

# **PUBLIC DISCLOSURE**

February 20, 2019

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First Security Bank – Sleepy Eye  
Certificate Number: 5252

100 East Main Street  
Sleepy Eye, Minnesota 56085

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 areas, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

First Security Bank - Sleepy Eye's satisfactory performance under the Lending Test supports the rating. Examiners did not identify any evidence of discriminatory or other illegal credit practices. The following summarize the bank's performance.

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment areas' credit needs.
- A majority of the small farm, small business, and home mortgage loans reviewed were located inside the assessment areas.
- The geographic distribution of loans reflects poor dispersion throughout the assessment areas.
- The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes, and individuals of different income levels.
- The institution did not receive any CRA-related complaints since the prior evaluation; therefore, this factor did not affect the rating.

## SCOPE OF EVALUATION

### **General Information**

This evaluation covers the period from the prior evaluation dated May 28, 2013, to the current evaluation dated February 20, 2019. Examiners used Interagency Small Institution Examination Procedures to evaluate First Security Bank - Sleepy Eye's CRA performance. The evaluation does not include any lending activity performed by affiliates.

The evaluation considered the institution's performance based on the following criteria:

- Loan-to-Deposit Ratio
- Assessment Area Concentration
- Geographic Distribution
- Borrower Profile
- Response to CRA-related Complaints

### **Loan Products and Assessment Areas Reviewed**

Examiners determined that the bank's major product lines are agricultural, commercial, and home mortgage loans. This conclusion considered the institution's business strategy, number and dollar volume of loans originated during the evaluation period, and a review of the bank's Consolidated Reports of Condition and Income (Reports of Condition). Bank records indicate that its lending focus and product mix remained consistent throughout the evaluation period.

Based on the above, examiners reviewed all small farm and small business loans originated or renewed between January 1, 2018, and December 31, 2018, to evaluate its CRA performance. This period was representative of the bank's performance during the entire evaluation period. Additionally, examiners reviewed all home mortgage loans originated or renewed in 2018. Examiners did not evaluate consumer loans since they are limited in volume and not a major product line.

When arriving at overall conclusions, small farm and small business lending received the greatest weight and home mortgage lending received the least weight. This is consistent with First Security Bank - Sleepy Eye's loan portfolio and the volume of loans recently originated. However, loan product weighting varied when evaluating individual assessment area performance, based on lending activity and credit needs of that particular assessment area. The following table provides loan universe and review information.

Loan Products Reviewed				
Loan Category	Universe		Reviewed	
	#	\$(000s)	#	\$(000s)
Small Farm	226	22,011	60	4,250
Small Business	153	13,602	60	5,714
Home Mortgage	19	1,299	19	1,299
Source: Bank records				

Examiners reviewed the entire universe of loans to evaluate the Assessment Area Concentration criterion (the number of loans originated or purchased within the assessment areas). Examiners then sampled small farm and small business loans from inside the assessment areas to evaluate the Geographic Distribution and the Borrower Profile criterion. D&B data for 2018 provided a standard of comparison for the small business and small farm loans reviewed. Examiners also reviewed all home mortgage loans from inside the assessment areas to help evaluate the Geographic Distribution and Borrower Profile criterion, using 2015 American Community Survey (ACS) data as a standard of comparison. However, due to the limited number of home mortgage loans originated inside the assessment areas in 2018, meaningful conclusions could not be made and were not presented when analyzing performance at the assessment area level.

Examiners reviewed both the number and dollar volume of loans to evaluate the bank's performance and presented both figures throughout the evaluation. Nonetheless, examiners emphasized performance by number of loans when conducting the Borrower Profile analysis since this figure is a better indicator of the bank's performance.

First Security Bank - Sleepy Eye maintains six assessment areas in nonmetropolitan Minnesota. The Benson, Detroit Lakes, and Sleepy Eye assessment areas were chosen for full scope review due to the greatest level of lending and deposits in these assessment areas. During the scope of the evaluation, examiners discovered that some of the institution's assessment areas have not been reviewed using full scope procedures for two or more evaluations. In order to ensure that such assessment areas are periodically evaluated, examiners randomly selected the Lamberton-Storden assessment area for full scope review as well. The Evansville and Renville assessment areas received limited scope reviews. The Description of Assessment Areas section provides additional information regarding each assessment area.

When arriving at overall conclusions, examiners placed greater weight to the bank's performance in the Benson and Sleepy Eye assessment areas due to lending activity and business focus. The following table provides detailed information on loans, deposits, and branches for each assessment area.

<b>Breakdown of Loans, Deposits, and Branches</b>						
<b>Assessment Area</b>	<b>Loans</b>		<b>Deposits</b>		<b>Branches</b>	
	<b>\$(000s)</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>	<b>#</b>	<b>%</b>
Benson	32,675	24.1	51,105	31.5	1	14.3
Detroit Lakes	37,052	27.4	23,203	14.3	1	14.3
Evansville	5,122	3.8	17,567	10.8	1	14.3
Lamberton-Storden	8,782	6.5	21,381	13.2	2	28.6
Renville	9,667	7.1	9,547	5.9	1	14.3
Sleepy Eye	42,016	31.1	39,231	24.2	1	14.3
<b>Total</b>	<b>135,314</b>	<b>100.0</b>	<b>162,034</b>	<b>100.0</b>	<b>7</b>	<b>100.0</b>
<i>Source: Bank Records</i> <i>Due to rounding, totals may not equal 100.0.</i>						

## **DESCRIPTION OF INSTITUTION**

### **Background**

First Security Bank - Sleepy Eye is owned by First Sleepy Eye Bancorporation, Inc., Sioux Falls, South Dakota, a two-bank holding company that also owns First Security Bank - Canby, Canby, Minnesota. The bank is part of the Lloyd Amundson Chain Banking Organization, which consists of four banks and two holding companies. Beulah Bancorporation, Inc., Sioux Falls, South Dakota is the other holding company in the chain banking organization and wholly owns First Security Bank - West, Beulah, North Dakota and Valley Bank & Trust, Mapleton, Iowa. First Security Bank - Sleepy Eye received a "Satisfactory" rating at its May 28, 2013, FDIC Performance Evaluation based on Interagency Small Institution Examination Procedures.

