

PUBLIC DISCLOSURE

November 4, 2019

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

State Bank of Lakota
Certificate Number: 16477

125 Main Street
Lakota, North Dakota 58344

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.

TABLE OF CONTENTS

Institution Rating	1
Scope of Evaluation	2
Description of Institution	3
Description of Assessment Area	4
Conclusions on Performance Criteria	5
Discriminatory or Other Illegal Credit Practices Review	7
Glossary	8

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.

State Bank of Lakota's satisfactory Community Reinvestment Act (CRA) performance under the Lending Test supports the rating. Examiners did not identify any evidence of discriminatory or illegal credit practices. The following points summarize the bank's performance.

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- A substantial majority of the small farm and small business loans reviewed were within the assessment area.
- The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes.
- The assessment area does not contain any low- or moderate-income census tracts. Therefore, examiners did not evaluate the geographic distribution of loans.
- The institution did not receive any CRA-related complaints since the previous evaluation. Therefore, this criterion did not affect the rating.

SCOPE OF EVALUATION

General Information

Interagency Small Institution Examination Procedures were used to evaluate State Bank of Lakota's CRA performance from the prior evaluation dated January 21, 2014, to November 4, 2019. These procedures evaluate an institution's performance according to the following Lending Test criteria: Loan-to-Deposit Ratio, Assessment Area Concentration, Borrower Profile, Geographic Distribution, and Response to CRA-Related Complaints. The bank does not have any lending affiliates.

Loan Products Reviewed

Examiners reviewed small farm and small business loans to evaluate the institution's performance. They selected these products based on the bank's business strategy, number and dollar volume of loans originated during the evaluation period, and assessment area credit needs. No other loan types, such as home mortgage loans, represent a major product line. As a result, examiners did not review any other products, as they would not provide any material support for conclusions or the rating. Bank records revealed that its lending focus and product mix remained relatively consistent throughout the evaluation period.

To help assess whether the bank is meeting the credit needs of the communities in which it operates, examiners analyzed small farm and small business loans originated, purchased, renewed, or extended in 2018. D&B demographic data for 2018 provided a standard of comparison against the bank's performance. D&B is an organization that maintains a database of information on farms and businesses using a variety of resources including public records, trade references, and surveys. The D&B data is used as a general indicator of the assessment area's demographics.

Examiners reviewed all small farm and small business loans from 2018 to evaluate the bank's record of lending inside its assessment area. This consisted of 74 small farm loans totaling \$10,815,000 and 66 small business loans totaling \$2,957,000. Examiners then selected statistical samples of the small farm and small business loans located inside the assessment area to evaluate the institution's record of lending to farms and businesses of different sizes. Examiners reviewed both the number and dollar volume of loans while conducting this analysis. However, they placed greater weight on the bank's performance by number of loans because it is a better indicator of the borrowers served. Further, examiners placed greater weight on the bank's small farm lending performance than its small business lending performance since agricultural loans represent the largest segment of the loan portfolio by dollar volume.

DESCRIPTION OF INSTITUTION

Background

State Bank of Lakota operates from a single facility in Lakota, North Dakota. Lakota Bank Holding Company, Inc., a one-bank holding company, owns the institution. The bank's primary business focus is agricultural lending. The FDIC rated the institution "Satisfactory" at the prior CRA Performance Evaluation dated January 21, 2014, based on Interagency Small Institution Examination Procedures. State Bank of Lakota has not opened or closed any offices or been involved in any mergers or acquisitions since the prior evaluation. Further, the institution does not have any lending affiliates or subsidiaries.

Operations

The bank offers several loan products including agricultural, commercial, and consumer loans. In addition, the institution participates in government-sponsored loan programs, including those offered through the U.S. Department of Agriculture Farm Service Agency and the Bank of North Dakota. State Bank of Lakota also offers several deposit services including checking and savings accounts, and certificates of deposit. Internet banking and mobile banking services are available as well.

Ability and Capacity

State Bank of Lakota reported total assets of \$47,187,000 as of the June 30, 2019 Reports of Condition and Income, including total loans of \$35,530,000. Total loans have increased approximately 40.8 percent since the previous CRA evaluation. The following table illustrates the loan portfolio as of June 30, 2019.

Loan Portfolio Distribution as of June 30, 2019		
Loan Category	\$(000s)	%
Construction and Land Development	139	0.4
Secured by Farmland	5,046	14.2
Secured by 1-4 Family Residential Properties	5,093	14.3
Secured by Multifamily (5 or more) Residential Properties	549	1.6
Secured by Nonfarm Nonresidential Properties	1,966	5.5
Total Real Estate Loans	12,793	36.0
Commercial and Industrial Loans	4,277	12.0
Agricultural Loans	15,198	42.8
Consumer Loans	2,539	7.2
Other Loans	723	2.0
Less: Unearned Income	0	0.0
Total Loans	35,530	100.0
<i>Source: Reports of Condition and Income</i>		

Deposits totaled \$41,795,000 as of June 30, 2019. This represents a 10.4 percent decline since the previous evaluation.

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

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. State Bank of Lakota designated one assessment area in northeast North Dakota. Specifically, the assessment area consists of Nelson County (Census Tract (CT) 9590), Ramsey County CT 9577, and Walsh County CT 9583. The assessment area is not within a metropolitan statistical area and is unchanged from the previous evaluation.

