

PUBLIC DISCLOSURE

May 7, 2025

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First State Bank
Certificate Number: 16177

215 N Division St
Stuart, Iowa 50250

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.

First State Bank's (FSB) satisfactory Community Reinvestment Act (CRA) performance under the Lending Test supports the rating. The following points summarize the bank's lending performance.

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and the assessment areas' credit needs.
- Overall, the institution made a substantial majority of its loans inside the assessment areas.
- The geographic distribution of loans reflects reasonable dispersion throughout the Guthrie-Dallas Assessment Area.
- The distribution of borrowers reflects reasonable penetration among farms and businesses of different revenue sizes and individuals of varying income levels.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

DESCRIPTION OF INSTITUTION

FSB is a family-owned institution headquartered in Stuart, Iowa. Through common ownership, FSB is affiliated with Earlham State Bank, Earlham, Iowa. FSB received a “Satisfactory” rating at its previous FDIC CRA Performance Evaluation dated July 23, 2019, based on Interagency Small Institution Examination Procedures.

In addition to its main office in Stuart, FSB operates two full-service branch locations in Dexter and Redfield, Iowa. The bank also runs one limited-service drive-up branch in Stuart. No offices have opened or closed since the previous evaluation, and no merger or acquisition activities have occurred.

FSB offers a variety of loan products including agricultural, commercial, home mortgage, construction, and consumer loans. Agricultural lending is the bank’s primary focus, followed by commercial and home mortgage lending. Special financing alternatives are also available through programs offered by the Small Business Administration and the United States Department of Agriculture’s Farm Service Agency and Rural Development. These programs assist small businesses, small farms, and other individuals that may not qualify for loans through conventional financing methods.

The bank provides a variety of deposit products that include checking, savings, and certificates of deposit. Alternative banking services include telebanking, internet and mobile banking, mobile deposit, bill pay, and person-to-person transfers. Full-service ATMs are located at each office location and a cash-dispensing ATM is located at the grocery store in Stuart, Iowa.

As of the December 31, 2024, Consolidated Reports of Condition and Income (Call Report), the institution reported total assets of \$121.1 million, total loans of \$61.8 million, total securities of \$16.4 million, and total deposits of \$107.0 million. Total assets increased 20.8 percent, total loans increased 7.4 percent, and total deposits increased 20.6 percent since the prior evaluation. Management attributed increases to natural growth in loan demand and inflation, the COVID-19 pandemic stimulus funds, and the Small Business Administration’s Paycheck Protection Program. The following table illustrates the composition of the loan portfolio.

Loan Portfolio Distribution as of 12/31/2024		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	1,620	2.6
Secured by Farmland	20,817	33.7
Secured by 1-4 Family Residential Properties	14,669	23.7
Secured by Multifamily (5 or more) Residential Properties	509	0.8
Secured by Nonfarm Nonresidential Properties	7,769	12.6
Total Real Estate Loans	45,384	73.4
Commercial and Industrial Loans	7,210	11.7
Agricultural Production and Other Loans to Farmers	6,068	9.8
Consumer Loans	2,986	4.8
Other Loans	176	0.3
Total Loans	61,824	100.0
<i>Source: Call Report</i>		

Examiners did not identify any financial, legal, or other impediments that affect the bank’s ability to meet the credit needs of its assessment areas.

DESCRIPTION OF ASSESSMENT AREAS

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. FSB has designated two contiguous assessment areas in central Iowa. The Guthrie-Dallas Assessment Area encompasses all of Dallas, Guthrie, and Madison Counties, which are in the Des Moines-West Des Moines, Iowa Metropolitan Statistical Area (MSA). The Adair Assessment Area encompasses all of Adair County, located within nonmetropolitan Iowa. There have been no changes in the geographic boundaries of the assessment areas since the prior evaluation. Refer to subsequent sections for detailed information on each assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated July 23, 2019, to the current evaluation dated May 7, 2025. Examiners used the Interagency Small Institution Examination Procedures to evaluate the institution’s CRA performance. These procedures include a Lending Test, which is further described in the Appendices.