### **Operations**

First Security Bank - Sleepy Eye operates seven full-service offices. The main office is in Sleepy Eye, Minnesota, while the additional offices are located in the following Minnesota communities: Benson, Detroit Lakes, Evansville, Lamberton, Renville, and Storden. First Security Bank - Sleepy Eye also operates seven automated teller machines (ATMs), of which six are located at the bank's offices in the Benson, Detroit Lakes, Evansville, Lamberton, Renville, and Sleepy Eye. The remaining ATM is located offsite in Danube, Minnesota. The bank has not opened or closed any offices or been involved in any mergers or acquisitions since the previous CRA evaluation.

First Security Bank - Sleepy Eye's primary business focus is agricultural, commercial, and home mortgage lending, although loan product offerings accommodate a range of agricultural, commercial, home mortgage, and consumer purposes. The bank also offers Small Business Administration and Farm Service Agency loans, although requests for these loans have been minimal. These two loan programs are designed to assist small farmers and small businesses who may not qualify for conventional financing.

Furthermore, the bank offers long-term home mortgage loans through a secondary market program at its Detroit Lakes branch. During the review period, the bank originated 97 secondary-market loans totaling approximately \$14.3 million.

The bank provides a variety of deposit account services including checking, savings, certificates of deposit, and Individual Retirement Accounts. Further, the institution offers electronic banking services such as internet banking, telephone banking, mobile banking, bill pay, and electronic statements.

### **Ability and Capacity**

Assets totaled \$189,088,000 as of December 31, 2018, decreasing 8.1 percent from the March 31, 2013, Report of Condition. Total deposits equaled \$162,034,000, demonstrating a 9.0 percent decrease, and total loans were \$136,965,000, representing a 7.8 percent increase during the same period. Consequently, while deposits and assets declined since the prior evaluation, lending volume increased. The largest increase has been in commercial lending, while the largest decrease was in agricultural lending. The following table illustrates the loan portfolio.

<b>Loan Portfolio Distribution as of December 31, 2018</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction and Land Development	1,475	1.1
Secured by Farmland	25,685	18.8
1-4 Family Residential	22,122	16.2
Multi-family (5 or more) Residential	4,314	3.1
Commercial Real Estate	27,958	20.4
<b>Total Real Estate Loans</b>	<b>81,554</b>	<b>59.6</b>
Commercial and Industrial	16,584	12.1
Agricultural	28,680	20.9
Consumer	3,234	2.4
Other	6,913	5.0
Less: Unearned Income	0	0.0
<b>Total Loans</b>	<b>136,965</b>	<b>100.0</b>
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any legal, financial, 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 designate one or more assessment areas within which its CRA performance will be evaluated. First Security Bank - Sleepy Eye has designated six assessment areas in nonmetropolitan Minnesota: 1) Benson, 2) Detroit Lakes, 3) Evansville, 4) Lamberton-Storden, 5) Renville, and 6) Sleepy Eye. The Detroit Lakes assessment area, in northwest Minnesota, is the farthest north (approximately on the same latitude as Fargo, North Dakota, which is 45 miles west). The Lamberton-Storden assessment area is the farthest south, located approximately 50 miles north of the Iowa border, in southwest, Minnesota. The remaining four assessment areas are dispersed throughout western Minnesota at varying distances between the Detroit Lakes and Lamberton-Storden assessment areas. Although each assessment area is small, the distance covered is vast. Approximately 250 road miles separates the Detroit Lakes branch from the Storden branch. None of the assessment areas are within a metropolitan statistical area (MSA). First Security Bank - Sleepy Eye has not changed its assessment area delineation since the previous evaluation. The following table summarizes the assessment areas.

<b>Description of Assessment Areas</b>			
<b>Assessment Area</b>	<b>Counties in Assessment Area</b>	<b># of Census Tracts</b>	<b># of Branches</b>
Benson	Swift	3	1
Detroit Lakes	Becker	6	1
Evansville	Douglas, Ottertail, and Grant	12	1
Lamberton- Storden	Cottonwood and Redwood	3	2
Renville	Renville	3	1
Sleepy Eye	Brown, Redwood, and Watonwan	5	1

The Federal Financial Institutions Examination Council (FFIEC)-updated median family income level for nonmetropolitan Minnesota was used to analyze home mortgage loans under the Borrower Profile criterion. The low-, moderate-, middle-, and upper-income categories are presented in the following table.

<b>Median Family Income Ranges - Nonmetropolitan Minnesota</b>				
<b>Median Family Incomes</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
2018 (\$69,500)	<\$34,750	\$34,750 to <\$55,600	\$55,600 to <\$83,400	≥\$83,400
<i>Source: FFIEC</i>				

The following sections discuss demographic and economic information, as well as credit needs for the six assessment areas. As previously stated, examiners gave more weight to performance in the Benson and Sleepy Eye assessment areas.

## **Benson Assessment Area**

The Benson assessment area includes three census tracts in Swift County (9601, 9602, and 9603). First Security Bank - Sleepy Eye operates one office in the Benson assessment area in a middle-income census tract.

### **Economic and Demographic Data**

According to 2015 ACS data, the assessment area includes two middle-income census tracts, and one upper-income census tract. The assessment area does not contain any low- or moderate-income census tracts. The income designation for Census Tract 9603 changed from middle income in the 2010 Census to upper income after the 2015 ACS. 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	66.7	33.3	0.0
Population by Geography	7,237	0.0	0.0	77.2	22.8	0.0
Housing Units by Geography	3,561	0.0	0.0	79.0	21.0	0.0
Owner-Occupied Units by Geography	2,388	0.0	0.0	75.1	24.9	0.0
Occupied Rental Units by Geography	788	0.0	0.0	89.7	10.3	0.0
Vacant Units by Geography	385	0.0	0.0	81.6	18.4	0.0
Businesses by Geography	505	0.0	0.0	79.6	20.4	0.0
Farms by Geography	144	0.0	0.0	60.4	39.6	0.0
Family Distribution by Income Level	2,062	17.3	18.6	21.0	43.1	0.0
Household Distribution by Income Level	3,176	22.9	15.1	19.4	42.6	0.0
Median Family Income Non-MSAs - MN		\$63,182	Median Housing Value			\$103,369
			Median Gross Rent			\$587
			Families Below Poverty Level			8.2%
Source: 2015 ACS Census and 2018 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 2018 D&B data, there were 144 farms in the Benson assessment area. Gross annual revenues for these farms are below. The analysis of small farm loans under the Borrower Profile criterion (discussed later in this evaluation) compares the distribution of farms by gross annual revenue level.

