

PUBLIC DISCLOSURE

November 5, 2024

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers State Bank of Hoffman
Certificate Number: 9354

103 W Main Ave
Hoffman, Minnesota 56339

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 bank'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 institution made a substantial majority of its small farm and small business loans within its assessment area.
- The assessment area does not include any low- and moderate-income geographies, and a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.
- The distribution of borrowers reflects reasonable penetration among farms and businesses different sizes.
- The institution has not received any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the rating.

DESCRIPTION OF INSTITUTION

Farmers State Bank of Hoffman is wholly owned by Hoffman Bancshares, Inc., a one-bank holding company located in Hoffman, Minnesota, and operates from its sole office in Hoffman. The institution received a Satisfactory rating at the previous FDIC Performance Evaluation, dated October 23, 2018, based on Interagency Small Institution Examination Procedures.

Farmers State Bank of Hoffman offers a variety of credit products, including agricultural, commercial, home mortgage, and consumer loans. Agricultural lending continues to represent the institution's primary lending focus, followed by commercial lending. In addition, the bank participates in various government-sponsored loan programs, as well as refers home mortgage loans to another institution. For instance, the bank originated loans through the Small Business Administration's Paycheck Protection Program, which assisted small farms and businesses struggling with the impact of the Coronavirus pandemic. Farmers State Bank of Hoffman also provides a variety of deposit products, including checking, savings, and certificates of deposit accounts. Alternative banking services include internet and mobile banking, mobile check deposit, and electronic periodic statements.

As of June 30, 2024, Farmers State Bank of Hoffman reported total assets of \$33.2 million, total loans of \$14.6 million, and total deposits of \$30.3 million; the following table depicts the loan portfolio. Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet the assessment area's credit needs.

| Loan Portfolio Distribution as of 6/30/2024 | | |
|---|-----------------|--------------|
| Loan Category | \$(000s) | % |
| Construction, Land Development, and Other Land Loans | 45 | 0.3 |
| Secured by Farmland | 4,768 | 32.6 |
| Secured by 1-4 Family Residential Properties | 3,596 | 24.5 |
| Secured by Multifamily (5 or more) Residential Properties | 0 | 0.0 |
| Secured by Nonfarm Nonresidential Properties | 653 | 4.5 |
| Total Real Estate Loans | 9,062 | 61.9 |
| Commercial and Industrial Loans | 893 | 6.1 |
| Agricultural Production and Other Loans to Farmers | 3,464 | 23.6 |
| Consumer Loans | 1,224 | 8.4 |
| 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 |
| Total Loans | 14,643 | 100.0 |
| <i>Source: Reports of Condition and Income</i> | | |

DESCRIPTION OF ASSESSMENT AREA

Farmers State Bank of Hoffman has designated a single assessment area that consists of the census tract comprising southern Grant County, the census tract comprising eastern Douglas County, and the census tract comprising northern Stevens County in Minnesota. The assessment area boundaries remain unchanged since the prior evaluation. Per 2020 U.S. Census data, the three census tracts comprising the assessment area are considered middle income.

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 # | NA* % of # |
| Geographies (Census Tracts) | 3 | 0.0 | 0.0 | 100.0 | 0.0 | 0.0 |
| Population by Geography | 8,863 | 0.0 | 0.0 | 100.0 | 0.0 | 0.0 |
| Housing Units by Geography | 5,118 | 0.0 | 0.0 | 100.0 | 0.0 | 0.0 |
| Owner-Occupied Units by Geography | 3,338 | 0.0 | 0.0 | 100.0 | 0.0 | 0.0 |
| Occupied Rental Units by Geography | 588 | 0.0 | 0.0 | 100.0 | 0.0 | 0.0 |
| Vacant Units by Geography | 1,192 | 0.0 | 0.0 | 100.0 | 0.0 | 0.0 |
| Businesses by Geography | 920 | 0.0 | 0.0 | 100.0 | 0.0 | 0.0 |
| Farms by Geography | 269 | 0.0 | 0.0 | 100.0 | 0.0 | 0.0 |
| Family Distribution by Income Level | 2,686 | 14.7 | 17.5 | 25.7 | 42.1 | 0.0 |
| Household Distribution by Income Level | 3,926 | 19.9 | 14.2 | 17.7 | 48.2 | 0.0 |
| Median Family Income Non-MSAs - MN | | \$74,737 | Median Housing Value | | | \$167,960 |
| | | | Median Gross Rent | | | \$598 |
| | | | Families Below Poverty Level | | | 3.7% |
| <i>Source: 2020 U.S. Census and 2023 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i> | | | | | | |

Competition

Farmers State Bank of Hoffman operates in a relatively competitive banking market. Per 2024 FDIC Deposit Market Share data, 21 financial institutions operate 32 offices within Douglas, Grant, and Stevens counties. Of these institutions, Farmers State Bank of Hoffman ranked 17th with 1.3 percent of the deposit market share.

Community Contact

Examiners reviewed a community contact previously conducted with an individual familiar with the assessment area's agricultural sector. The contact stated that declining commodity prices and high input costs are presenting challenges to area farm producers. The contact added that high interest rates have made it difficult for producers to afford new and/or maintain existing equipment. Per the contact, local businesses are struggling to hire and retain employees. The contact noted that many individuals work in agriculture or related industries. Lastly, the contact stated that local financial institutions are meeting the area's credit needs.

Credit Needs

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

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior CRA evaluation dated October 23, 2018, to the current evaluation dated November 5, 2024. Examiners used Interagency Small Institution Examination Procedures to evaluate Farmers State Bank of Hoffman's CRA performance.