Performance reviews considered the institution’s lending activities in relation to demographics and the credit needs of the assessment areas. To evaluate performance, examiners conducted full-scope reviews of the institution’s performance in both assessment areas. Examiners reviewed each assessment area’s total outstanding volume of deposits, outstanding and paid off loans in 2024, and branching structure to determine the appropriate scope and weighting.

In 2024, FSB originated 144 loans totaling \$11.6 million in the Adair Assessment Area and 246 loans totaling \$15.5 million in the Guthrie-Dallas Assessment Area. The Adair Assessment Area contains the bank’s limited-service branch in Stuart. The Guthrie-Dallas Assessment Area contains all three full-service branches, including the main location in Stuart, and the Dexter and Redfield

branches. However, the Stuart main location, which contains 88.0 percent of the bank's deposits, sits only two city blocks from the Adair County boundary. Given this information, the assessment areas received equal consideration when arriving at overall conclusions.

Activities Reviewed

Examiners determined FSB's major product lines are small farm, small business, and home mortgage loans. This conclusion was based on the bank's business strategy, bank records regarding the number and dollar volume of loans originated during the evaluation period, and review of Call Report data. Given the portfolio composition and the bank's primary lending focus, small farm lending received the greatest weight when drawing conclusions, followed equally by small business and home mortgage loans.

For the Lending Test, examiners considered all small business and small farm loans originated or renewed in 2024, and Home Mortgage Disclosure Act (HMDA) data collected and reported for 2023 and 2024. Management agreed that these timeframes are representative of lending activities throughout the review period. For the Assessment Area Concentration review, examiners evaluated lending performance based on all small business loans originated or renewed during 2024, as well as both years of HMDA data. This universe included 131 small farm loans totaling \$9.2 million, 85 small business loans totaling \$6.1 million, 44 home mortgage loans totaling \$4.7 million in 2023, and 26 home mortgage loans totaling \$3.6 million in 2024. For the Geographic Distribution criterion, examiners reviewed all loans made within the assessment area. For the Borrower Profile criterion, samples of 52 small farm loans totaling \$4.5 million and 49 small business loans totaling \$2.7 million that were originated within the assessment area were selected for review. The Adair Assessment Area had low small business loan volume, so the sample included all Adair County small business loans. Due to the lower volume, all home mortgage loans originated inside the assessment area were reviewed.

For small farm and small business conclusions, 2024 D&B data provided a standard of comparison. HMDA aggregate data for 2023 and 2020 United States Census data provided a standard of comparison for the home mortgage loans. Examiners primarily focused on lending performance compared to aggregate data for home mortgage lending since it is typically a better indicator of market conditions and loan demand. Home mortgage lending performance for 2024 was reviewed to ensure that performance was consistent with 2023. In general, examiners did not identify any significant trends between the two years of HMDA data that materially affected conclusions. Therefore, only 2023 HMDA data is presented for the Geographic Distribution and Borrower Profile criterion, as 2023 is the most recent year with available aggregate data. Examiners obtained the data necessary for this evaluation from loan data, customer loan files, and interviews with bank management. Examiners analyzed lending performance by both number and dollar volume of loans. However, examiners emphasized performance by number of loans when evaluating the Geographic Distribution and Borrower Profile criteria, as it is generally a better indicator of the number of businesses and individuals served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

FSB demonstrated satisfactory performance under the Lending Test. The bank’s collective performance under the Loan-to-Deposit Ratio, Assessment Area Concentration, Geographic Distribution, and Borrower Profile criteria primarily supports this conclusion.

