

Section 1 - CRA Performance Evaluation

PUBLIC DISCLOSURE

July 10, 2023

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Shelby County State Bank
Certificate Number: 1553

508 Court St
Harlan, Iowa 51537

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

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Kansas City, Missouri 64106

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

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INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment areas, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The Lending Test is rated Satisfactory.

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment areas' credit needs.
- A majority of the small farm, small business, and home mortgage loans reviewed were inside the assessment areas.
- The geographic distribution of loans was not performed as there are no low- or moderate-income census tracts in the assessment areas.
- The distribution by borrowers reflects reasonable penetration among farms and businesses of different sizes and individuals of different income levels.
- The bank did not receive any Community Reinvestment Act (CRA)-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating

DESCRIPTION OF INSTITUTION

The Shelby County State Bank (SCSB) is headquartered in Harlan, Iowa, a rural community located in western Iowa. The bank is owned by Danes Holdings, Inc., a one-bank holding company located in Omaha, Nebraska. The bank received a Satisfactory rating at its previous FDIC Performance Evaluation, dated June 22, 2020, based on Interagency Small Institution Examination Procedures.

The bank operates 13 full-service branches throughout western and northwestern Iowa in the following communities: Elk Horn, Harlan (2), Irwin, Panama, Portsmouth, and Shelby. The bank also operates a limited-service branch at a retirement center in Harlan, Iowa. In addition, the bank opened a new branch in Avoca, Iowa, on February 16, 2021. Avoca is located in Pottawattamie County, Iowa, which is part of the Omaha-Council Bluffs, NE-IA Metropolitan Statistical Area. Lastly, the bank merged with the former First State Bank, Ida Grove, Iowa, on February 1, 2022. This resulted in the subject bank acquiring branches in Battle Creek, Danbury, Ida Grove, Mapleton, and Odebolt, Iowa. Danbury is located in Woodbury County, Iowa, which is part of the Sioux City, IA-NE-SD MSA. No other offices have been opened or closed since the previous evaluation.

SCSB offers traditional loan products including agricultural, commercial, home mortgage, and consumer loans. The bank's primary business focus is agricultural lending. The bank provides a variety of deposit services including checking, savings, money market deposit accounts, and

certificates of deposits. Alternative banking services include internet banking, mobile banking, electronic bill pay, account-to-account transfers, and ATMs.

As of March 31, 2023, Consolidated Reports of Income and Condition (Call Report), the institution reported total assets of \$542.0 million, total loans of \$337.3 million, and total deposits of \$485.9 million. Agricultural loans, including loans secured by farmland, represent the largest loan category, equaling 67.7 percent of total loans. Commercial loans, including commercial real estate loans, rank second at 16.3 percent of total loans. Home loans comprises 11.6 percent of the portfolio. The bank also originates and sells home mortgage loans to secondary market investors; however, these loans are not reflected in the Call Report data listed below. Since the prior evaluation, commercial and residential real estate loans have increased slightly while agricultural loans have decreased slightly by loan portfolio percentage. The following table details the loan portfolio distribution.

Loan Portfolio Distribution as of 3/31/2023		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	2,028	0.6
Secured by Farmland	92,801	27.5
Secured by 1-4 Family Residential Properties	39,027	11.6
Secured by Multifamily (5 or more) Residential Properties	116	<1.0
Secured by Nonfarm Nonresidential Properties	29,956	8.9
Total Real Estate Loans	163,928	48.6
Commercial and Industrial Loans	25,170	7.4
Agricultural Production and Other Loans to Farmers	135,522	40.2
Consumer Loans	11,139	3.3
Obligations of State and Political Subdivisions in the U.S.	0	0
Other Loans	1,516	0.5
Lease Financing Receivable (net of unearned income)	0	0
Less: Unearned Income	0	0
Total Loans	337,275	100.0
<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 its 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. The SCSB designated three separate assessment areas: 1) Northwest Iowa Assessment Area, 2) Omaha-Council Bluffs, NE-IA MSA Assessment Area, and 3) Sioux City, IA-NE-SD MSA Assessment area. A description of each assessment area is presented in subsequent sections.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated June 22, 2020, to the current evaluation dated July 10, 2023. Examiners used the Interagency Small Institution Examination Procedures to conduct the evaluation.

