison for the reviews. The following table provides details on the loans reviewed.

Loan Products Reviewed				
Loan Type	Universe		Reviewed	
	#	\$(000s)	#	\$(000s)
Small Farm	87	8,190	35	3,112
Small Business	43	1,788	30	1,249
<i>Source: Bank Data</i>				

Examiners placed more weight on small farm lending performance when drawing overall conclusions due to higher lending volume and agricultural lending represents the largest portion of the loan portfolio. While examiners reviewed both the number and dollar volume of loans and presented both figures throughout the evaluation, they emphasized performance by the number of loans because it is generally a better indicator of the number of farms and businesses served.

## CONCLUSIONS ON PERFORMANCE CRITERIA

### LENDING TEST

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

#### Loan-to-Deposit Ratio

State Bank of Scotia’s loan-to-deposit ratio is reasonable given the institution’s size, financial condition, and the credit needs of the assessment area. The bank’s net loan-to-deposit ratio, calculated from Call Report data, averaged 85.7 percent over the past 23 quarters from December 31, 2018, to June 30, 2024, and represents a decrease since the previous evaluation when it was calculated at 98.2 percent. The ratio ranged from a high of 112.9 percent as March 31, 2019, to a recent low of 67.4 percent as of March 31, 2024.

Examiners compared State Bank of Scotia’s average net loan-to-deposit ratio to three similarly situated financial institutions to evaluate the bank’s performance. These institutions were selected based on their asset size, geographic location, and lending focus. Although the bank has the highest net loan-to-deposit ratio, examiners considered the bank’s steadily declining trend over the evaluation period and the current net loan-to-deposit ratio of 72.8 percent; therefore, the bank’s performance is considered reasonable. The following table provides details.

<b>Loan-to-Deposit Ratio Comparison</b>		
<b>Bank</b>	<b>Total Assets as of 6/30/2024</b>	<b>Average Net Loan-to-Deposit Ratio</b>
	<b>\$(000s)</b>	<b>%</b>
<b>State Bank of Scotia, Scotia, Nebraska</b>	<b>59,163</b>	<b>85.7</b>
Bank of Clarks, Clarks, Nebraska	47,552	76.0
Custer Federal State Bank, Broken Bow, Nebraska	120,717	75.1
First National Bank in Ord, Ord, Nebraska	150,306	51.7

*Source: Reports of Condition and Income 12/31/2018 – 6/30/2024*

#### Assessment Area Concentration

The bank made a majority of its small farm and small business loans within its assessment area. The following table provides details.

<b>Lending Inside and Outside of the Assessment Area</b>										
<b>Loan Category</b>	<b>Number of Loans</b>				<b>Total</b>	<b>Dollar Amount of Loans</b>				<b>Total</b>
	<b>Inside</b>		<b>Outside</b>			<b>Inside</b>		<b>Outside</b>		
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>\$(000s)</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>	<b>\$(000s)</b>
Small Farm	47	54.0	40	46.0	87	4,223	51.6	3,967	48.4	8,190
Small Business	30	69.8	13	30.2	43	1,249	69.9	539	30.1	1,788

*Source: Bank Data  
Due to rounding, totals may not equal 100.0%*

### **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, as it would not result in meaningful conclusions.

### **Borrower Profile**

Overall, the distribution of borrowers reflects reasonable penetration among farms and businesses of different revenue sizes. Examiners focused on the percentage of loans to farms and businesses with gross annual revenues of \$1 million or less.

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

The distribution of borrowers reflects reasonable penetration among farms of different sizes. As illustrated in the following table, the percentage of sampled loans to farms with gross annual revenues of \$1 million or less is generally consistent with 2023 D&B data.

<b>Distribution of Small Farm Loans by Gross Annual Revenue Category</b>					
<b>Gross Revenue Level</b>	<b>% of Farms</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<=\$1,000,000	98.3	33	94.3	2,247	72.2
>\$1,000,000	1.4	2	5.7	865	27.8
Revenue Not Available	0.3	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>35</b>	<b>100.0</b>	<b>3,112</b>	<b>100.0</b>

*Source: 2023 D&B Data, Bank Data  
Due to rounding, totals may not equal 100.0%*

#### ***Small Business Loans***

The distribution of borrowers reflects reasonable penetration among businesses of different sizes. As illustrated in the following table, the percentage of small business loans to businesses with gross annual revenues of \$1 million or less is generally consistent with 2023 D&B data.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<=\$1,000,000	84.8	25	83.3	715	57.2
>\$1,000,000	3.6	4	13.3	454	36.3
Revenue Not Available	11.6	1	3.3	80	6.4
<b>Total</b>	<b>100.0</b>	<b>30</b>	<b>100.0</b>	<b>1,249</b>	<b>100.0</b>

*Source: 2023 D&B Data, Bank Data  
Due to rounding, totals may not equal 100.0%*

### **Response to Complaints**

The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test 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 evidence of discrimination 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.