- 98.6 percent have \$1 million or less
- 0.0 percent have more than \$1 million
- 1.4 percent have unknown revenues

According to 2018 D&B data, there were 505 businesses in the assessment area. Gross annual revenues for these businesses are below. The analysis of small business loans under the Borrower Profile criterion (discussed later in this evaluation) compares the distribution of businesses by gross annual revenue level.

- 73.3 percent have \$1 million or less
- 8.5 percent have more than \$1 million
- 18.2 percent have unknown revenues

Service industries represent the largest portion of businesses and farms at 28.0 percent; followed by agriculture, forestry, and fishing (22.2 percent); retail trade (9.7 percent); and construction (7.4 percent). In addition, 69.7 percent of area businesses and farms have four or fewer employees, and 86.1 percent operate from a single location.

Based on 2015 ACS data, there are 3,561 housing units in the assessment area. Of these, 67.1 percent are owner-occupied, 22.1 percent are occupied rental units, and 10.8 percent are vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units.

The following table shows that unemployment rates generally declined from 2013 to November 2018, both locally and nationally, which indicates economic improvement. The average annual unemployment rates for Swift County have been higher than the statewide average, although lower than or similar to the national rate.

Unemployment Rates						
Area	2013	2014	2015	2016	2017	2018 (November)
	%	%	%	%	%	%
Swift County	5.8	4.8	6.0	5.4	4.1	2.3
Minnesota	5.0	4.2	3.7	3.9	3.5	2.2
Nation	7.4	6.2	5.3	4.9	4.4	3.5

*Source: Minnesota Department of Employment and Economic Development*

### **Competition**

The Benson assessment area is competitive for credit products and financial services. According to FDIC Deposit Market Share data as of June 30, 2018, there were six financial institutions operating six offices within the assessment area, holding approximately \$203 million in deposits. These institutions range from small community banks to larger financial institutions. First Security Bank - Sleepy Eye is ranked 1<sup>st</sup> with 25.6 percent of the deposit market share.

### **Community Contact**

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

Examiners reviewed information obtained from a previous interview with a representative of a farm servicing organization in the assessment area. The contact described the area's overall economy as unstable. The contact stated that the area is dependent on agriculture and agricultural-related industries, and this sector is struggling due to low commodity prices. The contact also stated that the area is fortunate to have other opportunities, such as health care and school-related jobs to rely on. The contact stated the major employees in the area, aside from the agricultural industry, are Case IH, local school districts, and hospitals and clinics. The contact also stated that the average age of farmers continues to increase as young people move out of the area to further their education and never move back to the community for various reasons, one

being the limited employment opportunities. Additionally, there are not a lot, if any, new farmers in the area due to the high start-up cost. Instead, it is more common for children to take over family farming operations. The contact stated that there are fewer family farms, as they are being taken over by larger corporate operations. Even farm-related businesses, such as dairy processing plants are catering to the larger operations and turning away small farmers. The contact stated that the majority of farms in the area rely on off-farm income, primarily to get affordable health care. Regarding the housing market, the contact stated that there are a lot of homes for sale, with prices ranging anywhere from \$100,000 to \$250,000. Lastly, the contact stated that all area financial institutions are doing what they can to serve their customers and communities.

Considering information from the community contact, bank management, and demographic and economic data, examiners concluded that small farm loans are the primary credit need in the Benson assessment area, followed by small business loans.

## **Detroit Lakes Assessment Area**

The Detroit Lakes assessment area includes six census tracts in Becker County (4503, 4504, 4505, 4506, 4507, and 4508). First Security Bank - Sleepy Eye operates one office in the Detroit Lakes assessment area, in Becker County moderate-income Census Tract 4505).

### **Economic and Demographic Data**

According to 2015 ACS data, the Detroit Lakes assessment area includes one moderate-income, three middle-income, and two upper-income census tracts. The assessment area does not contain any low-income census tracts. The income designation for Census Tract 4504 changed from middle income in the 2010 Census to upper income after the 2015 ACS. 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)	6	0.0	16.7	50.0	33.3	0.0
Population by Geography	20,946	0.0	20.5	52.0	27.4	0.0
Housing Units by Geography	11,156	0.0	17.9	52.2	29.9	0.0
Owner-Occupied Units by Geography	6,663	0.0	14.2	53.3	32.5	0.0
Occupied Rental Units by Geography	2,180	0.0	40.7	49.7	9.5	0.0
Vacant Units by Geography	2,313	0.0	7.0	51.2	41.8	0.0
Businesses by Geography	1,764	0.0	33.2	40.2	26.6	0.0
Farms by Geography	116	0.0	11.2	52.6	36.2	0.0
Family Distribution by Income Level	5,756	17.3	17.2	25.7	39.8	0.0
Household Distribution by Income Level	8,843	23.8	16.1	17.8	42.2	0.0
Median Family Income Non-MSAs - MN		\$63,182	Median Housing Value			\$185,100
			Median Gross Rent			\$711
			Families Below Poverty Level			7.2%
Source: 2015 ACS Census and 2018 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 2018 D&B data, there were 116 farms in the assessment area. Gross annual revenues for these farms are below.

- 96.5 percent have \$1 million or less
- 3.5 percent have more than \$1 million
- 0.0 percent have unknown revenues

According to 2018 D&B data, there were 1,764 businesses in the assessment area. Gross annual revenues for these businesses are below.

- 81.1 percent have \$1 million or less
- 6.0 percent have more than \$1 million
- 12.9 percent have unknown revenues

Service industries represent the largest portion of businesses and farms at 39.6 percent, followed by retail trade (12.6 percent), construction (10.0 percent), non-classifiable establishments (8.3 percent), and agriculture, forestry, and fishing (6.2 percent). In addition, 69.1 percent of area

businesses and farms have four or fewer employees, and 87.2 percent operate from a single location.

Based on 2015 ACS data, there are 11,156 housing units in the assessment area. Of these, 59.7 percent are owner-occupied, 19.5 percent are occupied rental units, and 20.7 percent are vacant.

