

# **PUBLIC DISCLOSURE**

April 1, 2019

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First State Bank of Roscoe  
Certificate Number: 9005

202 North Mitchell Street  
Roscoe, South Dakota 57471

Federal Deposit Insurance Corporation  
Division of Depositor and Consumer Protection  
Kansas City Regional Office

1100 Walnut Street, Suite 2100  
Kansas City, Missouri 64106

This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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## INSTITUTION RATING

**INSTITUTION'S CRA RATING:** This institution is rated **Satisfactory**. An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

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

- The loan-to-deposit ratio is more than reasonable given the institution's size, financial condition, and assessment area credit needs.
- The bank made a majority of its small farm and small business loans within its assessment area.
- A geographic distribution analysis was not conducted as the bank's assessment area is comprised entirely of middle- and upper-income census tracts. As a result, the analysis would not result in meaningful conclusions.
- The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation. Therefore, this factor did not affect the rating.

## SCOPE OF EVALUATION

### General Information

This evaluation covers the time period from the prior evaluation dated June 3, 2013, to the current evaluation dated April 1, 2019. Examiners used the Interagency Small Institution Examination Procedures to evaluate First State Bank of Roscoe's CRA performance. These procedures considered the institution's performance according to the following Lending Test criteria.

- Loan-to-deposit ratio
- Assessment area concentration
- Geographic distribution
- Borrower profile
- Response to CRA-related complaints

### Loan Products Reviewed

Examiners determined that the bank's major product lines are agricultural and commercial loans. This conclusion considered the bank's business strategy and the number and dollar volume of loans originated during the evaluation period. Bank management indicated that the bank's lending focus and product mix remained consistent throughout the evaluation period.

The bank originated, renewed, or extended 264 small farm loans totaling \$32.2 million and 159 small business loans totaling \$14.7 million between January 1, 2018, and December 31, 2018. Examiners reviewed a sample of 57 small farm loans and 53 small business loans totaling \$8.2 million and \$4.9 million, respectively. These samples were considered representative of the bank's performance during the entire evaluation period. D&B data for 2018 provided a standard of comparison for the sampled small farm and small business loans. Home mortgage loans are not a lending focus of the bank and comprise a minimal portion of the bank's loan portfolio. As such, they were not reviewed as they would not have impacted the evaluation's results. The bank's small farm lending provided the most weight when reaching overall conclusions since it was the bank's lending focus and comprises the majority of the bank's lending when considering number and dollar volume.

While both the number and dollar volume of loans are presented, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of farms and businesses served.

## DESCRIPTION OF INSTITUTION

### Background

First State Bank of Roscoe is headquartered in Roscoe, South Dakota and operates in the north central portion of the state. Roscoe Community Bankshares, Inc., a one-bank holding company also located in Roscoe owns the institution. First State Bank of Roscoe received a satisfactory rating at its previous CRA Performance Evaluation conducted by the FDIC as of June 3, 2013. The evaluation was conducted using Interagency Small Institution Examination Procedures.

### Operations

First State Bank of Roscoe operates its main office in Roscoe and full-service branches in Bowdle and Eureka, South Dakota. The branch in Eureka was opened in June 2016. In addition, the main office was relocated from across the street in December 2014. No merger or acquisition activities have occurred since the last evaluation. The bank offers agricultural, commercial, and consumer loan products. First State Bank of Roscoe's business focus is agricultural loans in an effort to serve the credit needs of the communities. The bank also participates in government-sponsored loan programs through Farm Service Agency, Small Business Administration, and GROW South Dakota.

First State Bank of Roscoe also provides a variety of deposit services, including checking, savings, certificates of deposit, and individual retirement accounts. Alternative banking services include online banking, electronic bill pay services, and electronic periodic statements.

### Ability and Capacity

As of December 31, 2018, First State Bank of Roscoe reported total assets \$105.3 million, net loans of \$81.7 million, and total deposits of \$91.1 million. Since June 30, 2013, total assets have increased by 10.8 percent, net loans have increased by 29.7 percent, and total deposits have increased by 6.8 percent. The bank's loan portfolio is illustrated in the following table.

<b>Loan Portfolio Distribution as of December 31, 2018</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction and Land Development	0	0.0
Secured by Farmland	35,422	42.7
Secured by 1-4 Family Residential Properties	554	0.7
Secured by Multifamily (5 or more) Residential Properties	479	0.6
Secured by Nonfarm Nonresidential Properties	8,289	10.0
<b>Total Real Estate Loans</b>	<b>44,744</b>	<b>54.0</b>
Commercial and Industrial Loans	10,288	12.4
Agricultural Loans	27,205	32.8
Consumer Loans	628	0.8
Other Loans	0	0.0
Less: Unearned Income	0	0.0
<b>Total Loans</b>	<b>82,865</b>	<b>100.0</b>

*Source: Reports of Condition and Income*

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

## **DESCRIPTION OF ASSESSMENT AREA**

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance is evaluated. First State Bank of Roscoe has designated a single assessment area that includes a nonmetropolitan portion of South Dakota. The assessment area

is comprised of Edmunds, Faulk, McPherson, and Potter counties in north central South Dakota. The bank's offices are located in middle-income census tracts in Edmunds and McPherson counties.

### **Economic and Demographic Data**

According to the 2015 American Community Survey (ACS) data, the assessment area's five census tracts include four middle-income census tracts and one upper-income census tract. The following table illustrates select demographic characteristics of the assessment area.

