

# **PUBLIC DISCLOSURE**

November 12, 2024

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Community State Bank  
Certificate Number: 17551

207 South Main Street  
Paton, Iowa 50217

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.

Community State Bank's satisfactory Community Reinvestment Act (CRA) performance under the Lending Test 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 substantial majority of small farm loans are inside the bank's assessment area.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment area.
- The distribution of borrowers reflects reasonable penetration among farms of different revenue 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

Community State Bank is a privately-owned agricultural bank operating from its sole office in Paton, Iowa. The bank received a rating of Satisfactory at the February 5, 2019, FDIC Performance Evaluation based on Interagency Small Institution Examination Procedures. There were no mergers or acquisitions, and no offices opened or closed since the prior evaluation.

Community State Bank offers various lending products and services, including agricultural, commercial, and consumer. The primary focus is on agricultural lending. Community State Bank also offers financing alternatives through the Farm Service Agency. The bank provides traditional deposit products, including checking, savings, money market accounts, individual retirement accounts, and certificates of deposit. Alternative banking services include online and mobile banking.

According to the June 30, 2024, Consolidated Reports of Condition and Income (Call Report), Community State Bank reported total assets of \$43.1 million, total loans of \$16.4 million, and total deposits of \$36.4 million. Loan portfolio concentrations have remained generally consistent over the review period. The following table illustrates the composition of the loan portfolio.

<b>Loan Portfolio Distribution as of 06/30/2024</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	0	0.0
Secured by Farmland	1,798	11.0
Secured by 1-4 Family Residential Properties	244	1.5
Secured by Multifamily (5 or more) Residential Properties	0	0.0
Secured by Nonfarm Nonresidential Properties	681	4.1
<b>Total Real Estate Loans</b>	<b>2,723</b>	<b>16.6</b>
Commercial and Industrial Loans	2,649	16.2
Agricultural Production and Other Loans to Farmers	9,135	55.8
Consumer Loans	1,860	11.4
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>16,367</b>	<b>100.0</b>
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that would limit the institution's ability to meet the credit needs of its assessment area.

## 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. Community State Bank has designated one assessment area comprised of census tracts 801-803 and 805 in Greene County, census tracts 201 and 207 in the northern half of Boone County, census tract 9605 in southwest Hamilton County; and census tracts 103 and 104 in southern Webster County. There were no changes in the assessment area boundaries since the previous evaluation. Greene, Hamilton, and Webster counties are in nonmetropolitan Iowa and Boone County is part of the Ames, Iowa Metropolitan Statistical Area (MSA). The bank’s sole office is in Greene County census tract 801.

### **Economic and Demographic Data**

According to the 2020 U.S. Census, the assessment area contains nine census tracts, of which one is moderate income and eight are middle income. This represents a change from the 2015 American Community Survey when the assessment area was comprised of eight middle- and one upper-income tracts. 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 % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	9	0.0	11.1	88.9	0.0	0.0
Population by Geography	23,556	0.0	7.4	92.6	0.0	0.0
Housing Units by Geography	11,751	0.0	7.2	92.8	0.0	0.0
Owner-Occupied Units by Geography	7,909	0.0	6.5	93.5	0.0	0.0
Occupied Rental Units by Geography	2,452	0.0	7.6	92.4	0.0	0.0
Vacant Units by Geography	1,390	0.0	10.1	89.9	0.0	0.0
Businesses by Geography	3,229	0.0	6.6	93.4	0.0	0.0
Farms by Geography	752	0.0	6.9	93.1	0.0	0.0
Family Distribution by Income Level	6,639	17.3	19.6	24.9	38.2	0.0
Household Distribution by Income Level	10,361	21.4	18.1	19.1	41.4	0.0
Median Family Income - Ames, Iowa MSA		\$90,464	Median Housing Value			\$123,375
Median Family Income - Nonmetropolitan Iowa		\$71,763	Median Gross Rent			\$656
			Families Below Poverty Level			6.0%

*Source: 2020 U.S. Census and 2023 D&B Data. (\*) The NA category consists of geographies that have not been assigned an income classification. Due to rounding, totals may not equal 100.0%*

According to 2020 U.S. Census data, service industries represent the largest portion of farm and business operations at 27.0 percent; followed by non-classifiable establishments at 19.0 percent; and agriculture, forestry, and fishing at 18.9 percent. Additionally, 70.6 percent of assessment area farms and businesses have less than five employees, and 93.3 percent operate from one location.

### **Competition**

The assessment area is moderately competitive regarding the market for financial services. According to the June 30, 2024, FDIC Deposit Market Share Report, 19 institutions operate from 40 offices within the counties that make up the assessment area. These institutions range from small community banks to larger financial institutions operating branch locations. Community State Bank ranked 17<sup>th</sup> with 1.3 percent of the deposit market share. The top three financial institutions comprise 36.2 percent of the deposit market share combined. Management said they face competition from Farm Credit Services and other banks and credit unions.

### **Community Contacts**

As part of the evaluation process, examiners contact third parties active in the bank's assessment area to assist in identifying credit needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit opportunities are available. Examiners conducted an interview with a farm specialist with extensive knowledge of the agricultural economic conditions within the assessment area.

The representative stated that farm lending is the primary credit need for the area and that the current agricultural economy is stable. Farmers have had high crop yields and high commodities prices which has limited financing needs. Additionally, farmers have been well-capitalized and hesitant to borrow money or make equipment purchases due to high interest rates and inflation over the past two years. However, loan requests have begun to increase for operating needs and expenses. Many farmers in the area have delayed retirement and continued to work because of increased health and advanced agricultural technologies. Younger farmers typically operate family farms, but often change or diversify the operation. Those without a farming background tend to struggle to enter the farming industry due to lack of access and capital. This deters many younger individuals from pursuing farming altogether. The contact believes that agricultural community development and credit needs are being met and did not mention any available opportunities for financial institutions in the area.