Economic and Demographic Data

The following table provides pertinent demographic data for 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	7,033	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	4,296	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	2,617	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	704	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	975	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	639	0.0	0.0	100.0	0.0	0.0
Farms by Geography	275	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	2,025	16.6	20.5	23.4	39.4	0.0
Household Distribution by Income Level	3,321	23.5	18.3	19.9	38.3	0.0
Median Family Income Non-MSAs - ND		\$72,620	Median Housing Value			\$82,271
			Median Gross Rent			\$509
			Families Below Poverty Level			3.4%
<i>Source: 2015 ACS and 2018 D&B Data</i> <i>Due to rounding, totals may not equal 100.0</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

According to 2015 American Community Survey (ACS), the assessment area’s three census tracts are all middle-income geographies. The bank’s sole office is located in Nelson County CT 9590.

State Bank of Lakota's assessment area is largely rural, and agriculture plays a significant role in its economy. Bank officials indicated that farming conditions have remained steady since the previous evaluation. Yields were above average in 2018; however, commodity prices were lower. Agricultural land values and rental rates have remained stable and relatively strong. Area farmers produce soybeans, wheat, corn, and barley. Bank officials indicated that off-farm income plays an important role in many farming operations.

Major employers include the local school district, a nursing home, and numerous ag-related businesses. Local businesses are relatively steady. The community of Lakota (population 672) recently lost its grocery store, but gained a discount store. The 2018 Bureau of Labor Statistics annualized unemployment rates for Nelson, Ramsey, and Walsh counties were 3.4, 2.9, and 3.2 percent, respectively, and the state of North Dakota rate was 1.9 percent.

Competition

The assessment area is highly competitive for financial services. According to June 30, 2019 FDIC Deposit Market Share data, Nelson, Ramsey, and Walsh counties contain 14 financial institutions operating from 28 offices. State Bank of Lakota ranked tenth amongst these institutions, with 3.3 percent of the deposits. Bank officials indicated that AgCountry Farm Credit Services is the institution's primary competitor for farm loans.

Community Contact

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

Examiners performed one community contact in conjunction with this evaluation. The community contact discussion primarily focused on the agriculture economy, with the contact stating that the overall farm economy has remained relatively steady with some downturn due to lower commodity prices and adverse weather conditions. The contact added that many farming operations rely on off-farm income to meet living expenses. Farmland values and rental rates remain steady. Nonfarm business conditions have also been relatively stable. Some area residents commute to either Grand Forks or Devils Lake for employment. Overall, the area's population basis has been stable. Lastly, the contact indicated that agriculture-related credit is the area's primary credit need.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

State Bank of Lakota demonstrated satisfactory performance under the Lending Test. Reasonable performance under the Loan-to-Deposit Ratio and Borrower Profile criterion and

outstanding performance under the Assessment Area Concentration criterion supports this conclusion.

Loan-to-Deposit Ratio

State Bank of Lakota’s loan-to-deposit ratio is reasonable given the institution’s size, financial condition, and assessment area credit needs. The bank’s loan-to-deposit ratio averaged 72.3 percent since the prior evaluation based on its quarterly Reports of Condition and Income. During this period, the ratio ranged from a low of 52.8 percent as of March 31, 2014, to a high of 84.3 percent as of June 30, 2019. Hence, the institution’s loan-to-deposit ratio is currently at its highest point in five years.

Examiners compared the bank’s average net loan-to-deposit ratio to two similarly situated institutions to help evaluate its reasonableness. Similarly situated financial institutions are defined as institutions operating in and around the assessment area, with similar asset bases, branching structures, and product lines. State Bank of Lakota’s average net loan-to-deposit ratio compares reasonably to the ratios held by similarly situated institutions. The following table provides details.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 6/30/2019 (\$000s)	Average Net Loan-to-Deposit Ratio (%)
State Bank of Lakota Lakota, North Dakota	47,187	72.3
Farmers and Merchants State Bank Langdon, North Dakota	106,735	84.2
Rolette State Bank Rolette, North Dakota	39,300	87.2

Source: Reports of Condition and Income 3/31/2014 through 6/30/2019

Assessment Area Concentration

A substantial majority of the small farm and small business loans reviewed, by number and dollar volume, were located inside the assessment area, reflecting outstanding performance. 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 Farm	69	93.2	5	6.8	74	10,303	95.3	512	4.7	10,815
Small Business	63	95.4	3	4.6	66	2,912	98.5	45	1.5	2,957

Source: Evaluation Period: 1/1/2018 to 12/31/2018 Bank Data

Borrower Profile

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes. Examiners focused on the percentage of loans, by number, to farms and businesses with gross annual revenues of \$1 million or less. Only loans located inside the assessment area were evaluated.

Small Farm Loans

The distribution of small farm loans reflects a reasonable penetration among farms of different sizes. Specifically, 97.2 percent of the small farm loans, by number, were to borrowers with gross annual farm revenues of \$1 million or less. Comparatively, 2018 D&B data indicates that 98.5 percent of the assessment area's farmers have revenues of \$1 million or less. The bank's performance is consistent with the demographic data and considered reasonable.

Small Business Loans

The distribution of small business loans reflects a reasonable penetration among businesses of different sizes. Specifically, 75.0 percent of the small business loans, by number, were to businesses with gross annual revenues of \$1 million or less. Comparatively, 2018 D&B data shows 76.2.5 percent of the assessment area's businesses have revenues of \$1 million or less. The bank's performance is consistent with the demographic data and considered reasonable.

Geographic Distribution

The assessment area does not contain any low- or moderate-income census tracts. Since the Geographic Distribution criterion focuses on the bank's record of lending in low- and moderate-income geographies, examiners did not evaluate the bank's performance.

Response to Complaints

The institution has not received any CRA-related complaints since the previous evaluation. Therefore, this performance 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 institution's CRA rating.

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.