Examiners used full-scope examination procedures to assess the bank’s performance in each assessment area. The Northwest Iowa Assessment Area received the most weight when evaluating overall performance based on the breakdown of loans, deposits, and branches inside the respective assessments areas as depicted in the following table. The table does not reflect loans originated outside the respective assessment areas.

Breakdown of Loans, Deposits, and Branches						
Assessment Area	Loans		Deposits***		Branches	
	\$(000s)	%	\$(000s)	%	#	%
Northwest Iowa	182,775*	80.8	470,570	95.3	11	84.6
Omaha-Council Bluffs MSA	36,513*	16.2	3,193	0.6	1	7.7
Sioux City MSA	6,808**	3.0	20,473	4.1	1	7.7
Total	226,096	100.0	494,236	100.0	13	100.0

Source: Bank Records.
**Based on original balances for loans originated between 06/01/2020 thru 05/02/2023.*
***Based on original balances for loans originated between 02/01/2022 thru 01/27/2023.*
****FDIC Summary of Deposits 06/30/2022.*

Activities Reviewed

Examiners selected small farm, small business, and home mortgage loans to evaluate the bank’s lending performance. Examiners selected these products based on the bank’s business strategy and number and dollar volume of loans originated during the evaluation period. No other loan types, such as consumer represent a major product line. As a result, examiners did not review any other loan products, as they would provide no material support for conclusions or the rating. The bank’s small farm lending performance received the most weight when deriving overall conclusions. This is because agricultural loans represent the largest share of loans by dollar volume.

Bank management indicated that small farm and small business lending in 2022 was generally representative of the bank’s performance during the entire evaluation period. However, the bank originated 311 Paycheck Protection Program (PPP) loans in 2020 totaling \$10.5 million and 495 PPP loans in 2021 totaling \$9.6 million. Management indicated 2022 represented a return to more normalized lending. The 2022 D&B data provided a standard of comparison for the bank’s small farm and small business lending performance.

Examiners reviewed the entire universe of loans to evaluate the Assessment Area Concentration. Geographic Distribution was not analyzed as none of the assessment areas include any low- or moderate-income geographies. For the Borrower Profile criterion, examiners reviewed the entire universe of small farm and small business loans originated in the Sioux City, IA-NE-SD Assessment Area and the entire universe of the small business loans originated in the Omaha-Council Bluffs, NE-IA Assessment Area due to limited volume. In

addition, examiners reviewed a sample of small farm, small business, and home mortgage loans originated in the Northwest Iowa Assessment Area and a sample of small farm loans originated in the Omaha-Council Bluffs, NE-IA Assessment Area. Home mortgage loans were not reviewed in the Omaha-Council Bluffs, NE-IA or the Sioux City, IA-NE-SD Assessment Areas as this loan type is not a primary product for these assessment areas. The table below details the loans reviewed.

Loan Products Reviewed				
Loan Category	Universe		Borrower Profile Review	
	#	\$(000s)	#	\$(000s)
Small Farm	407	44,839	127	13,238
Small Business	259	24,128	90	8,459
Home Mortgage	115	9,174	48	4,087
<i>Source: Bank Data</i>				

The bank was not subject to the Home Mortgage Disclosure Act reporting requirements in 2022; therefore, examiners used the bank data to identify home mortgage loans. Examiners used the Federal Financial Institutions Examination Council’s (FFIEC’s) estimated 2022 median family income figures for the Northwest Iowa Assessment Area to analyze home mortgage loans under the Borrower Profile criterion. The following table details the income categories for each respective year.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2022 (\$78,900)	<\$39,450	\$39,450 to <\$63,120	\$63,120 to <\$94,680	≥\$94,680
<i>Source: FFIEC</i>				

While examiners reviewed both the number and dollar volume of loans and presented both figures throughout the evaluation, examiners emphasized performance by number of loans when conducting the Borrower Profile analyses. This is because the number of loans is a better indicator of borrowers served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

SCSB demonstrated reasonable performance under the Lending Test. Reasonable performance under the Loan-to-Deposit Ratio, Assessment Area Concentration, and Borrower Profile criteria supports this conclusion.

