

PUBLIC DISCLOSURE

June 4, 2024

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Farmers State Bank of Turton
Certificate Number: 6084

123 E Center St
Turton, South Dakota 57477

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Kansas City Regional Office

1100 Walnut St, 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 loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.
- The bank originated a majority of its small farm loans inside its assessment area.
- The geographic distribution criterion was not evaluated as the bank's assessment area is comprised solely of middle- and upper-income geographies. As a result, the analysis would not result in meaningful conclusions.
- The distribution of borrowers reflects reasonable penetration among farms of different sizes.
- The institution has not received any Community Reinvestment Act (CRA)-related complaints since the previous evaluation; therefore, this criterion did not affect the rating.

DESCRIPTION OF INSTITUTION

The Farmers State Bank of Turton is a community bank located in Turton, South Dakota, and is privately owned by several individual stockholders. The bank received a Satisfactory rating at its previous FDIC Performance Evaluation, dated August 6, 2018, based on Interagency Small Institution Examination Procedures.

The Farmers State Bank of Turton operates a full-service facility in northeastern South Dakota. The bank continues to offer traditional credit products including agricultural, commercial and consumer loans, with agricultural lending being its primary focus. The bank also offers government guaranteed loans through the Small Business Administration and Farm Service Agency. For instance, the bank originated Paycheck Protection Program loans, which assisted small businesses and farms struggling with the impact of the Coronavirus pandemic. The institution also offers basic deposit products including checking, savings, and certificate of deposit accounts. The bank provides its customers online and mobile banking options as alternative retail channels.

Assets totaled approximately \$35.6 million as of March 31, 2024, and included total loans of \$12.0 million. Total deposits equaled \$31.6 million as of the same date. The following table reflects the bank's loan portfolio composition.

Loan Portfolio Distribution as of 03/31/2024		
Loan Category	\$(000s)	%
Construction and Land Development	0	-
Secured by Farmland	4,899	40.8
Secured by 1-4 Family Residential Properties	0	-
Secured by Nonfarm Nonresidential Properties	13	0.1
Total Real Estate Loans	4,912	40.9
Commercial and Industrial Loans	1,891	15.7
Agricultural Loans	4,675	38.9
Obligations of States and Political Subdivisions in the United States	0	-
Consumer Loans	541	4.5
Other Loans	2	0.0
Total Loans	12,021	100.0
<i>Source: Reports of Condition and Income (Call Report)</i>		
<i>Due to rounding, totals may not equal 100%</i>		

The bank's legal lending limit could constrain the bank's ability to lend to some larger borrowers within the area. However, examiners did not identify any other impediments that affect the bank's ability to meet the assessment area's credit needs.

DESCRIPTION OF ASSESSMENT AREA

The Community Reinvestment Act requires each financial institution to define one or more assessment areas within which its performance will be evaluated. The bank designated a single assessment area in nonmetropolitan South Dakota in the northeastern portion of the state. The assessment area includes all of Clark and Spink counties. The institution's sole office is located in census tract 3 in Spink County.

Economic and Demographic Data

The following table provides select demographic characteristics for the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	4	0.0	0.0	100.0	0.0	0.0
Population by Geography	10,198	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	5,101	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	3,224	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	959	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	918	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	1,510	0.0	0.0	100.0	0.0	0.0
Farms by Geography	414	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	2,645	17.7	21.2	22.8	38.3	0.0
Household Distribution by Income Level	4,183	18.9	18.2	21.1	41.7	0.0
Median Family Income Non-MSAs - SD		\$73,083	Median Housing Value			\$100,781
			Median Gross Rent			\$634
			Families Below Poverty Level			5.4%

Source: 2020 U.S. Census and 2023 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.

The assessment area is mostly rural and dependent on agriculture and agriculture-related businesses. Corn and soybeans make up the primary crops in the area. Management noted that, as a whole, the agriculture economy has been relatively strong in the area, with good prices and above average yields. Due to government programs and strong agricultural years, management noted that many area farms are less reliant on agriculture lending and are able to operate more on a cash basis.

According to 2020 U.S. Census Data, the assessment area has a population of approximately 10,198 persons. The largest town in the assessment area is Redfield with a population of 6,361. D&B data from 2022 indicates the service industry represents the largest portion of employment in the area at 22.8 percent, followed by agriculture, forestry, and fishing at 21.5 percent. In addition, 95.0 percent of area businesses and farms have nine or fewer employees, and 92.0 percent operate from a single location.

Competition

The bank's assessment area is modestly competitive for financial services, given the relatively small population. According to the June 30, 2023 FDIC Deposit Market Share report, there are seven FDIC-insured financial institutions, with nine branches, operating within Clark and Spink counties. Of these institutions, The Farmers State Bank of Turton ranks sixth in deposit market share at 7.4 percent. According to management, the bank's primary competitors are non-banks. Specifically, there is significant competition from Farm Credit Services of America, as well as area implement dealers who finance farming equipment and machinery.