Loan-to-Deposit Ratio

FSB’s loan-to-deposit ratio is reasonable, given the institution’s size, financial condition, and the assessment areas’ credit needs. The net loan-to-deposit ratio averaged 47.5 percent over the past 22 quarters, from September 30, 2019, to December 31, 2024. This represents a significant decrease since the prior evaluation, when the average was 61.5 percent. The ratio ranged from a low of 34.9 percent on March 31, 2022, to a high of 63.8 percent on September 30, 2019. From the date of the lowest ratio, the bank’s net loan-to-deposit ratio trended upward over the next 11 quarters to the most recent ratio of 57.1 percent. The bank’s average net loan-to-deposit ratio was compared to that of three similarly situated institutions operating in or near the FSB assessment areas with similarities in lending focus and asset size. The trend in FSB’s loan-to-deposit ratio over the review period was similar to the trends noted for most of the comparable banks. During the pandemic, deposit volume experienced a rapid increase caused by the pandemic stimulus and other pandemic related programs. Additionally, these programs decreased credit demand and reduced lending activity. See the following table for comparisons.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 12/31/2024 \$(000s)	Average Net Loan-to- Deposit Ratio (%)
First State Bank, Stuart, Iowa	121,066	47.5
Guthrie State Bank, Panora, Iowa	272,239	64.2
Earlham Savings Bank, West Des Moines, Iowa	362,313	53.4
Farmers State Bank, Yale, Iowa	66,957	54.5
<i>Source: Reports of Condition and Income 09/30/2019 through 12/31/2024</i>		

Assessment Area Concentration

Overall, the bank made a substantial majority of its small farm, small business, and home mortgage loans, by number and dollar amount, within its assessment areas. These results reflect management’s commitment to lend within the local communities. See the following table.

Lending Inside and Outside of the Assessment Area										
	Number of Loans					Dollar Amount of Loans \$(000s)				
Loan Category	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$	%	\$	%	\$(000s)
Small Farm	127	96.9	4	3.1	131	9,160	99.3	69	0.7	9,229
Small Business	70	82.4	15	17.6	85	4,492	73.6	1,615	26.4	6,107
Home Mortgage										
2023	39	88.6	5	11.4	44	4,358	92.2	371	7.8	4,729
2024	24	92.3	2	7.7	26	3,188	89.5	373	10.5	3,561
Subtotal	63	90.0	7	10.0	70	7,546	91.0	744	9.0	8,290
<i>Source: Bank Data</i>										
<i>Due to rounding, totals may not equal 100.0%</i>										

Geographic Distribution

The geographic distribution of loans reflects a reasonable dispersion throughout the Guthrie-Dallas Assessment Area. The Adair Assessment Area has no low- or moderate-income census tracts; therefore, this criterion was not evaluated for that assessment area. The review of this criterion focused on the institution’s record of lending in the low- and moderate-income geographies within the Guthrie-Dallas Assessment Area. Refer to the following sections for additional details.

Borrower Profile

The distribution of borrowers reflects overall reasonable penetration among businesses and farms of varying sizes and individuals of differing income levels. The bank’s reasonable lending performance in the Guthrie-Dallas and Adair Assessment Areas supports this conclusion. Examiners focused on the number of loans to businesses and farms with gross annual revenues of \$1 million or less, and on the number of loans to low- and moderate-income home mortgage borrowers. Refer to comments under each separately analyzed assessment area for a more specific analysis.

Response to Complaints

The institution has not received any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank’s compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any evidence of discriminatory or other illegal credit practices inconsistent with helping meet community credit needs.

GUTHRIE-DALLAS ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF THE INSTITUTION’S OPERATIONS IN THE GUTHRIE-DALLAS ASSESSMENT AREA

The Guthrie-Dallas Assessment Area consists of the entirety of Dallas, Guthrie, and Madison Counties in Iowa. The assessment area is located within the Des Moines-West Des Moines, Iowa MSA. FSB operates from three full-service offices in this assessment area.