Loan-to-Deposit Ratio

SCSB’s net loan-to-deposit ratio is reasonable given the institution’s size, financial condition, and credit needs of the assessment areas. Examiners also considered the 248 secondary market loans totaling nearly \$38.9 million that are not reflected in the loan-to-deposit ratio. The bank’s net loan-to-deposit ratio, calculated from Call Report data, averaged 70.1 percent over

the past 12 quarters from June 30, 2020, to March 31, 2023. The ratio ranged from a low of 62.8 percent on March 31, 2022, to a high of 77.2 percent on June 30, 2020. The bank's net loan-to-deposit ratio is on a slight downward trajectory since the prior evaluation.

Examiners compared the bank's average net loan-to-deposit ratio to three other financial institutions. The comparable institutions were selected based on their asset size, geographic location, and lending focus. Bank management also indicated the comparable banks listed below are direct competitors. SCSB's average net loan-to-deposit ratio is similar to the other three comparable institutions. The following table provides details.

Loan-to-Deposit (LTD) Ratio Comparison		
Bank	Total Assets as 3/31/2023 \$(000s)	Average Net LTD Ratio (%)
The Shelby County State Bank, Harlan, IA	541,985	70.1
Midstates Bank, National, Council Bluffs, IA	654,586	64.5
Farmers Trust & Savings Bank, Earling, IA	141,624	62.1
United Bank of Iowa, Ida Grove, IA	2,316,503	80.2

Source: Reports of Condition and Income 6/30/2020 through 3/31/2023.

Assessment Area Concentration

Overall, a majority of the loans reviewed, by number and dollar volume, were located inside the bank's assessment areas. Although a majority of the small farm loans, by number and dollar volume, were located outside the assessment areas, a majority of the small business and home mortgage loans, by number and dollar volume, were located inside the assessment areas. The majority of small farm loans located outside of the assessment areas were attributed to the bank purchasing large numbers of participations from an affiliated financial institution. Bank management indicated loan demand is lower in the area due to competitive forces such as Farm Credit. As discussed later under the Northwest Iowa Assessment Area portion of this evaluation, agricultural loan demand has declined due to many farmers having disposable income from recent stimulus and relief efforts as well not needing credit because of high commodity prices. Consequently, the bank has had to purchase participations from outside its area to supplement its lending activity. The following table depicts the bank's lending activity in its assessment areas.

Lending Inside and Outside of the Assessment Areas										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Farm	407	41.1	583	58.9	990	44,839	44.9	55,099	55.1	99,938
Small Business	259	75.7	83	24.3	342	24,128	71.5	9,605	28.5	33,733
Home Mortgage	115	79.3	30	20.7	145	9,174	73.4	3,327	26.6	12,501
Total	781	52.9	696	47.1	1,477	78,141	53.5	68,031	46.5	146,172

Source: Bank Data. Due to rounding, totals may not equal 100.0%.

Geographic Distribution

The assessment areas do not contain any low- or moderate-income census tracts, and a review would not result in meaningful conclusions. Therefore, examiners did not evaluate the geographic distribution of loans.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes and individuals of different incomes. Reasonable performance in all three assessment areas supports this conclusion. Details are provided in the applicable assessment area sections of this evaluation.

Response to Complaints

The bank did not receive any CRA-related complaints since the previous evaluation; therefore, examiners did not evaluate the bank's record of responding to CRA-related complaints.

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 overall CRA rating.