The following table shows that unemployment rates generally declined from 2013 to November 2018, both locally and nationally, which indicates economic improvement. The average annual unemployment rates for Becker County is higher than the statewide rate, but is lower than the national rate.

Unemployment Rates						
Area	2013	2014	2015	2016	2017	2018 (November)
	%	%	%	%	%	%
Becker County	5.5	4.8	4.4	4.6	4.2	2.7
Minnesota	5.0	4.2	3.7	3.9	3.5	2.2
Nation	7.4	6.2	5.3	4.9	4.4	3.5

*Source: Minnesota Department of Employment and Economic Development*

### **Competition**

The Detroit Lakes assessment area is competitive for credit products and financial services. According to FDIC Deposit Market Share data as of June 30, 2018, there were seven financial institutions operating eight offices in the assessment area, holding approximately \$678 million in deposits. These institutions range from smaller community banks to larger national financial institutions. First Security Bank - Sleepy Eye ranked 7<sup>th</sup> with a 3.8 percent deposit market share.

### **Community Contact**

Examiners reviewed comments from two previous interviews with representatives of a community development organization familiar with the assessment area. The contact stated that the local economy is improving. Indicators are increased commercial loan demand from both start-up and well-established businesses. Further, the contact stated that a fair number of start-up, sole proprietorship businesses are seeking financing; however, many people don't necessarily know how to start a business or submit a loan request. Reportedly, a lot of small businesses have increasing capital needs and some smaller banks are starting to reach their lending limits. The contact stated that start-up businesses need equipment and inventory loans, while existing businesses need capital expansion loans to grow their operations. In addition, the contact mentioned home mortgage loans as a credit need. Home improvement loans are also in demand as the cost to build a home exceeds the cost to buy an aging home and make improvements. According to the contact, agriculture is not a major industry in the area. Rather, the area is more reliant on the commercial sector, which is improving. The contact stated that local financial institutions are very involved in the community and are meeting the area's credit needs.

Considering information from the community contact, bank management, and demographic and economic data, examiners concluded that small business loans are the primary credit need in the Detroit Lakes assessment area, followed by home mortgage lending.

## Sleepy Eye Assessment Area

The Sleepy Eye assessment area includes three census tracts in Brown County (9604, 9605, and 9607), one census tract in Watonwan County (9501), and one census tract in Redwood County (7501). The bank operates one office in the Sleepy Eye assessment area in a middle-income census tract in Brown County.

### Economic and Demographic Data

According to 2015 ACS data, the Sleepy Eye assessment area's five census tracts are all middle-income geographies, which is unchanged from the previous evaluation. 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)	5	0.0	0.0	100.0	0.0	0.0
Population by Geography	17,867	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	7,956	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	5,753	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	1,455	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	748	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	1,231	0.0	0.0	100.0	0.0	0.0
Farms by Geography	472	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	4,882	16.0	17.8	23.7	42.5	0.0
Household Distribution by Income Level	7,208	20.8	14.4	19.1	45.8	0.0
Median Family Income Non-MSAs - MN		\$63,182	Median Housing Value			\$131,710
			Median Gross Rent			\$616
			Families Below Poverty Level			5.9%
Source: 2015 ACS Census and 2018 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 2018 D&B data, there were 472 farms in the assessment area. Gross annual revenues for these farms are below.

- 97.2 percent have \$1 million or less
- 1.3 percent have more than \$1 million
- 1.5 percent have unknown revenues

According to 2018 D&B data, there were 1,231 businesses in the assessment area. Gross annual revenues for these businesses are below.

- 79.7 percent have \$1 million or less
- 6.3 percent have more than \$1 million
- 14.0 percent have unknown revenues

Service industries represents the largest portion of businesses and farms at 28.6 percent; followed by agriculture, forestry, and fishing (27.7 percent); retail trade (8.3 percent); and construction (7.4 percent). In addition, 76.5 percent of area businesses and farms have four or fewer employees, and 89.2 percent operate from a single location.

Based on 2015 ACS data, there are 7,956 housing units in the assessment area. Of these, 72.3 percent are owner-occupied, 18.3 percent are occupied rental units, and 9.4 percent are vacant.

The following table shows that unemployment rates generally declined from 2013 to November 2018, both locally and nationally, which indicates economic improvement. The average annual unemployment rates for the counties in the assessment area are higher than the statewide and lower than the national rate.

Unemployment Rates						
Area	2013	2014	2015	2016	2017	2018 (November)
	%	%	%	%	%	%
Brown County	5.2	4.6	4.1	4.2	3.7	2.3
Redwood County	5.5	4.4	3.9	4.1	4.1	2.7
Watonwan County	5.3	4.9	4.7	4.9	4.4	2.7
Minnesota	5.0	4.2	3.7	3.9	3.5	2.2
Nation	7.4	6.2	5.3	4.9	4.4	3.5

*Source: Minnesota Department of Employment and Economic Development*

### **Competition**

The Sleepy Eye assessment area is competitive for credit products and financial services. According to FDIC Deposit Market Share data as of June 30, 2018, there were eight financial institutions operating nine offices in the assessment area, holding approximately \$511 million in deposits. These institutions range from small community banks to larger financial institutions operating in the area. First Security Bank – Sleepy Eye ranked 3<sup>rd</sup> with a 7.5 percent deposit market share.

### **Community Contact**

Examiners reviewed comments from a previous interview with a representative of a community development organization familiar with the assessment area. The contact stated that the area's small rural communities are struggling. Low commodity prices have depressed the agricultural sector. In regards to small businesses, the contact stated that most are struggling and are in need of working capital loans. The contact indicated there are no new major industries in the area, and several small towns have vacant store fronts. According to the contact, many small

businesses do not have sufficient collateral to meet the banks' loan-to-value standards, hampering their ability to borrow. Additionally, along with collateral issues, new small businesses often struggle with cash flow and do not have sufficient funds to cover their operating expenses. The contact indicated that while banks have been willing to originate lines of credit for new small businesses, the line amounts are often limited due to the entities minimal loan history. In general, area small businesses often max out their credit lines rather quickly and struggle to pay them down. The contact also stated that some small business owners use personal credit, including credit cards, to cover business expenses to avoid requesting additional financing from their banks. Further, the contact stated that the area has difficulty finding quality skilled workers for specific trades. Regarding the housing market, the contact indicated that the area needs additional affordable housing; however, the housing sector as a whole remains very healthy. The contact stated that local financial institutions are highly involved in community development and work with different organization in various ways to support the community.