Economic and Demographic Data

The assessment area had several changes in the number of census tracts and census tract income designations between the 2015 American Community Survey (ACS) used at the prior examination and the 2020 United States Census. In Dallas County 2 census tracts were removed and 6 census tracts were added. Additionally, 1 census tract changed from moderate to low income and 2 changed from middle to upper income. In Madison County, a census tract split from 1 middle-income census tract into 2 middle-income census tracts. In Guthrie County, a census tract changed from moderate to middle income. According to the 2020 United States Census data, the Guthrie-Dallas Assessment Area consists of 26 census tracts, including one low-, two moderate-, 13 middle-, and 10 upper-income census tracts. According to 2015 ACS data used at the prior evaluation, the Guthrie-Dallas Assessment Area consisted of 21 census tracts, including 4 moderate-, 11 middle-, and 6 upper-income census tracts. The following table illustrates the select demographic characteristics of the Guthrie-Dallas Assessment Area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	26	3.8	7.7	50.0	38.5	0.0
Population by Geography	126,849	2.6	7.8	37.8	51.8	0.0
Housing Units by Geography	50,689	2.9	9.0	42.3	45.7	0.0
Owner-Occupied Units by Geography	34,443	2.6	7.5	40.5	49.4	0.0
Occupied Rental Units by Geography	12,037	4.3	13.5	38.2	43.9	0.0
Vacant Units by Geography	4,209	2.1	8.2	69.0	20.6	0.0
Businesses by Geography	20,245	2.0	5.5	45.0	47.5	0.0
Farms by Geography	1,382	1.2	4.0	65.6	29.3	0.0
Family Distribution by Income Level	31,544	14.8	16.4	20.2	48.6	0.0
Household Distribution by Income Level	46,480	17.9	15.0	18.4	48.7	0.0
Median Family Income MSA - 19780 Des Moines-West Des Moines, Iowa MSA	\$89,538	Median Housing Value				\$237,713
		Median Gross Rent				\$1,002
		Families Below Poverty Level				3.5%

Source: 2020 U.S. Census and 2024 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.*

According to 2024 D&B data, services represent the largest business sector in the assessment area at 30.5 percent; followed by non-classifiable entities at 29.1 percent; and Finance, Insurance, and Real Estate at 12.7 percent. In addition, many farms and businesses in the assessment area are small, with 62.2 percent having less than five employees, and 95.4 percent operating from a single location.

The FFIEC-estimated median family income levels are used to analyze home mortgage loans under the Borrower Profile criterion. The 2023 median family income levels for the Des Moines-West Des Moines, Iowa MSA are presented in the following table.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Des Moines-West Des Moines, Iowa Metropolitan Statistical Area Median Family Income				
2023 (\$105,000)	<\$52,500	\$52,500 to <\$84,000	\$84,000 to <\$126,000	≥\$126,000
<i>Source: FFIEC</i>				

Competition

This assessment area is considered very competitive in the financial services market. The FDIC Deposit Market Share Report as of June 30, 2024, shows that there are 32 institutions operating from 57 locations within the assessment area. These institutions range from small community banks to larger regional institutions. Of these institutions, FSB ranked 14th with 3.4 percent of the deposit market share. In addition to banks, FSB experiences competition from credit unions and farm credit services.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in understanding economic conditions and identifying credit needs. This information helps to determine whether local financial institutions are responsive to community credit needs and provides context regarding available lending opportunities. Examiners conducted an interview with an individual from an economic research and education organization that serves Madison and Adair Counties in Iowa. While not repeated in the following sections of this evaluation, these comments also apply to the Adair Assessment Area.

The community contact stated that economic conditions in the area are strong. Agriculture is the number one focus in the area and has the greatest impact on the community. In 2023, agricultural conditions were extremely profitable due to high commodity prices and yields. This also left farmers cash heavy and showing limited borrowing need. Ownership changes in agriculture operations are occurring due to life events of older generation farmers and as larger operations organically absorb the small ones. Input costs and equipment prices are a barrier to beginning farmers.

With respect to the commercial industry, the contact stated that small businesses in the area are very profitable. New businesses have opened and there are fewer empty storefronts. However, small businesses are still struggling to find quality employees in the area and inflation has caused customers to have fewer discretionary dollars to spend. Concerning the housing market, the

representative stated that housing continues to be unaffordable. Low- and moderate-income individuals are struggling to afford traditional housing and becoming dependent on multi-family housing options. Higher interest rates have slowed borrowers a bit, but the area is still seeing higher demand than supply. Overall, the contact noted that credit needs are being met, and area financial institutions provide a variety of lending options to eligible applicants. There is a high degree of competition for all types of lending in the area, but especially for agricultural lending. However, there is also a high degree of loyalty and personal connection to locally owned banks where many borrowers continue to do business.