NORTHWEST IOWA ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE NORTHWEST IOWA ASSESSMENT AREA

The Northwest Iowa Assessment Area is comprised of all of Shelby and Ida counties in Iowa, census tract 0701.00 in Audubon County, census tracts 0701.00, 0702.00, and 0703.00 in Crawford County, census tracts 9601.00 and 9604.00 in Monona County, and census tracts 0801.00 and 0802.00 in Sac County. The assessment area contains 14 middle-income and 1 upper-income census tract. Census tracts 0701.00 in Audubon and 0801.00 and 0802.00 in Sac Counties were classified as distressed and underserved middle-income census tracts from 2020 thru 2023. In addition, census tracts 0701.00, 0702.00, 0703.00 in Crawford County and 0901.00, 0902.00, and 0903.00 in Ida County were classified as underserved middle-income census tracts from 2020 thru 2023.

The bank operates 11 full-service offices in Battle Creek, Elk Horn, Harlan (2), Ida Grove, Irwin, Mapleton, Odebolt, Panama, Portsmouth, and Shelby, and one limited service office at the Elm Crest Retirement Center in Harlan. The Odebolt branch is in a distressed and underserved middle-income census tract, while the Battle Creek and Ida Grove branches are in distressed middle-income census tracts. The bank also operates 11 ATMs in this assessment area, two of which are located in distressed middle-income census tracts. As previously noted, the most amount of weight was given to performance in this assessment area.

Economic and Demographic Data

The following table provides select demographic characteristics on the Northwest Iowa Assessment Area.

Demographic Information of the Assessment Area						
Assessment Area: Northwest Iowa						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	15	0.0	0.0	93.3	6.7	0.0
Population by Geography	35,256	0.0	0.0	90.6	9.4	0.0
Housing Units by Geography	17,802	0.0	0.0	90.7	9.3	0.0
Owner-Occupied Units by Geography	11,966	0.0	0.0	92.0	8.0	0.0
Occupied Rental Units by Geography	3,645	0.0	0.0	85.4	14.6	0.0
Vacant Units by Geography	2,191	0.0	0.0	92.9	7.1	0.0
Businesses by Geography	4,568	0.0	0.0	91.5	8.5	0.0
Farms by Geography	1,132	0.0	0.0	95.6	4.4	0.0
Family Distribution by Income Level	9,957	18.8	20.0	22.5	38.6	0.0
Household Distribution by Income Level	15,611	21.9	16.6	19.6	42.0	0.0
Median Family Income Non-MSAs - Iowa		\$71,763	Median Housing Value			\$105,357
			Median Gross Rent			\$631
			Families Below Poverty Level			8.4%

Source: 2020 U.S. Census and 2022 D&B Data. Due to rounding, totals may not equal 100.0%.

The 2020 US Census data reveals that since the 2015 American Community Survey data, population and housing has changed slightly. For instance, the population declined by 1,880 residents, or approximately 5.1 percent throughout this period. However, the total number of housing units grew by 266 units, or approximately 1.5 percent. Of the 17,802 housing units in the assessment area, 67.2 percent are owner-occupied, 20.5 percent are occupied rental units, and 12.3 percent are vacant.

Based on 2022 D&B data, the Northwest Iowa Assessment Area is dependent on agriculture with 19.9 percent of the assessment area businesses operating in agriculture. The number of farms in the assessment area rose slightly based on 2017 Agricultural Census data. For instance, the number of farms operating in counties included in the assessment area increased by 76, or 1.7 percent, between the 2012 Agricultural Census and 2017 Agricultural Census. Further, 1,254 of the total 4,466 farming operations, or 28.1 percent, farm more than 500 acres each, confirming the presence of a significant number of larger farming operations.

Employment opportunities remain prevalent within or near the assessment area, accounting for the historically low unemployment levels during the vast majority of the evaluation period. The unemployment rates for counties included in the assessment area ranged from 1.6 to 4.4 percent as of May 2023, which is comparable to the State of Iowa’s unemployment rate of 2.6 percent as of the same time. The unemployment rates were higher throughout part of the evaluation period due to the

COVID-19 pandemic, particularly during early 2020. However, labor statistic data confirms that rates have generally trended downward since the end of the COVID-19 pandemic and remain low.