Considering information from the community contact, bank management, and demographic and economic data, examiners concluded that small farm and small business loans are the Sleepy Eye assessment area's primary credit needs.

### **Lamberton-Storden Assessment Area**

The Lamberton-Storden assessment area includes one census tract in Redwood County (7506) and two census tracts in Cottonwood County (2702 and 2703). First Security Bank - Sleepy Eye operates two offices in this assessment area. One office is located in the community of Lamberton, in Redwood County. The second office is located in the community of Storden, in Cottonwood County.

#### **Economic and Demographic Data**

According to 2015 ACS data, the Lamberton-Storden assessment area's three census tracts are all middle-income geographies, which is unchanged from the previous evaluation. 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	7,728	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	3,594	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	2,558	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	559	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	477	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	425	0.0	0.0	100.0	0.0	0.0
Farms by Geography	192	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	2,095	21.1	19.8	23.2	35.9	0.0
Household Distribution by Income Level	3,117	22.7	16.7	19.2	41.4	0.0
Median Family Income Non-MSAs - MN		\$63,182	Median Housing Value			\$88,148
			Median Gross Rent			\$523
			Families Below Poverty Level			8.9%
Source: 2015 ACS Census and 2018 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 2018 D&B data, there were 192 farms in the assessment area. Gross annual revenues for these farms are below.

- 99.5 percent have \$1 million or less
- 0.0 percent have more than \$1 million
- 0.5 percent have unknown revenues

According to 2018 D&B data, there were 425 businesses in the assessment area. Gross annual revenues for these businesses are below.

- 79.1 percent have \$1 million or less
- 4.2 percent have more than \$1 million
- 16.7 percent have unknown revenues

Agriculture, forestry, and fishing industries represent the largest portion of businesses and farms at 31.1 percent; followed by service industries (29.0 percent); retail trade (6.8 percent); and construction (6.2 percent). In addition, 75.9 percent of area businesses and farms have four or fewer employees, and 89.9 percent operate from a single location.

Based on 2015 ACS data, there are 3,594 housing units in the Lamberton-Storden assessment area. Of these, 71.2 percent are owner-occupied, 15.5 percent are occupied rental units, and 13.3 percent are vacant.

The following table shows that unemployment rates have generally declined from 2013 to November 2018, both locally and nationally, which indicates economic improvement. The average annual unemployment rates for the counties in the assessment area are higher than the statewide and lower than the national rate.

Unemployment Rates						
Area	2013	2014	2015	2016	2017	2018 (November)
	%	%	%	%	%	%
Redwood County	5.5	4.4	3.9	4.1	4.1	2.7
Cottonwood County	5.8	5.2	4.8	7.2	5.3	2.6
Minnesota	5.0	4.2	3.7	3.9	3.5	2.2
Nation	7.4	6.2	5.3	4.9	4.4	3.5

*Source: Minnesota Department of Employment and Economic Development*

### **Competition**

The Lamberton-Storden assessment area is competitive for credit products and financial services. According to FDIC Deposit Market Share data as of June 30, 2018, there were five financial institutions operating six offices in the assessment area, holding approximately \$100 million in deposits. These institutions range from small community banks to larger financial institutions operating in the area. First Security Bank - Sleepy Eye ranked 3<sup>rd</sup> with a 20.5 percent deposit market share.

### **Community Contact**

Examiners reviewed comments from a previously interview with a representative of a regional economic development organization familiar with the assessment area. The contact stated that the area is heavily dependent on agriculture and was negatively impacted by falling commodity prices last year. The contact added that the younger generations tend to move away to seek higher education and employment, and do not return. Thus, the population is aging. Reportedly, local communities are witnessing job vacancies as southwestern Minnesota has lower wages compared to the rest of the state. According to the contact, dealings with local financial institutions have been positive. The contact added there are opportunities for small business gap financing.

Considering information from the community contact, bank management, and demographic and economic data, examiners concluded that small farm and small business loans are the Lamberton-Storden assessment area's primary credit needs.

## Evansville Assessment Area

The Evansville assessment area includes all of Douglas County (nine census tracts), two census tracts in Ottertail County (9615 and 9616), and one census tract in Grant County (701). First Security Bank - Sleepy Eye operates a single office in this assessment area. The office is located in Evansville in a middle-income census tract in Douglas County.

### Economic and Demographic Data

According to 2015 ACS data, the Evansville assessment area contains 1 moderate-, 11 middle-, and 1 upper-income census tracts. The moderate-income census tract is in Ottertail County (9615). The assessment area does not contain any low-income census tracts. The income designation for Douglas City Census Tract 4510 changed from upper income to middle income between the 2010 Census and 2015 ACS. 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)	12	0.0	8.3	83.3	8.3	0.0
Population by Geography	45,062	0.0	6.9	85.6	7.5	0.0
Housing Units by Geography	25,958	0.0	7.2	85.1	7.7	0.0
Owner-Occupied Units by Geography	14,893	0.0	7.3	84.4	8.4	0.0
Occupied Rental Units by Geography	4,262	0.0	4.6	93.4	2.0	0.0
Vacant Units by Geography	6,803	0.0	8.7	81.6	9.7	0.0
Businesses by Geography	3,874	0.0	5.9	88.4	5.7	0.0
Farms by Geography	412	0.0	13.3	79.9	6.8	0.0
Family Distribution by Income Level	12,746	15.7	18.6	24.3	41.4	0.0
Household Distribution by Income Level	19,155	21.5	15.4	19.4	43.8	0.0
Median Family Income Non-MSAs - MN		\$63,182	Median Housing Value			\$183,891
			Median Gross Rent			\$718
			Families Below Poverty Level			4.9%
Source: 2015 ACS Census and 2018 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.						

## Renville Assessment Area

The Renville assessment area includes three census tracts in Renville County (7903, 7904, and 7905). First Security Bank - Sleepy Eye operates a single office in this assessment area in a middle-income census tract in the community of Renville.