Activities Reviewed

Bank records indicated that the lending focus and product mix remained relatively consistent throughout the evaluation period. The bank's primary lending focus is agricultural lending, followed by commercial lending. Therefore, examiners analyzed all 34 small farm loans totaling \$4.8 million and 11 small business loans totaling \$1.1 million that were originated, renewed, extended, or purchased in 2023 for the Assessment Area Concentration and Borrower Profile criteria. Bank management confirmed that the sample selected was representative of the bank's performance during the entire evaluation period. D&B data for 2023 provided a standard of comparison for the small farm and small business loans. Although both the number and dollar volume of loans are presented, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of farms and businesses served. Small farm lending received the most weight when assessing the bank's overall performance since agricultural lending is the bank's primary lending focus. While home mortgage loans comprise 24.5 percent of the loan portfolio, examiners did not review this product since the bank originated, renewed, extended, or purchased only six applicable loans in 2023.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Farmers State Bank of Hoffman demonstrated satisfactory performance under the Lending Test. The bank's combined performance in all criteria supports this conclusion.

Loan-to-Deposit Ratio

Farmers State Bank of Hoffman's loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. As shown in the following table, the bank's net loan-to-deposit ratio averaged 51.3 percent over the past 23 calendar quarters, which is similar to the ratios of comparable institutions. Examiners selected comparable institutions based on their asset size, branching structure, geographic location, and lending focus. While the bank's average net-loan-to-deposit ratio decreased slightly since the prior evaluation, bank management stated that this was largely due to the Coronavirus pandemic as government stimulus funds increased the bank's deposit base while simultaneously decreasing loan demand. Bank management also noted that the bank's legal lending limit impedes its opportunities for larger credits.

| Loan-to-Deposit (LTD) Ratio Comparison | | |
|---|--|----------------------------------|
| Bank | Total Assets as of 6/30/2024 (\$000s) | Average Net LTD Ratio (%) |
| Farmers State Bank of Hoffman, Hoffman, Minnesota | 33,222 | 51.3 |
| Farmers & Merchants State Bank of Appleton, Appleton, Minnesota | 64,340 | 81.1 |
| First Security Bank-Hendricks, Hendricks, Minnesota | 41,337 | 45.7 |
| St. Martin National Bank, Saint Martin, Minnesota | 29,087 | 49.7 |
| State Bank of Bellingham, Bellingham, Minnesota | 52,404 | 75.1 |
| <i>Source: Reports of Condition and Income 12/31/2018 – 6/30/2024</i> | | |

Assessment Area Concentration

Farmers State Bank of Hoffman made a substantial majority of its small farm and small business loans within its assessment area as detailed in the table below.

| 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 Business | 10 | 90.9 | 1 | 9.1 | 11 | 959 | 89.1 | 117 | 10.9 | 1,076 |
| Small Farm | 32 | 94.1 | 2 | 5.9 | 34 | 4,439 | 92.3 | 370 | 7.7 | 4,809 |
| <i>Source: Bank Data Due to rounding, totals may not equal 100.0%</i> | | | | | | | | | | |

Geographic Distribution

The assessment area does not include any low- and moderate-income geographies, and a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes, which is consistent with the bank’s small farm and small business lending performance. Examiners focused on the percentage of small farm and small business 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 when compared to D&B data, which is depicted in the following table. Although the bank’s performance is less than demographic data, the 2022 Census of Agriculture revealed that 60.0 percent of the producers in Douglas, Grant, and Stevens counties list their primary occupation as “Other” rather than farming. The 2022 Census of Agriculture also revealed that 60.3 percent of farms in these counties did not report interest expenses related to their operations. This information indicates that many farms in the assessment area have off-farm income and may not need credit to finance farm operations. Finally, the bank denied only one agricultural request in 2023.

| Distribution of Small Farm Loans by Gross Annual Revenue Category | | | | | |
|---|-------------------|-----------|--------------|-----------------|--------------|
| Gross Revenue Level | % of Farms | # | % | \$(000s) | % |
| <=\$1,000,000 | 100.0 | 26 | 81.3 | 2,614 | 58.9 |
| >\$1,000,000 | 0.0 | 6 | 18.8 | 1,825 | 41.1 |
| Revenue Not Available | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Total | 100.0 | 32 | 100.0 | 4,439 | 100.0 |
| <i>Source: 2023 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%</i> | | | | | |

Small Business Loans

The distribution of borrowers reflects reasonable penetration among businesses of different sizes when compared to D&B data, which is shown in the table below. Although its performance is less than demographic data, the bank’s legal lending limit inhibits its ability to finance larger commercial credits. Further, the three borrowers with gross annual revenues greater than \$1 million were barely over that threshold, and the bank did not deny any commercial requests in 2023. Finally, the bank is not required to collect or report its small business loan data and has not elected to do so; however, examiners compared its 2023 lending performance to 2022 aggregate data (most recent year available) since it demonstrates the level of demand for these loans. Per the aggregate data, 56.7 percent of small business loans were to businesses with gross annual revenues of \$1 million or less.

| Distribution of Small Business Loans by Gross Annual Revenue Category | | | | | |
|---|------------------------|-----------|--------------|-----------------|--------------|
| Gross Revenue Level | % of Businesses | # | % | \$(000s) | % |
| <=\$1,000,000 | 85.4 | 7 | 70.0 | 318 | 33.2 |
| >\$1,000,000 | 4.0 | 3 | 30.0 | 641 | 66.8 |
| Revenue Not Available | 10.5 | 0 | 0.0 | 0 | 0.0 |
| Total | 100.0 | 10 | 100.0 | 959 | 100.0 |
| <i>Source: 2023 D&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 previous evaluation; therefore, this criterion did not affect the 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 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.