Competition

The Northwest Iowa Assessment Area is moderately competitive for financial services. According to the FDIC Deposit Market Share data as of June 30, 2022, there were 25 financial institutions operating 64 branches in the counties in the assessment area. Of these institutions, SCSB ranked second with a 15.0 percent deposit market share. The bank competes with these institutions, as well as credit unions and Farm Credit Services, for small farm and small business loans.

Community Contact

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

Examiners reviewed a recent community contact conducted with a representative of a local agricultural organization. The individual stated the area is dependent on agriculture and that the farming community was really strong until inflation starting increasing. Many farmers still have a lot of disposable income from stimulus and relief efforts. Land prices continue to escalate. Many farmers have not needed credit because of high commodity prices. It is difficult for young farmers to start out due to land, equipment, and input costs. USDA and Farm Service Agency offer beginning farmer loans. There is strong competition among financial institutions and input dealers. The contact said there are many hobby farms and that number will continue to rise. The contact also indicated a significant need for affordable housing in the area.

Credit Needs

Based on information from the community contact, bank management, and demographic and economic data, examiners concluded that small farm loans are the Northwest Iowa Assessment Area's primary credit need, followed by home mortgage loans and small business loans. Furthermore, community development needs exist related to affordable housing, community services for low- and moderate-income families, and economic development.

CONCLUSIONS ON PERFORMANCE CRITERIA IN NORTHWEST IOWA ASSESSMENT AREA

LENDING TEST

SCSB demonstrated reasonable performance under the Lending Test in the Northwest Iowa 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 and individuals of different incomes. Reasonable small farm and small business performance combined with excellent home mortgage lending performance supports this conclusion.

Small Farm Loans

The distribution of borrowers reflects reasonable penetration among farms of different sizes. As shown in the following table, the bank's record of lending to farms with revenues of \$1 million or less slightly lagged 2022 D&B demographic data; however, several factors should be considered. For example, 2017 Agricultural Census data confirms that there are 4,466 farming operations in the counties included in this assessment area, with only 2,328, or 52.1 percent, reporting interest expense. Moreover, 2017 Agricultural Census data reveals that 1,165 farms reported sales of less than \$2,500. This confirms that a large number of producers did not have any credit needs, which are typically hobby farmers or smaller producers, which limits the bank's opportunities to lend to the smaller farms.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Assessment Area: Northwest Iowa					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	99.0	52	88.1	3,661	67.7
>\$1,000,000	0.5	7	11.9	2,147	32.3
Revenue Not Available	0.4	0	0.0	0	0.0
Total	100.0	59	100.0	5,808	100.0

Source: 2022 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, by number of loans, was generally in line with the percentage of businesses with gross annual revenues of \$1 million or less. The following table provides details.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Assessment Area: Northwest Iowa					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	86.3	47	83.9	2,422	42.4
>\$1,000,000	3.7	9	16.1	3,289	57.6
Revenue Not Available	10.0	0	0.0	0	0.0
Total	100.0	56	100.0	5,711	100.0

Source: 2022 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%.

Home Mortgage Loans

The distribution of borrowers reflects excellent penetration among individuals of different income levels. As shown in the following table, the bank’s lending levels to low-income and moderate-income borrowers is comparable to the percentage of low- and moderate-income families located in the assessment area. However, the bank’s level of lending to low-income borrower is particularly noteworthy given the 8.4 percent poverty rate and the significant need for affordable housing in the assessment area. Both of these factors limits opportunities for low-income families to find and afford a home.

Distribution of Home Mortgage Loans by Borrower Income Level					
Assessment Area: Northwest Iowa					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	18.8	9	18.8	554	13.5
Moderate	20.0	11	22.9	428	10.5
Middle	22.5	7	14.6	602	14.7
Upper	38.6	19	39.6	2,438	59.7
Not Available	0.0	2	4.2	65	1.6
Total	100.0	48	100.0	4,087	100.0

Source: 2020 U.S. Census; Bank Data. Due to rounding, totals may not equal 100.0%.

