

Section 1 - CRA Performance Evaluation

PUBLIC DISCLOSURE

May 17, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Houghton State Bank
Certificate Number: 15405

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Red Oak, Iowa 51566

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 loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- A majority of the loans reviewed were located inside the assessment areas. A majority of the small business loans reviewed were located inside the assessment areas. A majority of small farm loans reviewed, by dollar amount, were located inside the assessment areas; however, the majority of small farm loans reviewed, by number, were located outside the assessment areas.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes.
- The bank did not receive any complaints regarding its Community Reinvestment Act (CRA) performance since the previous evaluation. As a result, examiners did not evaluate the bank's record of responding to CRA-related complaints.

DESCRIPTION OF INSTITUTION

Houghton State Bank is a community financial institution headquartered in Red Oak, Iowa. The bank is owned by Red Oak Financial Corporation, Omaha, Nebraska, a one-bank holding company. This evaluation does not include affiliate lending activity. The FDIC assigned a CRA rating of “Satisfactory” at the bank’s July 7, 2015 Performance Evaluation, where examiners used Interagency Small Institution Examination Procedures.

Houghton State Bank operates five full-service offices all in the state of Iowa. The bank closed a branch located in Elliott, Iowa in June 2019. The branch closure had no impact on low- or moderate-income areas as it was located in a middle-income census tract.

The bank offers traditional credit products including agricultural, commercial, residential real estate, and consumer loans. Agricultural lending continues to be the bank’s primary focus. The bank also offers a variety of deposit products including checking, savings, and certificate of deposit accounts. Alternative banking services includes internet banking, mobile banking, and automated teller machines.

The institution’s December 31, 2020 Reports of Condition and Income reflected total assets of \$199.9 million, total loans of \$162.5 million, and total deposits of \$168.1 million. The following table reflects the bank’s loan portfolio composition.

Loan Portfolio Distribution as of 12/31/2020		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	308	0.2
Secured by Farmland	23,758	14.6
Secured by 1-4 Family Residential Properties	13,198	8.1
Secured by Multifamily (5 or more) Residential Properties	943	0.6
Secured by Nonfarm Nonresidential Properties	4,206	2.6
Total Real Estate Loans	42,413	26.1
Commercial and Industrial Loans	21,712	13.3
Agricultural Production and Other Loans to Farmers	95,765	59.0
Consumer Loans	1,265	0.8
Obligations of State and Political Subdivisions in the U.S.	991	0.6
Other Loans	310	0.2
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	162,456	100
<i>Source: Reports of Condition and Income</i>		

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

DESCRIPTION OF ASSESSMENT AREAS

The CRA requires each financial institution to define one or more assessment areas within which its performance will be evaluated. Houghton State Bank has two assessment areas. The Nonmetropolitan Iowa Assessment Area consists of Cass and Montgomery counties. The Mills County Assessment Area is comprised of Mills County, which is located in the Omaha-Council Bluffs, Nebraska-Iowa Metropolitan Statistical Area (MSA).

The following table provides information on the areas. Detailed information on these assessment areas is provided later in the evaluation.

Description of Assessment Areas			
Assessment Area	Counties in Assessment Area	# of Census Tracts	# of Branches
Nonmetropolitan Iowa	Cass, Montgomery	9	4
Mills County	Mills	5	1
<i>Source: Bank Data</i>			

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation, dated July 7, 2015, to the current evaluation, dated May 17, 2021. Examiners used the Interagency Small Institution Examination Procedures to conduct the evaluation, which includes a Lending Test. Refer to the Appendices for a description of this test.

Examiners used full-scope examination procedures to assess Houghton State Bank's performance in both assessment areas. The bank's performance in the Nonmetropolitan Iowa Assessment Area received more weight than its performance in the Mills County Assessment Area when drawing conclusions. This is because the majority of the bank's loans, deposits, and offices are located in the Nonmetropolitan Iowa Assessment Area.