### Economic and Demographic Data

According to 2015 ACS data, the Renville assessment area's census tracts are all middle-income geographies, which is unchanged from the previous evaluation. 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	7,972	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	3,704	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	2,572	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	720	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	412	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	501	0.0	0.0	100.0	0.0	0.0
Farms by Geography	157	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	2,138	18.7	16.6	24.1	40.6	0.0
Household Distribution by Income Level	3,292	21.2	15.9	21.6	41.3	0.0
Median Family Income Non-MSAs - MN		\$63,182	Median Housing Value			\$94,272
			Median Gross Rent			\$560
			Families Below Poverty Level			6.8%
Source: 2015 ACS Census and 2018 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.						

## **CONCLUSIONS ON PERFORMANCE CRITERIA (BANKWIDE)**

### **LENDING TEST**

First Security Bank - Sleepy Eye demonstrated satisfactory performance under the Lending Test. The bank's Loan-to-Deposit Ratio, Assessment Area Concentration, and Borrower Profile performance supports this conclusion.

#### **Loan-to-Deposit Ratio**

The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment areas' credit needs. First Security Bank - Sleepy Eye's net loan-to deposit ratio averaged 78.5 percent over the 22 quarter period from June 30, 2013 to September 30, 2018, based on Reports of Condition data. The ratio ranged from a low of 70.7 percent as of December 31, 2013, to a high of 89.5 percent as of September 30, 2018. The institution's net loan-to-deposit ratio gradually increased throughout the evaluation period.

Examiners compared the bank's average net loan-to-deposit ratio to four similarly-situated financial institutions to help evaluate its reasonableness. Similarly-situated financial institutions are defined as institutions operating in and around the assessment areas with similar asset bases and product lines. First Security Bank - Sleepy Eye's average net loan-to-deposit ratio compared reasonably to the ratios of the similarly-situated financial institutions. The following table provides details.

<b>Loan-to-Deposit Ratio Comparison</b>		
<b>Bank</b>	<b>Total Assets as of September 30, 2018 \$(000s)</b>	<b>Average Net Loan-to-Deposit Ratio (%)</b>
<b>First Security Bank - Sleepy Eye Sleepy Eye, Minnesota</b>	<b>188,120</b>	<b>78.5</b>
Americana Community Bank Sleepy Eye, Minnesota	118,504	68.1
Eagle Bank Glenwood, Minnesota	150,276	73.5
Kensington Bank Kensington, Minnesota	171,488	93.1
Wadena State Bank Wadena, Minnesota	168,777	66.3
<i>Source: Reports of Condition and Income 6/30/2013 through 9/30/2018</i>		

#### **Assessment Area Concentration**

A majority of the small farm, small business, and home mortgage loans reviewed were located within First Security Bank - Sleepy Eye's assessment areas, reflecting satisfactory performance. The following table provides details.

Lending Inside and Outside of the Assessment Areas										
Loan Category	Number of Loans					Dollar Amount of Loans \$(000s)				
	Inside		Outside		Total #	Inside		Outside		Total \$(000s)
	#	%	#	%		\$	%	\$	%	
Small Farm	188	83.2	38	16.8	226	18,273	83.0	3,738	17.0	22,011
Small Business	80	52.3	73	47.7	153	7,152	52.6	6,450	47.4	13,602
Home Mortgage	14	73.7	5	26.3	19	790	60.8	509	39.2	1,299
<i>Source: Bank records</i>										

### **Geographic Distribution**

The geographic distribution of loans reflects poor dispersion in the Detroit Lakes and Evansville assessment areas. However, given the limited number of low- and moderate-income tracts in the six combined assessment areas, this conclusion received little weight in the overall analysis. As previously stated, there are no low-income census tracts in any of the assessment areas.

Therefore, examiners focused on the percentage of loans, by number, in moderate-income geographies, as applicable. The Detroit Lakes and Evansville assessment areas are the only assessment areas with moderate-income geographies (one in each area). Therefore, examiners did not evaluate the geographic distribution of loans in the Benson, Sleepy Eye, Lamberton-Storden, and Renville assessment areas. Refer to comments in the Detroit Lakes and Evansville assessment area sections for details regarding the geographic distribution of loans in these areas.

#### ***Small Farm Loans***

The geographic distribution of small farm loans reflects poor dispersion in the Evansville assessment area. Regarding the Detroit Lakes assessment area, none of the small farm loans reviewed were located in this area. Specific comments regarding the geographic distribution of small farm loans in the Evansville assessment area are provided later in the evaluation.

#### ***Small Business Loans***

The geographic distribution of small business loans reflects poor dispersion in the Detroit Lakes and Evansville assessment areas. Specific comments regarding the geographic distribution of small business loans in the Detroit Lakes and Evansville assessment areas are provided later in the evaluation.

#### ***Home Mortgage Loans***

The geographic distribution of home mortgage loans is reasonable. Specifically, the percentage of home mortgage loans in the assessment areas' moderate-income census tracts is reasonably consistent with the percentage of owner-occupied housing units in those geographies. As stated previously, examiners did not evaluate the geographic distribution of home mortgage loans for each individual assessment area due to the limited number of loans extended in 2018.

### **Borrower Profile**

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes. Small farm and small business lending performance in the Benson, Sleepy Eye, Evansville, and Lamberton-Storden assessment areas primarily supports this conclusion. Examiners focused on the percentage of small farm and small business loans, by number, to farms and businesses with gross annual revenues of \$1 million or less. They also considered the percentage of home mortgage loans, by number, to low- and moderate-income borrowers. Only loans inside the assessment areas were analyzed. Specific comments regarding the bank's performance in each assessment area are located later in the evaluation.

#### ***Small Farm Loans***

The distribution of small farm loans reflects overall reasonable penetration among farms of different sizes. There were no sampled small farm loans in the Detroit Lakes assessment area. Therefore, examiners did not evaluate the distribution of small farm loans in that area.

#### ***Small Business Loans***

The distribution of small business loans reflects overall reasonable penetration among businesses of different sizes. Examiners placed little weight on the bank's performance in the Laberton-Stroden assessment area as only one of the sampled small business loans was located in that area.

#### ***Home Mortgage Loans***

The distribution of home mortgage loans reflects overall reasonable penetration among borrowers of all income levels. Specifically, the percentage of home mortgage loans to low-income and moderate-income borrowers is reasonably consistent with the percentage of low- and moderate-income families in the combined assessment areas. As stated previously, examiners did not evaluate the distribution home mortgage loans for each individual assessment area due to the limited number of loans extended in 2018.