OMAHA-COUNCIL BLUFFS, NE-IA METROPOLITAN STATISTICAL AREA ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN OMAHA-COUNCIL BLUFFS, NE-IA METROPOLITAN STATISTICAL AREA ASSESSMENT AREA

The Omaha-Council Bluffs, NE-IA Metropolitan Statistical Area Assessment Area is comprised of census tracts 2905.00 in Harrison County and 0215.02 in Pottawattamie County. Both census tracts are classified as middle income. The bank operates one full-service office and one ATM in this assessment area located in Avoca, Iowa. This branch was opened February 16, 2021. As previously noted, 16.2 percent of total loans and only 0.6 percent of the bank’s total deposits are from this assessment area.

Economic and Demographic Data

The following table illustrates select demographic characteristics of the Omaha-Council Bluffs, NE-IA MSA Assessment Area.

Demographic Information of the Assessment Area						
Assessment Area: Omaha-Council Bluffs, NE-IA MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	2	0.0	0.0	100.0	0.0	0.0
Population by Geography	5,502	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	2,423	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	1,689	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	491	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	243	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	647	0.0	0.0	100.0	0.0	0.0
Farms by Geography	145	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	1,473	20.6	21.0	23.5	34.9	0.0
Household Distribution by Income Level	2,180	25.9	18.1	18.6	37.5	0.0
Median Family Income MSA - 36540 Omaha-Council Bluffs, NE-IA MSA		\$87,733	Median Housing Value			\$153,715
			Median Gross Rent			\$728
			Families Below Poverty Level			5.4%

Source: 2020 U.S. Census and 2022 D&B Data. Due to rounding, totals may not equal 100.0%.

The 2020 US Census data reveals since the 2015 American Community Survey data, population and housing has increased. The population increased by 140 residents, or approximately 2.6 percent throughout this period. In addition, the total number of housing units grew by 52 units, or approximately 2.2 percent. Of the 2,423 housing units in the assessment area, 69.7 percent are owner-occupied, 20.3 percent are occupied rental units, and 10.0 percent are vacant.

Based on 2022 D&B data, the Omaha-Council Bluffs, NE-IA Assessment Area is dependent on agriculture with 18.3 percent of the assessment area businesses operating in agriculture. The number of farms in the assessment area declined slightly based on 2017 Agricultural Census data. For instance, the number of farms operating in counties included in the assessment area decreased by 99, or 4.9 percent, between the 2012 Agricultural Census and 2017 Agricultural Census. Further, 533 of the total 1,908 farming operations, or 27.9 percent, farm more than 500 acres each, confirming the presence of a significant number of larger farming operations.

Employment opportunities remain prevalent within or near the assessment area, accounting for the historically low unemployment levels during the vast majority of the evaluation period. The unemployment rates for counties included in the assessment area ranged from 2.3 to 2.5 percent as of May 2023, which is comparable to the State of Iowa's unemployment rate of 2.6 percent as of the same time. The unemployment rates were higher throughout part of the evaluation period due to the COVID-19 pandemic, particularly during early 2020. However, labor statistic data confirms that rates have generally trended downward since the end of the COVID-19 pandemic and remain low.

Competition

The Omaha-Council Bluffs, NE-IA MSA Assessment Area is moderately competitive for financial services. According to the FDIC Deposit Market Share data as of June 30, 2022, there were 12 financial institutions operating 32 branches in the counties within the assessment area. Of these institutions, SCSB ranked last with a 0.1 percent deposit market share. The bank competes with these institutions, as well as credit unions and Farm Credit Services, for small farm and small business loans.

Community Contacts

Examiners reviewed a community contact conducted with a representative from an organization that connects Iowans with resources within the state. The contact stated the demographics of the area are mixed between the Council Bluffs area and the rest of the county, which is more rural. In the more rural areas, jobs are more related to agricultural and smaller “mom and pop” businesses. The commercial sector continues to rebound from the pandemic with the biggest challenge being a shortage of qualified workers. There is a high demand for labor and a limited number of available employees. As a result, many businesses have been offering hiring incentives and flexible scheduling to attract new workers. With regard to the farming economy, higher commodity prices have helped offset higher input costs. There is a lack of affordable housing in the area and rising interest rates have made it difficult to purchase a home.