Activities Reviewed

Small farm and small business loans are Houghton State Bank's primary business lines and are central to its overall business strategy. Therefore, examiners selected these products to evaluate the bank's performance. Other loan products, such as residential real estate and consumer loans, do not represent major product lines. As such, examiners did not review any other loan products as they would not provide material support for conclusions or the rating.

Examiners selected the calendar year 2020 as the review period. The bank participated in the Small Business Administration's (SBA) Paycheck Protection Program (PPP) originating 215 loans with a volume of approximately \$16.4 million in 2020. Bank management indicated this review period was an accurate representation of the institution's lending activity throughout the evaluation period despite the PPP loan activity. Bank management stated that the majority of borrowers participating in the program were existing customers of the bank.

For the Assessment Area Concentration analysis, examiners reviewed a sample from all small farm and small business loans originated and purchased during the review period. For the Geographic Distribution analysis, examiners reviewed a sample of small farm and small business loans located inside the Nonmetropolitan Iowa Assessment Area. The Mills County Assessment Area does not include any low- or moderate-income census tracts; therefore, examiners did not conduct a Geographic Distribution analysis in this area. For the Borrower Profile analysis, examiners reviewed a sample of small farm and small business loans from inside each assessment area. In 2020, the bank originated 782 small farm loans totaling approximately \$69.4 million and 387 small business loans totaling approximately \$28.7 million. The table below provides details on the samples reviewed. 2020 D&B data provided a standard of comparison for the small farm and small business loans reviewed.

Loan Products Reviewed						
Loan Category	Assessment Area Concentration		Geographic Distribution		Borrower Profile	
	#	\$(000s)	#	\$(000s)	#	\$(000s)
Small Farm	63	7,614	55	6,513	85	10,050
Small Business	58	4,846	58	3,801	88	4,369
<i>Source: Bank Data</i>						

Small farm loans contributed more weight to overall conclusions than small business loans due to higher lending volume. When conducting the Assessment Area Concentration analysis, examiners placed equal weight on the number and dollar volume of loans. When conducting the Geographic Distribution and Borrower Profile analyses, examiners placed greater weight on the number of loans than the dollar volume of loans. This is because the number of loans is a better indicator of the geographies and borrowers served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Houghton State Bank demonstrated satisfactory performance under the Lending Test. Reasonable performance under the Loan-to-Deposit Ratio, Assessment Area Concentration, Geographic Distribution, and Borrower Profile criterion support this conclusion.

Loan-to-Deposit Ratio

Houghton State Bank’s net loan-to-deposit ratio is reasonable given the institution’s size, financial condition, and assessment areas credit needs. The banks net loan-to-deposit ratio, calculated from Reports of Condition and Income data, averaged 79.3 percent over the past 22 quarters from September 30, 2015 to December 31, 2020. The ratio has trended upwards throughout the evaluation period, ranging from a low of 68.6 percent to a high of 95.6 percent, and represents an increase since the previous evaluation when it was calculated at 76 percent.

Examiners compared Houghton State Bank’s average net loan-to-deposit ratio to four other 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, Houghton State Bank’s average net loan-to-deposit ratio is comparable to the similarly-situated institutions.

Loan-to-Deposit (LTD) Ratio Comparison		
Bank	Total Assets as of 12/31/2020 (\$000s)	Average Net LTD Ratio (%)
Houghton State Bank, Red Oak, IA	199,862	79.3
Malvern Bank, Malvern, IA	167,849	91.6
FNB Bank, Fontanelle, IA	214,589	93.3
First Whitney Bank and Trust, Atlantic, IA	253,252	74.7
Glenwood State Bank, Glenwood, IA	259,105	36.5
<i>Source: Reports of Condition and Income 9/30/2015 – 12/31/2020</i>		