### **Response to Complaints**

First Security Bank - Sleepy Eye 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**

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the bank's CRA rating.

## **CONCLUSIONS ON PERFORMANCE CRITERIA (BENSON ASSESSMENT AREA)**

### **LENDING TEST**

First Security Bank - Sleepy Eye's lending performance in the Benson Assessment area is reasonable. As indicated under the Scope of Evaluation section, the Benson assessment area was given more weight in this evaluation. When arriving at conclusions, small farm and small business lending performance received equal weight. There were three home mortgage loans originated within the Benson assessment area during the review period. As discussed previously, home mortgage lending did not impact overall conclusions.

### **Geographic Distribution**

The Benson assessment area does not include any low- or moderate-income geographies. Therefore, examiners did not evaluate the geographic distribution of loans in this assessment area.

### **Borrower Profile**

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes.

#### ***Small Farm Loans***

The distribution of small farm loans reflects reasonable penetration among farms of all sizes in the Benson assessment area. As the following table illustrates, the percentage of small farms loans to borrowers with gross annual farm revenues of \$1 million or less is slightly lower than the demographic data. However, a sizable majority of the sampled small farm loans was to borrowers in this revenue category. Further, management stated that there have been poor agricultural conditions in recent years, which has led to the decrease in loan requests from smaller farms. Overall, the bank's performance is reasonable.

<b>Distribution of Small Farm Loans by Gross Annual Revenue Category</b>					
<b>Gross Revenue Level</b>	<b>% of Farms</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<=\$1,000,000	98.6	16	88.9	1,989	94.8
>1,000,000	0.0	2	11.1	109	5.2
Revenue Not Available	1.4	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>18</b>	<b>100.0</b>	<b>2,098</b>	<b>100.0</b>
<i>Source: 2018 D&amp;B Data, Bank Data</i>					

#### ***Small Business Loans***

The distribution of small business loans reflects excellent penetration among businesses of all sizes in the Benson assessment area. Specifically, one hundred percent of the small business loans reviewed were to businesses with gross annual revenues of \$1 million or less, noticeably exceeding the percentage of businesses in this revenue category.



## CONCLUSIONS ON PERFORMANCE CRITERIA (SLEEPY EYE ASSESSMENT AREA)

### **LENDING TEST**

First Security Bank - Sleepy Eye's lending performance in the Sleepy Eye assessment area is reasonable. As indicated under the Scope of Evaluation section, performance in the Sleepy Eye assessment area was given more weight in this evaluation. When arriving at conclusions, small farm and small business lending performance received equal weight. There was one home mortgage loan originated within the Sleepy Eye assessment area during the review period. As discussed previously, home mortgage lending did not impact overall conclusions.

### **Geographic Distribution**

The Sleepy Eye assessment area does not include any low- or moderate-income geographies. Therefore, examiners did not evaluate the geographic distribution of loans in this assessment area.

### **Borrower Profile**

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes.

#### ***Small Farm Loans***

The distribution of small farm loans reflects reasonable penetration among farms of all sizes in the Sleepy Eye assessment area. As the following table illustrates, the percentage of small farms loans, by number, to borrowers with gross annual farm revenues of \$1 million or less is consistent with the demographic data, reflecting reasonable performance.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	97.2	18	94.7	1,090	84.5
>1,000,000	1.3	1	5.3	200	15.5
Revenue Not Available	1.5	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>19</b>	<b>100.0</b>	<b>1,290</b>	<b>100.0</b>
Source: 2018 D&B Data, Bank Data					

#### ***Small Business Loans***

The distribution of small business loans reflects reasonable penetration among businesses of all sizes in the Sleepy Eye assessment area. Specifically, lending to businesses with gross annual revenues of \$1 million or less is reasonably consistent with the demographic data. The following table provides details.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	79.7	11	84.6	702	69.6
>1,000,000	6.3	2	15.4	306	30.4
Revenue Not Available	14.0	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>13</b>	<b>100.0</b>	<b>1,008</b>	<b>100.0</b>
<i>Source: 2018 D&amp;B Data, Bank Data</i>					

## CONCLUSIONS ON PERFORMANCE CRITERIA (DETROIT LAKES ASSESSMENT AREA)

### **LENDING TEST**

First Security Bank - Sleepy Eye's lending performance in the Detroit Lakes assessment area is reasonable. As indicated under the Scope of Evaluation section, performance in the Detroit Lakes assessment area was given less weight in this evaluation. Overall conclusions were derived from small business lending performance. The bank did not extend any small farm loans and only four home mortgage loans in the Detroit Lakes assessment area during the review period. As a result, small farm and home mortgage loan performance did not impact conclusions.

### **Geographic Distribution**

The geographic distribution of loans reflects poor dispersion throughout the Detroit Lakes assessment area based on small business loan performance. There were no small farm loans in this assessment area to analyze. Further, the number of home mortgage loans was insufficient to draw meaningful conclusions.

### ***Small Farm Loans***

As previously stated, First Security Bank - Sleepy Eye did not originate any small farm loans within the Detroit Lakes assessment area during the review period. Agricultural lending is not a focus of the bank in this assessment area. The Detroit Lakes assessment area is primarily a summer-vacation destination, with a significant number of secondary residences. Employees at the Detroit Lakes office primarily focus on origination and sale of home mortgage loans on the secondary market. Therefore, the bank's small farm lending performance did not impact conclusions.

### ***Small Business Loans***

The geographic distribution of small business loans reflects poor dispersion throughout the Detroit Lakes assessment area. As shown in the following table, 5.9 percent of small business loans, by number, were located in the assessment area's moderate income census tract, significantly lagging the percentage of businesses located in this geography (33.2 percent). Bank officials offered an explanation for this variance. First, secondary market mortgage loans is a

primary focus in this market. Second, the Detroit Lakes office experienced a management change in 2018. As a result, the office did not have a commercial lender on staff for part of the review period, limiting the bank's ability to extend small business loans. Lastly, as stated previously, the Detroit Lakes assessment area contains only one moderate-income census tract. Despite these factors, the geographic distribution of small business loans reflects poor dispersion throughout the Detroit Lakes assessment area.