<b>Demographic Information of the Assessment Area</b>					
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>
Geographies (Census Tracts)	5	0.0	0.0	80.0	20.0
Population by Geography	10,947	0.0	0.0	79.4	20.6
Housing Units by Geography	6,036	0.0	0.0	82.9	17.1
Owner-Occupied Units by Geography	3,636	0.0	0.0	79.6	20.4
Occupied Rental Units by Geography	966	0.0	0.0	86.1	13.9
Vacant Units by Geography	1,434	0.0	0.0	88.8	11.2
Businesses by Geography	987	0.0	0.0	80.1	19.9
Farms by Geography	489	0.0	0.0	86.7	13.3
Family Distribution by Income Level	2,905	19.3	17.4	20.0	43.3
Household Distribution by Income Level	4,602	24.2	16.8	17.1	41.9
Median Family Income for Nonmetropolitan South Dakota		\$60,961	Median Housing Value		\$84,147
Families Below Poverty Level		7.8%	Median Gross Rent		\$486

*Source: 2015 ACS Census; 2018 D&B Data.*

The analysis of small farm and small business loans under the borrower profile criterion compares the distribution of farms and businesses by gross annual revenue level. According to 2018 D&B data, there were 489 farms and 987 businesses in the assessment area.

The area economy is dependent on agriculture. The area includes a number of cow/calf operations and a limited number of dairies. According to bank management, the primary crops in the area include corn, soybeans, wheat, and sunflowers. Low commodity prices have impacted the agricultural industry. However, bank management stated that the impact has not been substantial.

Agriculture, forestry, and fishing represent the largest portion of businesses at 33.1 percent; followed by service industries; and retail trade 8.5 percent. Major employers in the area include Agtegra Cooperative; Adee Honey Farms, LP; Global Harvest Foods; Dakota Woodworking, Inc.; local hospitals and nursing homes, and local school districts. Data obtained from the U.S. Bureau of Labor and Statistics revealed that as of November 2018, the unemployment rate for Edmunds, Faulk, McPherson, and Potter counties was 2.8, 3.1, 4.6, and 3.2 percent, respectively. The comparable figures for the entire U.S. and the State of South Dakota were 3.5 and 2.9 percent, respectively. In addition, management noted that many farm operations have off-farm

employment, which helps obtain employment-related benefits, such as health insurance.

### **Competition**

The assessment area is competitive for financial services. According to June 30, 2018 FDIC Deposit Market Share data, there were 9 FDIC-insured financial institutions operating 12 offices within the assessment area. Of these institutions, First State Bank of Roscoe ranks second with a deposit market share of 18.6 percent. Plains Commerce Bank maintained the largest deposit market share at 19.2 percent.

### **Community Contact**

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

Examiners reviewed a community contact that was recently completed with an individual involved in economic development activities in the assessment area. The community contact indicated that primary credit needs in the assessment area include agricultural, commercial, and consumer loans. The contact noted that the economy is doing well and that local banks are meeting the credit needs of the community.

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

### **LENDING TEST**

First State Bank of Roscoe demonstrated satisfactory performance under the Lending Test.

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

The net loan-to-deposit ratio is more than reasonable given the institution's size, financial condition, and assessment area credit needs. First State Bank of Roscoe's net loan-to-deposit ratio, calculated from Reports of Condition and Income data, averaged 90.2 percent over the past 23 calendar quarter ends from June 30, 2013 to December 31, 2018. The bank's net loan-to-deposit ratio ranged from a low of 73.8 percent as of June 30, 2013, to a high of 101.5 percent as of September 30, 2018. As shown in the following table, First State Bank of Roscoe's average net loan-to-deposit ratio is similar to the comparable institutions listed in the table, of which two were considered to demonstrate more than reasonable performance during their latest CRA performance evaluations. Furthermore, the bank's loan participation activity demonstrates that the bank has a net sold position of approximately \$4,889,000, which would further strengthen the bank's loan-to-deposit ratio if the loans did not have to be sold to comply with legal lending limit requirements.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 12/31/2018 (\$000s)	Average Net Loan-To- Deposit Ratio (%)
First State Bank of Roscoe, Roscoe, South Dakota	105,287	90.2
Great Plains Bank, Eureka, South Dakota	109,868	104.2
Campbell County Bank, Inc., Herreid, South Dakota	102,403	87.7
Heartland State Bank, Redfield, South Dakota	87,210	96.5

Source: Reports of Condition and Income 6/30/13 through 12/31/18

### **Assessment Area Concentration**

As detailed in the following table, the bank originated a majority of its small farm and small business loans, by number, within the assessment area. Bank management indicated that most of the small business loans located outside the assessment area were to customers who had relocated their operations from the assessment area. The majority of small business loans, by dollar volume, are located outside the assessment area.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$(000s)	%	\$(000s)	%	
Small Farm	42	73.7	15	26.3	57	6,296	76.4	1,940	23.6	8,236
Small Business	31	58.5	22	41.5	53	1,675	34.1	3,232	65.9	4,907

Source: 1/1/2018 - 12/31/2018 Bank Data

### **Geographic Distribution**

A geographic distribution analysis was not conducted, as the bank's assessment area is comprised entirely of middle- and upper-income census tracts. As a result, the analysis would not result in meaningful conclusions.

### **Borrower Profile**

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes. Only sampled loans located in the assessment area were used to analyze the bank's borrower profile lending performance. Examiners focused on the performance by number of loans to farms and businesses with gross annual revenues of \$1 million or less.

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

The distribution of borrowers reflects reasonable penetration among farms of different sizes. The sampled small farm loans demonstrate that 90.5 percent of the loans were originated to farms with gross annual revenues of \$1 million or less. This performance is similar to the comparable D&B data of 96.7 percent.

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

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



The sampled small business loans demonstrate that 67.7 percent of the small business loans were originated to businesses with gross annual revenues of \$1 million or less. This performance is similar to the comparable D&B data of 72.2 percent.

**Response to Complaints**

The bank did not receive any CRA-related complaints since the previous evaluation. Therefore, this criterion did not affect the rating.

**DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

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.