Assessment Area Concentration

Overall, a majority of small farm and small business loans reviewed were located inside the assessment areas. While the majority of small farm loans, by dollar amount, were located inside the assessment areas, the majority, by number, were located outside the assessment areas. The lower number of small farm loans located inside the assessment areas is because the bank purchases a substantial amount of loans from affiliated Diversified Financial Services, Inc., which provides retail financing and leasing to agricultural borrowers throughout the country. Nearly all the loans purchased from Diversified Financial Services, Inc. are located outside of the bank’s assessment areas. The following table provides details.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Business	50	86.2	8	13.8	58	3,161	65.2	1,685	34.8	4,846
Small Farm	30	47.6	33	52.4	63	4,780	62.8	2,834	37.2	7,614
Total	80	66.1	41	33.9	121	7,941	63.7	4,519	36.3	12,460
<i>Source: Bank Data. Due to rounding, totals may not equal 100.0%.</i>										

Geographic Distribution

The geographic distribution of loans reflects reasonable performance. Reasonable performance in the Nonmetropolitan Iowa Assessment Area is the basis for this conclusion. As previously mentioned, examiners did not conduct a Geographic Distribution analysis in the Mills County Assessment Area due to the lack of low- or moderate-income geographies. The Nonmetropolitan Iowa Assessment Area section of this evaluation provides details on the bank’s performance.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes. Reasonable performance in both assessment areas supports this conclusion.

Examiners focused on the percentage of small farm and small business loans to farms and businesses with gross annual revenues of \$1 million or less. The Nonmetropolitan Iowa and Mills County Assessment Areas sections of this evaluation provide details on the bank's performance.

Response to Complaints

The institution has not received any complaints regarding its CRA performance since the previous evaluation. As a result, this criterion did not affect the Lending Test rating.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices inconsistent with helping meet community credit needs.

NONMETROPOLITAN IOWA ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN NONMETROPOLITAN IOWA ASSESSMENT AREA

The Nonmetropolitan Iowa Assessment Area is comprised of nine census tracts across two counties in southwest Iowa. Specifically, the assessment area includes all of Cass and Montgomery counties. The assessment area contains two moderate-income and seven middle-income census tracts according to the 2015 American Community Survey (ACS). The bank operates four full-service offices in this assessment area. The two offices located in Red Oak are located in moderate-income census tracts. The offices located in Griswold and Cumberland are located in middle-income census tracts.

Economic and Demographic Data

The following table provides select demographic data for the Nonmetropolitan Iowa Assessment Area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	9	0.0	22.2	77.8	0.0	0.0
Population by Geography	24,055	0.0	25.5	74.5	0.0	0.0
Housing Units by Geography	11,766	0.0	26.9	73.1	0.0	0.0
Owner-Occupied Units by Geography	7,493	0.0	21.8	78.2	0.0	0.0
Occupied Rental Units by Geography	3,197	0.0	37.3	62.7	0.0	0.0
Vacant Units by Geography	1,076	0.0	31.8	68.2	0.0	0.0
Businesses by Geography	2,192	0.0	33.3	66.7	0.0	0.0
Farms by Geography	424	0.0	6.4	93.6	0.0	0.0
Family Distribution by Income Level	6,942	25.6	20.6	23.5	30.3	0.0
Household Distribution by Income Level	10,690	28.8	16.8	20.6	33.8	0.0
Median Family Income Non-Metropolitan IA		\$61,681	Median Housing Value			\$83,278
			Median Gross Rent			\$595
			Families Below Poverty Level			12.4%

*Source: 2015 ACS and 2020 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.*

The overall population in the assessment area declined slightly (644 residents), while the number of households increased slightly (171 households), since the previous evaluation. The total housing units, as well as the percentage of owner-occupied and rental units, has remained stable. The largest communities in the assessment area are Atlantic (6,669), Red Oak (5,362), Villisca (1,243) and Griswold (1,191).

Service industries represent the largest portion of the business sector at 32 percent followed by agriculture/forestry/fishing with 16 percent, non-classified businesses at 15 percent, and retail trade with 10 percent, according to 2020 D&B data. The majority of businesses are small with 86 percent operating from a single location and 70 percent employing four or less employees. The unemployment rate for the assessment area has remained stable since the previous evaluation with a high of 4.3 and low of 2.6 percent. The annual unemployment rate for the assessment area for 2020 was 4.3 percent. This is lower than the state of Iowa whose annual unemployment rate for 2020 was 5.3 percent.