Credit and Community Development Needs and Opportunities

Based on information from the community contact, bank management, and demographic and economic data, examiners concluded that small farm loans are the Omaha-Council Bluffs, NE-IA MSA Assessment Area’s primary credit need followed by small business and home mortgage loans. Furthermore, community development needs exist related to affordable housing, community services for low- and moderate-income families, and economic development.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE OMAHA-COUNCIL BLUFFS, NE-IA MSA AA

LENDING TEST

SCSB demonstrated reasonable performance under the Lending Test in the Omaha-Council Bluffs, NE-IA MSA 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. Reasonable small farm and small business lending performance supports this conclusion. Home mortgage loans are not a primary product in this assessment area and were not reviewed.

Small Farm Loans

The distribution of borrowers reflects reasonable penetration among farms of different sizes. As shown in the following table, the bank's record of lending to farms with revenues of \$1 million or less slightly lags 2022 D&B demographic data; however, several factors should be considered. For example, 2017 Agricultural Census data confirms that there are 1,908 farming operations in counties included in this assessment area, with only 910, or 47.7 percent, reporting interest expense. Moreover, 2017 Agricultural Census data reveals that 502 farms reported sales of less than \$2,500. This confirms that a large number of producers did not have any credit needs, which are typically hobby farmers or smaller producers, which limits the bank's opportunities to lend to the smaller farms.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Assessment Area: Omaha-Council Bluffs, NE-IA MSA					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	100.0	29	93.5	4,068	83.6
>\$1,000,000	0.0	2	6.5	800	16.4
Revenue Not Available	0.0	0	0.0	0	0.0
Total	100.0	31	100.0	4,868	100.0

Source: 2022 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, by number of loans, was slightly above the percentage of businesses with gross annual revenues of \$1 million or less. The following table provides details.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Assessment Area: Omaha-Council Bluffs, NE-IA MSA					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	86.6	17	89.5	929	41.7
>\$1,000,000	2.3	2	10.5	1,300	58.3
Revenue Not Available	11.1	0	0.0	0	0.0
Total	100.0	19	100.0	2,229	100.0

Source: 2022 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%.

SIOUX CITY, IA-NE-SD MSA ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE SIOUX CITY, IA-NE-SD MSA ASSESSMENT AREA

Sioux City, IA-NE-SD MSA Assessment Area

The Sioux City, IA-NE-SD MSA Assessment Area is comprised of census tract 0031.00 in Woodbury County, Iowa. This census tract is classified as middle income. The bank operates one full-service office and one ATM in this assessment area located in Danbury, Iowa. This branch was acquired by the subject bank as of February 1, 2022. As previously noted, only 3.0 percent of the bank’s total loans and 4.1 percent of total deposits are from this assessment area.

Economic and Demographic Data

The following table provides select demographic characteristics on the Sioux City, IA-NE-SD MSA Assessment Area.

Demographic Information of the Assessment Area						
Assessment Area: Sioux City, IA-NE-SD MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	1	0.0	0.0	100.0	0.0	0.0
Population by Geography	3,660	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	1,870	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	1,322	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	301	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	247	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	432	0.0	0.0	100.0	0.0	0.0
Farms by Geography	104	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	1,120	16.0	18.2	29.0	36.8	0.0
Household Distribution by Income Level	1,623	21.5	17.7	22.4	38.4	0.0
Median Family Income MSA - 43580 Sioux City, IA-NE-SD MSA		\$74,387	Median Housing Value			\$89,700
			Median Gross Rent			\$672
			Families Below Poverty Level			4.6%

Source: 2020 U.S. Census and 2022 D&B Data. Due to rounding, totals may not equal 100.0%.

The 2020 US Census data reveals since the 2015 American Community Survey data, the population declined by 251 residents, or approximately 6.4 percent throughout this period. In addition, the total number of housing units declined by 34 units, or approximately 1.8 percent. Of the 1,870 housing units in the assessment area, 70.7 percent are owner-occupied, 16.1 percent are occupied rental units, and 13.2 percent are vacant.