Credit Needs

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

CONCLUSIONS ON PERFORMANCE CRITERIA IN GUTHRIE-DALLAS ASSESSMENT AREA

LENDING TEST

FSB demonstrated reasonable performance under the Lending Test in the Guthrie-Dallas Assessment Area, as supported by reasonable Geographic Distribution and Borrower Profile performance.

Geographic Distribution

The institution's geographic distribution of loans reflects reasonable dispersion throughout the assessment area. The bank's reasonable performance in small farm, small business, and home mortgage lending supports this conclusion.

Small Farm Loans

The geographic distribution of small farm loans reflects reasonable dispersion. FSB did not originate any small farm loans in the low- and moderate-income census tracts. However, there is heavy competition for small farm loans within the low- and moderate-income census tracts in the assessment area. Many of the low- and moderate-income tracts are located directly in Perry and Winterset, which have limited opportunities for small farm lending as noted by the fact that only 5.2 percent of farms are located in these geographies. FSB's closest branches are the Dexter branch 24 miles from Winterset, and the Redfield branch 22 miles from Perry.

Geographic Distribution of Small Farm Loans					
Tract Income Level	% of Farms	#	%	\$(000s)	%
Low	1.2	0	0.0	0	0.0
Moderate	4.0	0	0.0	0	0.0
Middle	65.6	77	97.5	5,084	96.0
Upper	29.3	2	2.5	210	4.0
Totals	100.0	79	100.0	5,294	100.0
<i>Source: 2024 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%</i>					

Small Business Loans

The geographic distribution of small business loans reflects overall reasonable dispersion throughout the assessment area. As shown in the following table, FSB did not originate any small business loans in the low-income census tract, but the small business lending in the assessment area's moderate-income census tract is higher than demographic data. The small business lending is highly competitive in the assessment area and FSB does not have branches in Perry and Winterset where the low- and moderate-income tracts are located.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	2.0	0	0.0	0	0.0
Moderate	5.5	4	7.1	59	1.5
Middle	45.0	49	87.5	3,143	82.4
Upper	47.5	3	5.4	614	16.1
Totals	100.0	56	100.0	3,816	100.0
<i>Source: 2024 D&B Data; Bank Data Due to rounding, totals may not equal 100.0%</i>					

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects overall reasonable dispersion when considering other factors. The bank had no lending in the low- and moderate-income census tracts. However, the home mortgage market is highly competitive in the area, including in low- and moderate-income census tracts. FSB does not have branches in Perry and Winterset where the low- and moderate-income tracts are located. The Dexter branch is 24 miles from Winterset and the Redfield branch is 22 miles from Perry.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low	2.6	1.5	0	0.0	0	0.0
Moderate	7.5	6.0	0	0.0	0	0.0
Middle	40.5	31.1	27	100.0	2,924	100.0
Upper	49.4	61.5	0	0.0	0	0.0
Total	100.0	100.0	27	100.0	2,924	100.0

*Source: 2020 U.S. Census; Bank Data, 2023 HMDA Aggregate Data.
Due to rounding, totals may not equal 100.0%*

Borrower Profile

The distribution of borrowers reflects reasonable penetration among farms and businesses of different revenue sizes and individuals of different income levels. The bank’s reasonable performance in all products reviewed supports this conclusion.

Small Farm Loans

FSB’s distribution of borrowers reflects reasonable penetration among farms of different revenue sizes when considering additional factors. As shown in the following table, the bank’s lending performance to operations with revenues of \$1 million or less is lower than corresponding D&B data; however, the 2022 United States Census of Agriculture shows that 62.6 percent of assessment area farms list a primary occupation outside of farming and 34.2 percent are considered hobby farms that generate under \$2,500 in gross annual revenues. The same report shows that 60.0 percent of farms had no interest expense. This data demonstrates that a significant proportion of operators have limited or no borrowing needs. Further, the community contact and bank management indicated that recent agricultural conditions were profitable and left farmers cash heavy with limited borrowing needs.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	98.4	31	93.9	2,091	87.8
>\$1,000,000	0.8	2	6.1	290	12.2
Revenue Not Available	0.8	0	0.0	0	0.0
Total	100.0	33	100.0	2,381	100.0

