

PUBLIC DISCLOSURE

November 4, 2024

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Adrian State Bank
Certificate Number: 8822

322 Maine Ave
Adrian, Minnesota 56110

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 following points summarize the institution's Community Reinvestment Act (CRA) performance:

- The loan-to-deposit ratio is reasonable given the institution'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-income geographies. As a result, the analysis would not result in meaningful conclusions.
- The distribution of borrowers reflects reasonable penetration among farms of different revenue 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

Adrian State Bank continues to operate from its sole office in Adrian, Minnesota. Adrian Building Corporation, Adrian, Minnesota, a one-bank holding company, owns 100 percent of the institution. The institution received a Satisfactory rating at its previous FDIC Performance Evaluation dated January 28, 2019, based on Interagency Small Institution Examination Procedures.

Adrian State 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 Farm Service Agency, Small Business Administration, and Minnesota Rural Finance Authority. For example, since the last evaluation, the bank originated 91 Paycheck Protection Program loans totaling approximately \$1.7 million, 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. Moreover, alternative banking services include one cash-dispensing ATM and internet and mobile banking .

As of June 30, 2024, Adrian State Bank reported total assets of \$56.6 million, total loans of \$40.0 million, and total deposits of \$45.5 million. The following table illustrates the bank’s loan portfolio.

Loan Portfolio Distribution as of 6/30/2024		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	343	0.9
Secured by Farmland	17,409	43.5
Secured by 1-4 Family Residential Properties	1,570	3.9
Secured by Multifamily (5 or more) Residential Properties	660	1.7
Secured by Nonfarm Nonresidential Properties	650	1.6
Total Real Estate Loans	20,632	51.6
Commercial and Industrial Loans	2,951	7.4
Agricultural Production and Other Loans to Farmers	15,593	39.0
Consumer Loans	807	2.0
Obligations of State and Political Subdivisions in the U.S.	0	0.0
Other Loans	3	< 0.1
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	39,986	100.0
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that affect the bank’s ability to meet 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 is evaluated. Adrian State Bank designated one contiguous nonmetropolitan assessment area in southwestern Minnesota. The assessment area consists of two census tracts that make up the western and southern portions of Nobles County. According to the 2020 U.S. Census, both census tracts are middle income. The bank’s assessment area remains unchanged since the prior evaluation.

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)	2	0.0	0.0	100.0	0.0	0.0
Population by Geography	5,409	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	2,479	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	1,826	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	355	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	298	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	538	0.0	0.0	100.0	0.0	0.0
Farms by Geography	195	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	1,487	17.9	22.7	23.7	35.7	0.0
Household Distribution by Income Level	2,181	22.3	16.1	20.4	41.1	0.0
Median Family Income Non-MSAs - MN		\$74,737	Median Housing Value			\$109,800
			Median Gross Rent			\$599
			Families Below Poverty Level			5.2%
<i>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.</i>						

The assessment area is mostly rural and dependent on agriculture and agriculture-related businesses, which is supported by 2023 D&B data that indicates agriculture, forestry, and fishing represent the largest portion of employment in the area at 26.6 percent. Corn and soybeans make up the primary crops in the area. Management noted that, as a whole, the agricultural economy has been strong in the area with average crop production and strong livestock prices. Additionally, management stated that there are very few beginning farmers in the area due to start-up costs. As such, the size of farms continues to increase in order to be a viable operation.

Competition

Adrian State Bank operates in a moderately competitive banking environment, which includes branches of large national banks as well as community banks. Per the FDIC Deposit Market Share data as of June 30, 2024, 10 financial institutions operate 13 offices in Nobles County, Minnesota. Of these institutions, Adrian State Bank ranked seventh with a deposit market share of 6.1 percent. However, many of its competitors operate in the population center of Worthington, Minnesota, which is outside of the bank's assessment area.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit needs of the area. This information helps determine what credit opportunities are available and whether local financial institutions are responsive to credit needs. For this evaluation, examiners relied on an existing interview that was conducted with an individual familiar with the small businesses in southwestern Minnesota. The contact acknowledged that agriculture is the area's largest industry; however, there is still a need for business lending. Given the higher interest rate environment, the contact noted there is a need for microloans in the area as well as some alternate financing opportunities for businesses that may be otherwise too high risk. The contact stated there are many local lenders in the communities his organization serves, and all seem open to serving the community. As a result, there is a fair amount of competition amongst area institutions. The contact is not aware of any discriminatory practices by local financial 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 January 28, 2019, to the current evaluation dated November 4, 2024. Examiners used Interagency Small Institution Examination Procedures to conduct the evaluation, which includes a Lending Test. Refer to the Appendices for the description of the test.