According to 2020 D&B data, the assessment area contains 2,192 non-farm businesses. The number of non-farm businesses in the assessment area increased by 42 since the previous evaluation. Overall, non-farm business having gross annual revenue of \$1 million or less represent 81 percent, non-farm businesses having gross annual revenue exceeding \$1 million represent 5 percent, and non-farm business without reported revenue represent 14 percent of all non-farm businesses located in the assessment area.

According to 2020 D&B data, the assessment area contains 424 farms. The number of farms decreased by 201 since the previous evaluation. The entire decrease was in farms with gross annual revenue of \$1 million or less. This is consistent with the regional trend of smaller farm operations consolidating into larger farm operations. Overall, farms with gross annual revenue of \$1 million or less represent the vast majority of all farms in the assessment area at 97 percent.

Even though agricultural-related businesses account for only 16 percent of the business sector, the assessment area's economy is still highly dependent upon the agricultural industry. According to the 2017 Census of Agriculture, total commodity sales in excess of \$359 million were reported in the assessment area, emphasizing the significant economic role the agricultural industry maintains in the assessment area.

Competition

The Nonmetropolitan Iowa Assessment Area is highly competitive for financial services. Per 2020 FDIC Deposit Market Share data, 20 financial institutions operated 20 offices within the assessment area. Of these institutions, Houghton State Bank ranked fourth with a deposit market share of 8.6 percent of total assessment area deposits. Additionally, Farm Credit Services, farm cooperatives, and implement dealers provide significant competition for agricultural loans.

Community Contact

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

Examiners conducted an interview with a representative from an agricultural organization that serves Montgomery, Mills, and surrounding counties in southwest Iowa. The contact stated that the agricultural economy in the area has recovered from the downturn during the pandemic in 2020 and is actually in a stronger position than pre-pandemic conditions due to high commodity prices. He also stated that there is a strong demand for land as established farmers are seeking to obtain

additional acres. The contact stated that the business economy is stable and has also largely recovered from pandemic conditions. The majority of businesses have fully re-opened. He stated that there was ample assistance to businesses with the SBA PPP loans and other government and community assistance to get them through the downturn in 2020. While the business economy recovery is a little slower than the agricultural economy, overall it is stable. He stated that unemployment in the area is low and jobs are available to those that want them.

The contact identified agricultural loans for land acquisition and agriculture and small business operating lines as the primary credit needs in the area. He noted that there is competition between the numerous area banks and banks are actively seeking out lending opportunities.

Credit Needs

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that agricultural and small business lending represent the assessment area’s primary credit need.

**CONCLUSIONS ON PERFORMANCE CRITERIA IN
NONMETROPOLITAN IOWA ASSESSMENT AREA**

LENDING TEST

Houghton State Bank demonstrated reasonable performance under the Lending Test in the Nonmetropolitan Iowa Assessment Area. Reasonable performance under the Geographic Distribution and Borrower Profile criterion support this conclusion.

Geographic Distribution

The geographic distribution of loans in the Nonmetropolitan Iowa Assessment Area is reasonable. Reasonable small farm and small business lending performance supports this conclusion.

Small Farm Loans

The geographic distribution of small farm loans reflects reasonable dispersion throughout the Nonmetropolitan Iowa Assessment Area. Lending in the moderate-income census tracts compares closely to the percentage of farms located in these tracts. The following table provides details.

Geographic Distribution of Small Farm Loans					
Tract Income Level	% of Farms	#	%	\$(000s)	%
Moderate	6.4	3	5.5	153	2.3
Middle	93.6	52	94.5	6,360	97.7
Totals	100.0	55	100.0	6,513	100.0
<i>Source: 2020 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%.</i>					

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion throughout the Nonmetropolitan Iowa Assessment Area. The percentage of small business loans in the assessment area's moderate-income census tracts is comparable to the percentage of businesses located in those tracts, by number of loans. The following table provides details.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate	33.3	20	34.5	2,385	62.7
Middle	66.7	38	65.5	1,416	37.3
Totals	100.0	58	100.0	3,801	100.0

Source: 2020 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes in the Nonmetropolitan Iowa Assessment Area. Reasonable small farm and small business lending performance support this conclusion.

