

PUBLIC DISCLOSURE

January 13, 2025

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Citizens State Bank
Certificate Number: 18724

209 3rd Street
Carleton, Nebraska 68326

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.

The following points summarize the bank's performance.

- The loan-to-deposit (LTD) ratio is more than reasonable given the institution's size, financial condition, and assessment area credit needs.
- A majority of the small farm loans are in the assessment area.
- The assessment area does not contain any low- or moderate-income census tracts; therefore, examiners did not evaluate the geographic distribution of loans.
- The distribution of borrowers reflects reasonable penetration among farms of different sizes.
- The bank did not receive any complaints related to its Community Reinvestment Act (CRA) performance since the previous evaluation; therefore, this factor did not affect the rating.

DESCRIPTION OF INSTITUTION

Citizens State Bank (CSB) is a community bank that operates from a single location in Carleton, Nebraska, primarily serving Thayer County. Carleton Agency, Inc., a one-bank holding company, owns roughly 97.0 percent of the bank's common stock, with the remaining 3.0 percent owned privately. The institution received a Satisfactory rating at its previous FDIC Performance Evaluation dated April 1, 2019, using Interagency Small Institution Examination Procedures.

The bank offers traditional credit products including agricultural, commercial, and consumer loans. CSB no longer offers home mortgage loans but continues to service existing loans. The bank offers a variety of deposit products including checking, savings, money market deposit, health savings, individual retirement, and certificates of deposit accounts. Alternative banking services include internet and mobile banking, and the bank operates one ATM. The bank did not open or close any branches, and no merger or acquisition activities occurred since the previous evaluation.

As of the September 30, 2024 Reports of Condition and Income (Call Report), the bank reported total assets of \$33.3 million, total loans of \$28.2 million, and total deposits of \$24.4 million. These figures represent an increase since the previous CRA evaluation, where total assets, loans, and deposits were \$20.8, \$17.0, and \$16.3 million, respectively. As illustrated in the following table, the loan portfolio is primarily composed of agricultural lending; followed by commercial lending, which is consistent with the loan portfolio distribution at the previous evaluation.

Loan Portfolio Distribution as of 9/30/2024		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	0	0.0
Secured by Farmland	7,347	26.1
Secured by 1-4 Family Residential Properties	175	0.6
Secured by Multifamily (5 or more) Residential Properties	0	0.0
Secured by Nonfarm Nonresidential Properties	674	2.4
Total Real Estate Loans	8,196	29.1
Commercial and Industrial Loans	2,448	8.7
Agricultural Production and Other Loans to Farmers	16,020	56.9
Consumer Loans	1,490	5.3
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	28,154	100.0
<i>Source: Call Report. Due to rounding, totals may not equal 100.0%</i>		

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

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. CSB designated one assessment area that includes Thayer County located within the nonmetropolitan area of southeastern Nebraska.

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)	2	0.0	0.0	100.0	0.0	0.0
Population by Geography	5,034	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	2,757	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	1,710	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	537	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	510	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	742	0.0	0.0	100.0	0.0	0.0
Farms by Geography	198	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	1,410	19.9	21.3	24.5	34.3	0.0
Household Distribution by Income Level	2,247	22.4	17.1	21.9	38.6	0.0
Median Family Income Non-MSAs - NE		\$71,424	Median Housing Value			\$71,046
			Median Gross Rent			\$615
			Families Below Poverty Level			7.4%
<i>Source: 2020 U.S. Census and 2023 D&B Data; 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>						

According to 2023 D&B data, the assessment area supports a wide variety of industries. The three largest business segments in the assessment area are services (24.5 percent), agricultural (21.1 percent), and non-classifiable establishments (19.2 percent). Area businesses and farms are predominantly small operations, with 89.2 percent operating from a single location and 66.9 percent employing less than five employees. According to the 2022 Census of Agriculture, the area produced \$336.6 million in commodity sales, and local farms primarily grow corn for grain and raise cattle for livestock.

Competition

The competition for financial services is moderate in the assessment area. According to the June 30, 2024 FDIC Deposit Market Share data, six financial institutions operate nine offices within the assessment area. Of these institutions, CSB ranked 6th with 5.7 percent of the deposit market share.

Community Contacts

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying assessment area credit needs. This information helps determine whether local financial institutions are responsive to those needs and what credit opportunities are available.

Examiners reviewed a recent community contact interview with a representative from an economic development organization that serves the assessment area. The contact indicated that agriculture is the primary driver of the economy, which is dependent on commodity prices and is currently strong. Smaller communities in the area have some employment opportunities in education, healthcare, and manufacturing. According to the contact, the primary credit needs of the area are agriculture,

affordable housing, and small business. The contact stated that local banks were meeting area credit needs.