<b>Geographic Distribution of Small Business Loans</b>					
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Moderate	33.2	1	5.9	564	27.5
Middle	40.2	11	64.7	638	31.1
Upper	26.6	5	29.4	848	41.4
<b>Totals</b>	<b>100.0</b>	<b>17</b>	<b>100.0</b>	<b>2,050</b>	<b>100.0</b>
<i>Source: 2018 D&amp;B Data, Bank Data</i>					

### **Borrower Profile**

The distribution of borrowers reflects reasonable penetration among businesses of all sizes.

### ***Small Farm Loans***

As previously stated, First Security Bank - Sleepy Eye did not originate any small farm loans within the Detroit Lakes assessment area during the review period.

### ***Small Business Loans***

The distribution of small business loans reflects reasonable penetration among businesses of all sizes in the Detroit Lakes assessment area. Specifically, the percentage of loans to businesses with gross annual revenues of \$1 million or less is reasonably consistent to the percentage of businesses in this revenue category. The following table provides details.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<=\$1,000,000	81.1	10	90.9	844	76.7
>1,000,000	6.0	1	9.1	256	23.3
Revenue Not Available	12.9	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>11</b>	<b>100.0</b>	<b>1,100</b>	<b>100.0</b>
<i>Source: 2018 D&amp;B Data, Bank Data</i>					

## CONCLUSIONS ON PERFORMANCE CRITERIA (LAMBERTON-STORDEN ASSESSMENT AREA)

### **LENDING TEST**

First Security Bank - Sleepy Eye's lending performance in the Lamberton-Storden assessment area is excellent. As indicated under the Scope of Evaluation section, the bank's performance in the Lamberton-Storden assessment area received less weight in this evaluation. When arriving at conclusions, examiners placed the most weight on small farm lending performance. Examiners did not evaluate the bank's small business lending performance since there was one small business loan sampled from this assessment area. Six of the fourteen home mortgage loans extended inside the assessment areas in 2018 were in the Lamberton-Storden assessment area. However, as discussed previously, home mortgage lending did not impact the overall conclusions.

### **Geographic Distribution**

The Lamberton-Storden assessment area does not include any low- or moderate-income geographies. Therefore, examiners did not evaluate the geographic distribution of loans in this assessment area.

### **Borrower Profile**

The distribution of borrowers reflects excellent penetration among farms of different sizes.

#### ***Small Farm Loans***

The distribution of small farm loans reflects excellent penetration among farms of all sizes. Specifically, 100 percent of the small farm loans reviewed in the Lamberton-Storden assessment area were to borrowers with gross annual revenues of \$1 million or less. The following table provides details.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	99.5	13	100.0	1,839	100.0
>1,000,000	0.0	0	0.0	0	0.0
Revenue Not Available	0.5	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>13</b>	<b>100.0</b>	<b>1,839</b>	<b>100.0</b>
Source: 2018 D&B Data, Bank Data					

#### ***Small Business Loans***

Only one of the small business loans reviewed was located within the Lamberton-Storden assessment area. Therefore, examiners did not evaluate the bank's record of lending to businesses of all sizes in this assessment area.

## **CONCLUSIONS ON PERFORMANCE CRITERIA (EVANSVILLE ASSESSMENT AREA)**

### ***Limited-Scope Review***

#### **LENDING TEST**

First Security Bank - Sleepy Eye's lending performance in the Evansville assessment area is reasonable. As indicated under the Scope of Evaluation section, examiners performed a limited-scope review of the bank's performance in this assessment area. Small farm and small business lending performance were weighted equally. There was one home mortgage loan originated within the Evansville assessment area during the review period. As discussed previously, home mortgage lending did not impact the overall conclusions. Overall, First Security Bank - Sleepy Eye's performance in the Evansville assessment area is consistent with its performance in the full-scope assessment areas.

#### **Geographic Distribution**

The geographic distribution of loans reflects poor dispersion throughout the Evansville assessment area. As discussed previously, the assessment area contains no low-income, and one moderate-income census tract. None of the sampled small farm or small business loans were located in the assessment area's one moderate-income tract, despite the presence of farms and businesses in this census tract. Consequently, the geographic distribution of loans in the Evansville assessment area is poor.

#### **Borrower Profile**

The distribution of small farm and small business loans in the Evansville assessment area reflects excellent penetration among farms and businesses of all sizes. Specifically, 100 percent of the small farm and small business loans reviewed were to borrowers with gross annual revenues of \$1 million or less, exceeding the percentage of farms and businesses in this revenue category.

## **CONCLUSIONS ON PERFORMANCE CRITERIA (RENVILLE ASSESSMENT AREA)**

### ***Limited-Scope Review***

#### **LENDING TEST**

First Security Bank - Sleepy Eye's lending performance in the Renville assessment area is reasonable. As indicated under the Scope of Evaluation section, examiners performed a limited-scope review of the bank's performance in this assessment area. When arriving at conclusions, small business lending performance received the most weight. There were no small farm or home mortgage loans originated within the Renville assessment area during the review period. Overall, First Security Bank - Sleepy Eye's performance in the Renville assessment area is consistent with its performance in the full-scope assessment areas.

**Geographic Distribution**

The Renville assessment area does not include any low- or moderate-income geographies. Therefore, examiners did not evaluate the geographic distribution of loans.

**Borrower Profile**

The distribution of small business loans reflects reasonable penetration among businesses of all sizes in the Renville assessment area. Of the 14 sampled small business loans, 11 were to businesses with gross annual revenues of \$1 million or less. None of the small farm loans reviewed were within Renville assessment area, having no impact on conclusions. Overall, the bank's record of extending small business loans to businesses with gross annual revenues of \$1 million or less is reasonable in the Renville assessment area.

## 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.

**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).

**Family Income:** Includes the income of all members of a family that are age 15 and older.

**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 (for example, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (for example, 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 Disclosure Loan Application Register (HMDA LAR):** The HMDA LARs record all applications received for residential purchase, refinance, home improvement, and temporary-to-permanent construction loans.

**Home Mortgage Loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans to purchase manufactured homes, and refinancings of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Household Income:** Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households are only one person, median household income is usually less than median family income.

**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 (for example, 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.

**Micropolitan Statistical Area:** CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

**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:** 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.