Based on 2022 D&B data, the Sioux City, IA-NE-SD Assessment Area is dependent on agriculture with 19.4 percent of the assessment area businesses operating in agriculture. The number of farms in the assessment area rose slightly based on 2017 Agricultural Census data. For instance, the number of farms operating in Woodbury County increased by 64, or 6.6 percent, between the 2012 Agricultural Census and 2017 Agricultural Census. Further, 262 of the total 1,037 farming operations, or 25.3 percent, farm more than 500 acres each, confirming the presence of a significant number of larger farming operations.

Employment opportunities remain prevalent within or near the assessment area, accounting for the historically low unemployment levels during the vast majority of the evaluation period. The unemployment rates for Woodbury County was 2.5 percent as of May 2023, which is comparable to the State of Iowa unemployment rate of 2.6 percent as of the same time. The unemployment rates were higher throughout part of the evaluation period due to the COVID-19 pandemic, particularly during early 2020. However, labor statistic data confirms that rates have generally trended downward since the end of the COVID-19 pandemic and remain low.

Competition

The Sioux City, IA-NE-SD MSA Assessment Area is moderately competitive for financial services. According to the FDIC Deposit Market Share data as of June 30, 2022, there were 21 financial institutions operating 47 branches in counties within the assessment area. Of these institutions, SCSB ranked 19th with a 0.6 percent deposit market share. The bank competes with these institutions, as well as credit unions and Farm Credit Services, for small farm and small business loans.

Community Contact

Examiners reviewed a recent community contact conducted with a representative of a local economic development group that focuses on increasing and enhancing employment opportunities. The individual stated the economy is heavily based on food processing plants and manufacturing. There is a shortage of qualified workers. Wages have increased in the last few years with many employers offering incentives to potential employees. There is not enough housing stock. Reportedly, there are some housing projects underway but they are out of the reach of low- and moderate-income individuals; however, it does open up some mid-level housing as middle-income individuals 'buy up'. The value of farm land has risen dramatically and is out of reach for beginning farmers. The larger farm operations generally have more and larger credit needs while smaller farms have less credit needs. Farmers seek credit from banks and input dealers.

Credit Needs

Based on information from the community contact, bank management, and demographic and economic data, examiners concluded that small farm loans are the Sioux City, IA-NE-SD Assessment Area's primary credit need, followed by home mortgage loans and small business loans. Furthermore, community development needs exist related to affordable housing, community services for low- and moderate-income families, and economic development.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE SIOUX CITY, IA-NE-SD MSA ASSESSMENT AREA

LENDING TEST

SCSB demonstrated reasonable performance under the Lending Test in the Sioux City, IA-NE-SD MSA Assessment Area. Reasonable performance under the Borrower Profile criteria supports this conclusion. This assessment area received the least amount of weight due to the limited deposit and lending activity occurring in this area.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes. The bank’s reasonable small farm and small business lending performance supports this conclusion. Home mortgage loans are not a primary product in this assessment area and were not reviewed.

Small Farm Loans

The distribution of borrowers reflects reasonable penetration among farms of different sizes. As shown in the following table, the bank’s record of lending to farms with revenues of \$1 million or less slightly lags 2022 D&B demographic data; however, the performance is still reasonable.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Assessment Area: Sioux City, IA-NE-SD MSA					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	99.0	34	91.9	2,142	83.6
>\$1,000,000	1.0	3	8.1	420	16.4
Revenue Not Available	0.0	0	0.0	0	0.0
Total	100.0	37	100.0	2,562	100.0

Source: 2022 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, by number of loans, was slightly below the percentage of businesses with gross annual revenues of \$1 million or less. The following table provides details.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Assessment Area: Sioux City, IA-NE-SD MSA					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	85.6	12	80.0	371	71.5
>\$1,000,000	1.9	3	20.0	148	28.5
Revenue Not Available	12.5	0	0.0	0	0.0
Total	100.0	15	100.0	519	100.0
<i>Source: 2022 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.