*Source: 2024 D&B Data, Bank Data.
Due to rounding, totals may not equal 100.0%*

Small Business Loans

The distribution of small business loans to operations of various revenues is reasonable. As shown in the following table, FSB’s lending performance to businesses with revenues of \$1 million or less is similar to D&B data.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	93.1	35	92.1	1,732	76.3
>\$1,000,000	1.6	2	5.3	484	21.3
Revenue Not Available	5.3	1	2.6	53	2.3
Total	100.0	38	100.0	2,269	100.0

*Source: 2024 D&B Data, Bank Data.
Due to rounding, totals may not equal 100.0%*

Home Mortgage Loans

FSB’s lending performance to low- and moderate-income borrowers is excellent when considering other factors. As shown in the following table, the bank’s level of lending to low-income borrowers significantly exceeds the aggregate lending data. Further, the bank’s level of lending to moderate-income borrowers is consistent with aggregate lending data. The community contact stated that a housing shortage, especially for affordable housing, has impacted the area.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	14.8	6.3	9	33.3	411	14.1
Moderate	16.4	15.4	4	14.8	329	11.2
Middle	20.2	21.9	5	18.5	825	28.2
Upper	48.6	39.5	7	25.9	1,219	41.7
Not Available	0.0	16.9	2	7.4	140	4.8
Total	100.0	100.0	27	100.0	2,924	100.0

*Source: 2020 U.S. Census; Bank Data, 2023 HMDA Aggregate Data.
Due to rounding, totals may not equal 100.0%*

ADAIR ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF THE INSTITUTION’S OPERATIONS IN THE ADAIR ASSESSMENT AREA

The Adair Assessment Area consists of the entirety of Adair County in nonmetropolitan Iowa. FSB operates from one limited-service location in this assessment area. The bank’s main office is less than two city blocks from the Adair County boundary.

Economic and Demographic Data

According to 2020 United States Census data, the Adair Assessment Area consists of three middle-income census tracts. The assessment area had no changes in number of tracts or income designations of census tracts between the 2015 ACS data used at the prior examination and the 2020 United States Census. The entirety of Adair County was designated underserved (remote rural)

during the full review period. The following table illustrates the select demographic characteristics of the Adair 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	7,496	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	3,709	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	2,250	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	967	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	492	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	984	0.0	0.0	100.0	0.0	0.0
Farms by Geography	237	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	2,018	16.7	19.1	22.9	41.2	0.0
Household Distribution by Income Level	3,217	23.2	17.8	17.6	41.3	0.0
Median Family Income Non-Metropolitan Statistical Area - Iowa	\$71,763	Median Housing Value				\$110,219
		Median Gross Rent				\$594
		Families Below Poverty Level				6.7%

*Source: 2020 U.S. Census and 2024 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.*

According to 2024 D&B data, services represent the largest business sector in the assessment area at 26.0 percent; followed by non-classifiable entities at 22.7 percent; and agriculture, forestry, and fishing at 19.4 percent. In addition, many farms and businesses in the assessment area are small, with 65.5 percent having less than five employees, and 91.6 percent operating from a single location.

The FFIEC-estimated median family income levels are used to analyze home mortgage loans under the Borrower Profile criterion. The 2023 median family income levels for the nonmetropolitan areas of Iowa are presented in the following table.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Iowa Nonmetropolitan Median Family Income				
2023 (\$86,300)	<\$43,150	\$43,150 to <\$69,040	\$69,040 to <\$103,560	≥\$103,560

Source: FFIEC

Competition

The assessment area is considered moderately competitive in the market for financial services. The FDIC Deposit Market Share Report as of June 30, 2024, reflects five insured institutions operating from eight locations within the Adair Assessment Area. These institutions range from small

community banks to larger financial institutions operating branches in the area. FSB's drive-up branch has no market share in the area as there are no reported deposits from this location.