Small Farm Loans

The distribution of borrowers reflects reasonable penetration among farms of different sizes. The bank's lending activity to farms with gross annual revenues of \$1 million or less is below the percentage of farms reporting revenue in this category, but remains within a reasonable range. The following table provides details.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	97.2	44	80.0	4,429	68.0
>1,000,000	0.9	6	10.9	1,835	28.2
Revenue Not Available	1.9	5	9.1	249	3.8
Totals	100.0	55	100.0	6,513	100.0

Source: 2020 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%.

Small Business Loans

The distribution of borrowers reflects reasonable penetration among businesses of different sizes. The bank's lending activity to businesses with gross annual revenues of \$1 million or less is below the percentage of businesses reporting revenue in this category; however, is still within a reasonable range. The bank's willingness to meet the credit needs of businesses of varying sizes, including small businesses, by originating SBA PPP loans during the COVID-19 pandemic further supports reasonable performance under this criterion. The 13 loans included in the sample made to businesses without revenues available were SBA PPP loans. The following table provides details.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	80.5	39	67.2	2,321	61.1
>1,000,000	5.0	6	10.3	750	19.7
Revenue Not Available	14.6	13	22.4	730	19.2
Totals	100.0	58	100.0	3,801	100.0
<i>Source: 2020 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%.</i>					

MILLS COUNTY ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN MILLS COUNTY ASSESSMENT AREA

The Mills County Assessment Area consists of Mills County, which is located in southwest Iowa. The assessment area contains four middle-income and one upper-income census tracts according to the 2015 ACS. The bank operates one full-service office in a middle-income census tract within the city of Emerson. The office is located in census tract 0401.00, which changed from moderate-income to middle-income since the previous evaluation.

Economic and Demographic Data

The following table provides select demographic data for the Mills County 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	80.0	20.0	0.0
Population by Geography	14,862	0.0	0.0	76.4	23.6	0.0
Housing Units by Geography	6,082	0.0	0.0	77.2	22.8	0.0
Owner-Occupied Units by Geography	4,319	0.0	0.0	72.7	27.3	0.0
Occupied Rental Units by Geography	1,080	0.0	0.0	90.1	9.9	0.0
Vacant Units by Geography	683	0.0	0.0	85.8	14.2	0.0
Businesses by Geography	1,191	0.0	0.0	77.2	22.8	0.0
Farms by Geography	210	0.0	0.0	75.2	24.8	0.0
Family Distribution by Income Level	3,991	18.7	15.2	23.4	42.7	0.0
Household Distribution by Income Level	5,399	20.2	15.8	18.0	46.0	0.0
Median Family Income MSA - 36540 Omaha-Council Bluffs, NE-IA MSA		\$73,632	Median Housing Value			\$156,935
			Median Gross Rent			\$692
			Families Below Poverty Level			5.6%

Source: 2015 ACS and 2020 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.

While the branch located in Emerson is within the Omaha-Council Bluffs, NE-IA MSA, it is located on the eastern-most boundary of the MSA. This area is rural in nature and shares characteristics more similar to the Nonmetropolitan Iowa Assessment Area than the rest of the Mills County Assessment Area, which includes the larger communities of Omaha, Council Bluffs, and Glenwood.

The overall population in the assessment area, as well as the number of households, declined slightly since the previous evaluation (197 residents, 182 households). The total housing units has

remained stable, but the percentage of owner-occupied units declined while the percentage of rental units increased since the previous evaluation. The largest communities in the assessment area are Glenwood (5,326), Malvern (1,015), and Emerson (491) (Tabor is located partially in the assessment area with portions falling in Mills and Fremont counties 1,257).