Credit Needs

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that agricultural loans are the primary credit need of the assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated April 1, 2019, to the current evaluation dated January 13, 2025. Examiners used Interagency Small Institution Examination Procedures, which includes the Lending Test, to evaluate CSB’s CRA performance. Refer to the Appendices for a description of the criteria used to evaluate the bank’s performance under the Lending Test.

Activities Reviewed

CSB’s primary lending focus is agricultural lending; therefore, examiners reviewed small farm loans to evaluate the bank’s CRA performance. Examiners selected the loan product based on the bank’s business strategy, assessment area credit needs, and the number and dollar volume of loans originated during the evaluation period. No other loan types represent a major product line; therefore, examiners did not select them for review. Further, bank management and records indicated that the lending focus and product mix remained consistent throughout the evaluation period.

Examiners reviewed the universe of small farm loans originated or purchased in 2023 to assess the bank’s performance under the Assessment Area Concentration criterion. This period was representative of the bank’s lending activities during the entire evaluation period; therefore, examiners did not review additional years of data. Examiners sampled small farm loans from inside the assessment area to evaluate the Borrower Profile criterion. The 2023 D&B data provided a standard of comparison for the bank’s lending performance. The following table provides details on the loans reviewed.

Loan Products Reviewed				
Loan Type	Universe		Reviewed	
	#	\$(000s)	#	\$(000s)
Small Farm	101	12,240	40	4,973
<i>Source: Bank Data</i>				

While examiners reviewed both the number and dollar volume of loans and presented both figures throughout the evaluation, they emphasized performance by the number of loans because it is generally a better indicator of the number of farms served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

CSB demonstrated satisfactory performance under the Lending Test. The bank’s collective performance under the evaluated criteria supports this conclusion.

Loan-to-Deposit Ratio

CSB’s LTD ratio is more than reasonable given the institution’s size, financial condition, and the credit needs of the assessment area. The bank’s net LTD ratio, calculated from Call Report data, averaged 99.7 percent over the past 22 quarters from June 30, 2019, to September 30, 2024. The ratio ranged from a high of 118.5 percent as of September 30, 2022, to a low of 79.4 percent as of March 31, 2021.

Examiners compared CSB’s average net LTD ratio to three similarly situated financial institutions to evaluate the bank’s performance. The institutions were selected based on their asset size, geographic location, and lending focus. As shown in the following table, CSB’s LTD ratio significantly exceeds all the similarly situated institutions.

Loan-to-Deposit (LTD) Ratio Comparison		
Bank	Total Assets as of 9/30/2024 (\$000s)	Average Net LTD Ratio (%)
Citizens State Bank, Carleton, Nebraska	33,308	99.7
Generations Bank, Exeter, Nebraska	53,599	77.4
Commercial Bank, Nelson, Nebraska	62,789	71.1
First Tri County Bank, Swanton, Nebraska	76,469	82.8
<i>Source: Reports of Condition and Income 6/30/2019 – 9/30/2024</i>		

Assessment Area Concentration

CSB originated a majority of its small farm loans within its assessment area. The following table provides details.

Lending Inside and Outside of the Assessment Area										
Loan Type	Number of Loans				Total	Dollars Amount of Loans \$(000s)				Total
	Inside		Outside			Inside		Outside		
	#	%	#	%	#	\$(000s)	%	\$(000s)	%	\$(000s)
Small Farm	68	67.3	33	32.7	101	8,635	70.5	3,605	29.5	12,240
<i>Source: Bank Data. Due to rounding, totals may not equal 100.0%</i>										

Geographic Distribution

The assessment area does not contain any low- or moderate-income census tracts. Therefore, examiners did not evaluate the geographic distribution of loans, as it would not result in a meaningful conclusion.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among farms of different revenue sizes. For this criterion, examiners focused on the percentage of loans to farms with gross annual revenues of \$1 million or less. As shown in the following table, the bank’s percentage of loans to farms with revenues of \$1 million or less lags D&B data. However, the 2022 Agricultural Census data reveals that only 45.1 percent of farms operating in the assessment area incur interest expense, and 45.3 percent of producers report a primary occupation other than farming. Considering these factors, the bank’s performance is reasonable.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	99.0	32	80.0	2,863	57.6
>\$1,000,000	0.5	8	20.0	2,110	42.4
Revenue Not Available	0.5	0	0.0	0	0.0
Total	100.0	40	100.0	4,973	100.0

Source: 2023 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%

Response to Complaints

The bank did not receive any CRA-related complaints since the previous evaluation; therefore, 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 evidence of discrimination 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.