Activities Reviewed

The bank's primary lending focus is agricultural loans. This conclusion considered the bank's business strategy, volume of loans originated during the evaluation period, and data from Reports of Condition of Income. Commercial 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. Bank records indicate that the lending focus and product mix remained consistent throughout the evaluation period, and management confirmed 2023 lending represented traditional lending patterns for small farms loans. Therefore, examiners reviewed all small farm loans originated, renewed, or extended in 2023 (including those that were originated, renewed, or extended and subsequently paid off in 2023) for the Assessment Area Concentration criterion.

This consisted of 127 small farm loans totaling approximately \$18.4 million. For the Borrower Profile criterion, examiners reviewed a random sample of small farm loans originated, renewed, or extended in 2023 that were located within the bank’s assessment area as revenue information was not readily available to evaluate the entire universe. Specifically, examiners reviewed 47 small farm loans totaling \$7.5 million. D&B data for 2023 provided a standard for comparison for small farm lending. 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. While both the number and dollar volume of loans are presented, examiner placed greater weight on the number of loans rather than the dollar volume of loans, as it is a better indicator of the farms served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Adrian State Bank demonstrated satisfactory performance under the Lending Test. The bank’s combined performance in all applicable criteria supports this conclusion.

Loan-to-Deposit Ratio

Adrian State Bank’s net loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and assessment area credit needs. This ratio, calculated from Reports of Condition and Income data, averaged 78.5 percent over the past 22 calendar quarters, which is generally in line with comparable institutions. The bank’s net loan-to-deposit ratio ranged from 96.7 percent to 64.3 percent during the evaluation period. The noted low point occurred during the Covid-19 Pandemic and has trended upwards since early 2022. The bank’s average net-loan-to-deposit ratio increased slightly from the previous evaluation at which time it was 75.7 percent, despite net loans decreasing by 2.3 percent since the last evaluation and total assets and total deposits increasing by 15.7 and 3.1 percent, respectively. 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 6/31/2024 (\$000s)	Average Net Loan-To-Deposit Ratio (%)
Adrian State Bank, Adrian, MN	56,613	78.5
State Bank of Chandler, Chandler, MN	64,530	77.3
Currie State Bank, Currie, MN	96,130	103.4
<i>Source: Reports of Condition and Income 3/31/2019 – 6/30/2024</i>		

Assessment Area Concentration

As detailed in the table below, Adrian State Bank 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				Total \$
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Farm	103	81.1	24	18.9	127	15,009	81.6	3,383	18.4	18,392
<i>Source: Bank Data</i> <i>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. Adrian State Bank’s reasonable small farm lending performance supports 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 when compared to D&B data. The bank is lagging D&B data for farms in the area; however, of the 29 loans in the sample reflecting gross annual revenues greater than \$1 million, 22 of the loans come from two families with larger operations, which significantly skews the data. As such, when considering the number of customers served as opposed to loans originated, 66.7 percent are to borrowers with gross annual revenues of \$1 million or less, which more closely aligns with D&B data. In addition, according to the 2022 Census of Agriculture, 52.1 percent of area producers listed their primary occupation as “Other” rather than farming. This same data also revealed that 47.1 percent of farms in the assessment area did not report interest expenses related to their operations. This is an indicator that many farms in the assessment area may have off-farm income and may not need credit to finance farm operations. Finally, the bank is not required to collect or report its small farm loan data and has not elected to do so; however, aggregate data can be used to provide context about the size of farms in which other banks are able to lend. According to 2022 aggregate data (most recent year available), 56.9 percent of small farm loans were to farms with gross annual revenues of \$1 million or less, leaving 43.1 percent of small farm loans to farms with gross annual revenues greater than \$1 million. The following table provides details.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	97.4	18	38.3	1,994	26.4
>\$1,000,000	1.0	29	61.7	5,548	73.6
Revenue Not Available	1.5	0	0.0	0	0.0
Total	100.0	47	100.0	7,542	100.0
<i>Source: 2023 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%</i>					

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.