The assessment area supports a diverse make-up of industries. According to 2020 D&B data, service industries represent the largest portion of the business sector at 30 percent followed by agriculture/forestry/fishing and non-classified businesses at 15 percent. Additional sectors with strong concentrations include retail trade (11 percent), construction (9 percent), and financial/insurance/real Estate (7 percent).

The majority of businesses are small with 91 percent operating from a single location and 71 percent employing four or less employees. Due to the short distance to Omaha and Council Bluffs, a large percentage of the population commutes to these cities for employment opportunities. The unemployment rate for Mills County has remained stable since the previous evaluation with a high of 3.9 and low of 2.1 percent. The annual unemployment rate for Mills County for 2020 was 3.9 percent. This is lower than the state of Iowa whose annual unemployment rate for 2020 was 5.3 percent.

According to 2020 D&B data, the assessment area contains 1,191 non-farm businesses. The overall number of non-farm businesses in the assessment area increased by 128 since the previous evaluation. Non-farm business having gross annual revenue of \$1 million or less accounted for the majority of the increase and overall represent 83 percent of non-farm businesses in the assessment area.

According to 2020 D&B data, the assessment area contains 210 farms, all of which have gross annual revenue of \$1 million or less. The overall agricultural presence in the assessment area is declining. The number of farms decreased by 66 and the industry overall declined from 20 to 15 percent of the business sector since the previous evaluation. Mills County is ranked 97 of 99 for agricultural sales volume by county in the state of Iowa according to the 2017 Census of Agriculture.

Competition

The Mills County Assessment Area is moderately competitive for financial services. Per 2020 FDIC Deposit Market Share data, five financial institutions operated five offices within the assessment area. Of these institutions, Houghton State Bank ranked fifth with a deposit market share of 2.6 percent of total assessment area deposits. Additionally, Farm Credit Services, farm cooperatives, and implement dealers provide significant competition for agricultural loans.

Credit Needs

Considering information from bank management and demographic and economic data, examiners determined that agricultural and small business lending represent the assessment area's primary credit needs.

CONCLUSIONS ON PERFORMANCE CRITERIA IN MILLS COUNTY ASSESSMENT AREA

LENDING TEST

Houghton State Bank demonstrated reasonable performance under the Lending Test in the Mills County Assessment Area. Reasonable performance under the Borrower Profile criteria supports this conclusion.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes in the Mills County Assessment Area. Reasonable small farm and small business lending performance support this conclusion.

Small Farm Loans

The distribution of borrowers reflects reasonable penetration among farms of different sizes. The bank's lending activity to farms with gross annual revenues of \$1 million or less is below the percentage of farms reporting revenue in this category, but remains within a reasonable range. The following table provides details.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	99.5	26	86.7	3,036	85.8
>1,000,000	0.0	0	0.0	0	0.0
Revenue Not Available	0.5	4	13.3	501	14.2
Totals	100.0	30	100.0	3,537	100.0
<i>Source: 2020 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%.</i>					

Small Business Loans

The distribution of borrowers reflects reasonable penetration among businesses of different sizes. The bank's lending activity to businesses with gross annual revenues of \$1 million or less is below the percentage of businesses reporting revenue in this category; however, is still within a reasonable range. The bank's willingness to meet the credit needs of businesses of varying sizes, including small businesses, by originating SBA PPP loans during the COVID-19 pandemic further supports reasonable performance under this criterion. The six loans included in the sample made to businesses without revenues available were SBA PPP loans. The following table provides details.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	86.5	22	73.3	307	54.0
>1,000,000	2.9	2	6.7	26	4.6
Revenue Not Available	10.7	6	20.0	235	41.4
Totals	100.0	30	100.0	568	100.0
<i>Source: 2020 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%.</i>					

APPENDICES

SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The institution's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

GLOSSARY

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the institution under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited-scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (e.g, geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary

counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as non-MSA): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Rated Area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-Income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.