### **Credit Needs**

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that small farm lending is the primary credit need of the assessment area.

## **SCOPE OF EVALUATION**

### **General Information**

The evaluation covers the period from the prior evaluation dated February 5, 2019, to the current evaluation date. Examiners conducted a full-scope review using Small Institution Examination Procedures, which includes the Lending Test, to evaluate Community State Bank's CRA performance. The criteria for the Lending Test are outlined in the Appendices.

### **Activities Reviewed**

Examiners determined the bank's primary product line is small farm lending. This conclusion considered the bank's business strategy, the number and dollar volume of loans originated within the evaluation period, and review of Call Report data. Agricultural loans comprised the largest

portion of the loan portfolio representing 66.8 percent of total loans. Small business and home mortgage loans were not reviewed as these products are not a lending focus of the bank and represent small portions of the loan portfolio. Management stated that 2023 is representative of the bank’s performance during the evaluation period. As such, examiners reviewed small farm loans originated or renewed between January 1, 2023, and December 31, 2023.

Examiners reviewed the universe of 2023 small farm loans to evaluate the Assessment Area Concentration criterion. The universe included 71 small farm loans totaling \$9.2 million. For the Geographic Distribution criterion, examiners reviewed all small farm loans originated in 2023 within the bank’s assessment area. For the Borrower Profile criterion, examiners reviewed a sample of small farm loans located inside the assessment area. This review included 41 small farm loans totaling \$6.0 million.

The 2023 D&B data provided a standard of comparison for the bank’s small farm lending performance. While the number and dollar volume of loans are presented, examiners emphasized performance by the number of loans, which is a better indicator of the number of farms served.

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

### **LENDING TEST**

Community State Bank demonstrated reasonable performance under the Lending Test. The bank’s reasonable Loan-to-Deposit Ratio and Borrower Profile performance primarily supports this conclusion.

#### **Loan-to-Deposit Ratio**

Community State Bank’s loan-to-deposit ratio is reasonable, given the institution’s size, financial condition, and assessment area credit needs. The net loan-to-deposit ratio averaged 40.1 percent over the past 22 quarters from March 31, 2019, to June 30, 2024. The average net loan-to-deposit ratio was 39.9 percent at the previous CRA evaluation. The ratio ranged from a low of 25.4 percent on March 31, 2022, to a high of 51.9 percent on September 30, 2019. The bank’s lending performance was compared to that of four similarly-situated institutions operating near Community State Bank’s assessment area with similarities in lending focus, asset size, and demographic and economic conditions. The bank’s ratio is in line with the comparable banks’ ratios. See the following table.

<b>Loan-to-Deposit Ratio Comparison</b>		
<b>Bank</b>	<b>Total Assets as of 06/30/2024 \$(000s)</b>	<b>Average Net Loan-to- Deposit Ratio (%)</b>
<b>Community State Bank, Paton, Iowa</b>	<b>43,114</b>	<b>40.1</b>
Exchange State Bank, Adair, Iowa	35,106	55.1
The First National Bank of Manning, Manning, Iowa	80,210	56.2
State Bank of Schaller, Schaller, Iowa	41,023	34.1
Farmers State Bank, Yale, Iowa	66,291	55.4

*Source: Reports of Condition and Income 03/31/2019 through 06/30/2024*

**Assessment Area Concentration**

Community State Bank extended a substantial majority of small farm loans by number and dollar volume within its assessment area. See the following table for details.

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	67	94.4	4	5.6	71	8,798	95.8	385	4.2	9,183
<i>Source: Bank Data            Due to rounding, totals may not equal 100.0%</i>										

**Geographic Distribution**

Geographic distribution of loans reflects excellent dispersion throughout the assessment area. Examiners focused on the percentage of small farm loans, by number, in the moderate-income census tract.

The geographic distribution of small farm loans is excellent. The bank’s performance of lending in the moderate-income census tract exceeds 2023 D&B data. See the following table.

Geographic Distribution of Small Farm Loans					
Tract Income Level	% of Farms	#	%	\$(000s)	%
Moderate	6.9	19	28.4	2,487	28.3
Middle	93.1	48	71.6	6,311	71.7
<b>Totals</b>	<b>100.0</b>	<b>67</b>	<b>100.0</b>	<b>8,798</b>	<b>100.0</b>
<i>Source: 2023 D&amp;B Data; Bank Data.            Due to rounding, totals may not equal 100.0%</i>					

**Borrower Profile**

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

Community State Bank’s distribution of small farm loans reflects reasonable penetration among operations of different revenue sizes when considering other factors. As shown in the following table, the bank’s lending performance to farm operations with revenues of \$1 million or less is slightly lower than 2023 D&B data. The 2022 U.S. Census of Agriculture data for the counties that make up the assessment area shows 56.0 percent of farmers have a primary occupation outside of farming, 27.1 percent are hobby farms (earn \$2,500 or less/year), and 57.1 percent report having no interest expense. This data indicates that a significant proportion of operators have limited or no borrowing needs. Additionally, two of the four loans with revenue over \$1 million were made to the same borrower, which impacted the data. Management also indicated that several agricultural

customers have off-farm income and that there has been lower demand for agricultural loans due to strong crop yields.

<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	98.7	37	90.2	4,685	77.9
>\$1,000,000	0.9	4	9.8	1,330	22.1
Revenue Not Available	0.4	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>41</b>	<b>100.0</b>	<b>6,015</b>	<b>100.0</b>
<i>Source: 2023 D&amp;B Data; Bank Data.            Due to rounding, totals may not equal 100.0%</i>					

**Response to Complaints**

The institution has not received any CRA-related complaints since the prior 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 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.