Community Contacts

As part of the evaluation process, examiners contact third parties active in the assessment area to help identify the credit and community development needs. This information helps determine whether local financial institutions are responsive to these needs. It also helps show what credit opportunities are available. For this evaluation, examiners used an existing community contact from an individual knowledgeable of the local economy in and around the bank's assessment area.

The contact noted there are many lending opportunities available for local institutions. Specifically, the contact noted many locals in the area face difficulties finding affordable housing, both for rent and for sale. Many of the entry-level houses in the area are older and need significant home improvements. Additionally, the contact stated that many new and small businesses in the area struggle to obtain financing as they lack the required cash and assets that most banks require. Having said that, the contact also noted that there are many area institutions involved in the community. The contact is not aware of any complaints or discriminatory actions by the local institutions.

Credit Needs

Considering information from the community contact, bank management, demographic, and economic data, examiners determined that small farm lending is the assessment area's primary credit need. This need comes in the form of agriculture-related operating lines, real estate, and machinery loans.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated August 6, 2018, to the current evaluation dated June 4, 2024. Examiners used Interagency Small Institution Examination Procedures to conduct the evaluation, which includes a Lending Test.

Activities Reviewed

Examiners determined the bank's major product to be agricultural lending. This conclusion considered the bank's business strategy and the number and dollar volume of loans originated during the evaluation period. Small business and home mortgage loans were not reviewed since they are not a primary product line for the institution and neither represents a significant portion of the loan portfolio.

As paid off loans were not available, examiners reviewed all small farm loans originated, renewed, or extended in the most recent 12 months for the Assessment Area Concentration analysis. This consisted of 47 farm loans totaling approximately \$7.0 million. The Borrower Profile analyses further evaluated the small farm loans originated, renewed, or extended within the bank's assessment area. D&B data for 2023 provided a standard for comparison. Examiners did not review the Geographic Distribution criterion for this evaluation as there are no low- or moderate-income geographies within the bank's assessment area. Examiners placed greater weight on the number of loans than the dollar volume of loans, as it is a better indicator of the small farms served.

Bank management indicated the most recent 12 months of lending represented traditional lending patterns for small farm loans.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

The Farmers State Bank of Turton demonstrated satisfactory performance under the Lending Test. Reasonable Loan-to-Deposit Ratio, Assessment Area Concentration, and Borrower Profile support this conclusion.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the institution’s size, financial condition, and credit needs of the assessment area. Since the prior CRA Evaluation, the ratio has ranged from a low of 31.1 percent to a high of 73.2 percent. The bank’s ratio has trend down since the last examination, as loan volume has declined at roughly the same rate as deposits have grown. According to management, the decline of its loan-to-deposit ratio is largely related to the strong agricultural economy in recent years that has allowed area farmers to build up cash reserves and be less dependent on financing their farming operations. Examiners selected comparable institutions based on asset size, branching structure, geographic location, and lending focus.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 03/31/2024 (\$000s)	Average Net Loan-to-Deposit Ratio (%)
The Farmers State Bank of Turton, Turton, SD	35,559	51.3
The First National Bank of Fredrick, Fredrick, SD	32,646	33.8
Ipswich State Bank, Ipswich, SD	66,851	52.6
<i>Source: Reports of Condition and Income 9/30/2018 – 03/31/2024</i>		

Assessment Area Concentration

As detailed in the table below, The Farmers State Bank of Turton made a majority of its small farm loans, by number and dollar volume, within its 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	36	76.6	11	23.4	47	5,052	72.3	1,938	27.7	6,990
<i>Source: Bank Data Due to rounding, totals may not equal 100.0%</i>										

Geographic Distribution

The assessment areas do 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 and businesses of different sizes. The Farmers State Bank of Turton’s reasonable small farm lending performances support this conclusion. Examiners primarily focused on the percentage of loans, by number, to farms with gross annual revenues of \$1 million or less.

Small Farm Lending

The distribution of borrowers reflects reasonable penetration among farms of different sizes. The following table indicates 77.8 percent of the small farm loans, by number, that were located in the assessment area have gross annual revenues of \$1 million or less. The bank is lagging D&B data for farms in the area; however, of the eight loans with gross annual revenues in excess of \$1million, five of the borrowers have come from two families with larger operations. As such, with regards to customers served, the bank is more closely aligned with the demographic data. Additionally, roughly 51.9 percent of area producers report a primary occupation other than farming and 53.4 percent of farms operate without any interest expense. Therefore, these producers likely would not need any credit financing. The following table provides details.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	96.9	28	77.8	3,393	67.2
>\$1,000,000	2.2	8	22.2	1,659	32.8
Revenue Not Available	1.0	0	0.0	0	0.0
Total	100.0	36	100.0	5,052	100.0

*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, examiners did not evaluate the bank’s record of responding to CRA-related complaints.

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.