Community Contact

The community contact comments discussed previously in the Guthrie-Dallas Assessment Area also apply to the Adair Assessment Area. Please refer to prior comments noted in that section of this evaluation for additional details.

Credit Needs

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

CONCLUSIONS ON PERFORMANCE CRITERIA IN ADAIR ASSESSMENT AREA

LENDING TEST

FSB demonstrated reasonable performance under the Lending Test in the Adair Assessment Area, as supported by the reasonable Borrower Profile performance.

Geographic Distribution

The Adair 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 revenue sizes and individuals of different income levels. The bank's reasonable performance in small farm and small business lending supports this conclusion. While home mortgage lending performance is poor, it does not bring down the overall assessment of this criterion.

Small Farm Loans

FSB's distribution of borrowers reflects reasonable penetration among farms of different revenue sizes when considering additional factors. As shown in the following table, the bank's lending performance to operations with revenues of \$1 million or less is lower than corresponding D&B data; however, the 2022 United States Census of Agriculture shows that 51.6 percent of assessment area farms list a primary occupation outside of farming and 23.9 percent are considered hobby farms that generate under \$2,500 in gross annual revenues. The same report shows that 45.7 percent of farms had no interest expense. This data demonstrates that a significant proportion of operators have limited or no borrowing needs. Further, the community contact and bank management stated that high crop yields in recent years resulted in area farmers being cash heavily with less demand for credit.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	97.9	16	84.2	1,099	52.9
>\$1,000,000	0.4	3	15.8	980	47.1
Revenue Not Available	1.7	0	0.0	0	0.0
Total	100.0	19	100.0	2,079	100.0

*Source: 2024 D&B Data, Bank Data.
Due to rounding, totals may not equal 100.0%*

Small Business Loans

The distribution of small business loans to operations of various revenues is reasonable when considering other factors. As shown in the following table, FSB’s lending performance to businesses with revenues of \$1 million or less is lower than D&B data. However, the bank originated only 11 small business loans in Adair County. The small number of loans results in percentages that are easily impacted by one or two loans, which is represented in this case by the two loans that did not rely on income for the credit decision resulting in twice the percentage of revenue not available loans as demographic data. Taking these factors into consideration, the bank’s performance is reasonable.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	87.8	8	72.7	349	78.8
>\$1,000,000	2.9	1	9.1	50	11.3
Revenue Not Available	9.2	2	18.2	44	9.9
Total	100.0	11	100.0	443	100.0

*Source: 2024 D&B Data, Bank Data.
Due to rounding, totals may not equal 100.0%*

Home Mortgage Loans

FSB’s lending performance to low- and moderate-income borrowers is poor when considering other factors. As shown in the following table, the bank made no loans to low-income borrowers. Further, the level of lending to moderate-income borrowers is significantly lower than the corresponding aggregate data. The loan volume for the table is low, with a total of 12 loans, including three loans in the income not available category. In 2024, the bank made only four home mortgage loans in the assessment area including one to a low-income borrower. The community contact stated that there is a housing shortage, especially for affordable housing. A shortage of affordable housing impacts the ability of low- and moderate-income borrowers to be able to afford to purchase a home. Further, higher interest rates also impact housing affordability. Finally, 11.3 percent of families are below the poverty level, which indicates potential applicants may struggle saving for down payments, closing costs, and home maintenance expenses. While these factors provide some mitigation to the bank’s performance, aggregate data demonstrates a level of demand and ability still exists.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	16.7	11.1	0	0.0	0	0.0
Moderate	19.1	29.6	1	8.3	55	3.9
Middle	22.9	31.1	5	41.7	362	25.2
Upper	41.2	17.0	3	25.0	317	22.1
Not Available	0.0	11.1	3	25.0	700	48.8
2023	100.0	100.0	12	100.0	1,434	100.0
<i>Source: 2020 U.S. Census; Bank Data, 2023 HMDA Aggregate Data. Due to rounding, totals may not equal 100.0%</i>						

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 institution'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 institution 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.