

# **PUBLIC DISCLOSURE**

December 3, 2018

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The Wanda State Bank  
Certificate Number: 1908

121 West Main Street  
Wanda, Minnesota 56294

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

1100 Walnut Street, Suite 2100  
Kansas City, Missouri 64106

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

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## INSTITUTION RATING

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

The Wanda State Bank'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 performance.

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- The bank made a majority of its small farm loans in the assessment area.
- Because the assessment area does not include any low- or moderate-income geographies, review of the geographic distribution of loans would not result in meaningful conclusions. Therefore, this factor was not evaluated.
- The distribution of borrowers reflects a reasonable penetration of loans among farms of different revenue sizes.
- The institution did not receive any CRA-related complaints since the prior evaluation; therefore, this factor did not affect the rating.

## SCOPE OF EVALUATION

### General Information

This evaluation covers the period from the prior evaluation dated January 2, 2013, to the current evaluation dated December 3, 2018. Examiners used Interagency Small Institution Examination Procedures to evaluate The Wanda State Bank's CRA performance.

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

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

### Loan Products Reviewed

Examiners determined that the bank's major product line is agricultural loans. This conclusion considered the business strategy, the number and dollar volume of loans originated or renewed during the evaluation period, and a review of the Consolidated Reports of Condition and Income (Reports of Condition).

The September 30, 2018, Report of Condition data indicates that, by dollar amount, agricultural loans comprise 89.2 percent and commercial loans comprise 5.7 percent of the total loan portfolio. Home mortgage loans comprise 4.3 percent of the loan portfolio. Management indicated small farm loans are the primary business focus and the community contact stated that agricultural lending is a primary credit need. Examiners did not review home mortgage loans or commercial loans because they are not a lending focus for the bank and provide no material support for conclusions.

Bank records indicate that the lending focus and product mix remained generally consistent throughout the six-year evaluation period. Therefore, examiners selected a sample of 34 small farm loans totaling \$3.053 million that were originated or renewed between January 1, 2017, and December 31, 2017. This sample was chosen from a universe of 149 small farm loans totaling \$15.631 million originated or renewed during that same time period. Bank management considered 2017 to be representative of the performance during the entire evaluation period. D&B data for 2017 provided a standard of comparison for lending performance.

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

## DESCRIPTION OF INSTITUTION

### Background

The Wanda State Bank is a full-service financial institution operating from one location in Wanda, Minnesota, and is not owned by a holding company. The bank has no affiliates. The Wanda State Bank received a Satisfactory rating at its January 2, 2013 FDIC Performance Evaluation based on Interagency Small Institution Examination Procedures.

### Operations

The Wanda State Bank offers loan products including agricultural, commercial, residential, and consumer loans. The bank also provides a variety of deposit services including checking, savings, and certificates of deposit. In addition, customers have access to their accounts via internet banking and mobile banking. The Wanda State Bank has not opened or closed any branches, or had any merger or acquisition activities since the prior evaluation.

### Ability and Capacity

As of the September 30, 2018, Report of Condition, The Wanda State Bank had total assets of \$127.4 million, total deposits of \$104.3 million, and total loans of \$83.0 million. Since the September 30, 2012, Reports of Condition, total assets have increased by 1.0 percent, deposits have increased by 1.8 percent, and loans have increased by 48.3 percent. The loan portfolio is illustrated in the following table.

Loan Portfolio Distribution as of September 30, 2018		
Loan Category	\$(000s)	%
Construction and Land Development	0	0.0
Secured by Farmland	31,768	38.3
Secured by 1-4 Family Residential Properties	3,596	4.3
Secured by Multifamily (5 or more) Residential Properties	0	0.0
Secured by Nonfarm Nonresidential Properties	2,045	2.5
<b>Total Real Estate Loans</b>	<b>37,409</b>	<b>45.1</b>
Commercial and Industrial Loans	2,729	3.3
Agricultural Loans	42,281	50.9
Consumer Loans	620	0.7
Other Loans	0	0.0
Less: Unearned Income	0	0.0
<b>Total Loans</b>	<b>83,039</b>	<b>100.0</b>

*Source: Reports of Condition*

Examiners did not identify any financial, legal, or other impediments that affect The Wanda State Bank's ability to meet assessment area credit needs.

## DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to designate one or more assessment areas within which its CRA performance will be evaluated. The Wanda State Bank designated a single assessment area in nonmetropolitan Minnesota. The following sections discuss demographic and economic information for the assessment area.

### Economic and Demographic Data

The Wanda State Bank's assessment area includes all of Brown and Redwood counties, census tracts 2701 and 2702 in Cottonwood County, and census tract 7904 in Renville County. The assessment area is comprised of 16 middle-income census tracts and 1 upper-income census tract.

Changes in the assessment area's census tract designations since the 2010 U.S. Census include an decrease in the number of moderate-income census tracts (from 2 to 0), an increase in the number of middle-income tracts (from 15 to 16), and an increase in the number of upper-income tracts (from 0 to 1). The following table illustrates select demographic characteristics of the assessment area.

<b>Demographic Information of the Assessment Area</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	17	0.0	0.0	94.1	5.9	0.0
Population by Geography	49,310	0.0	0.0	90.6	9.4	0.0
Housing Units by Geography	22,521	0.0	0.0	92.5	7.5	0.0
Owner-Occupied Units by Geography	15,903	0.0	0.0	90.8	9.2	0.0
Occupied Rental Units by Geography	4,404	0.0	0.0	97.4	2.6	0.0
Vacant Units by Geography	2,214	0.0	0.0	94.8	5.2	0.0
Businesses by Geography	3,405	0.0	0.0	92.2	7.8	0.0
Farms by Geography	1,098	0.0	0.0	98.8	1.2	0.0
Family Distribution by Income Level	12,957	18.2	19.1	23.7	39.0	0.0
Household Distribution by Income Level	20,307	23.0	16.7	19.9	40.4	0.0
Median Family Income – Nonmetropolitan Minnesota	\$63,182		Median Housing Value			\$108,967
			Median Gross Rent			\$595
			Families Below Poverty Level			6.7%

*Source: 2015 ACS, 2017 D&B Data  
Due to rounding, totals may not equal 100.0.  
(\* The NA category consists of geographies that have not been assigned an income classification.*

According to 2017 D&B demographic data, there are 1,098 farms in the assessment area, of which 98.5 percent reported gross annual revenues of \$1 million or less, 0.9 percent reported

gross annual revenues greater than \$1 million, and 0.6 percent did not report revenues. The analysis of small farm loans under the Borrower Profile criterion (discussed later in this evaluation) compares the distribution of farms by gross annual revenue level.

Service industries represent the largest portion of businesses at 32.8 percent; followed by agriculture, forestry, and fishing at 24.4 percent; retail trade at 10.0 percent; and finance, insurance, and real estate at 6.8 percent. In addition, 76.4 percent of area businesses have 4 or fewer employees, and 87.2 percent operate from a single location.

The following table presents the average annual unemployment rates since the 2013 evaluation for the counties in the assessment area, the State of Minnesota, and for the U.S.

Unemployment Rates					
Area	2013	2014	2015	2016	2017
	%	%	%	%	%
Brown County	5.2	4.6	4.1	4.1	3.8
Cottonwood County	5.8	5.2	4.8	7.3	6.1
Redwood County	5.5	4.4	3.9	4.1	3.9
Renville County	6.5	5.5	4.8	5.3	4.7
Minnesota	5.0	4.2	3.7	3.9	3.5
Nation	7.4	6.2	5.3	4.9	4.4

*Source: Bureau of Labor Statistics and Minnesota Department of Employment and Economic Development*

The unemployment rates have generally declined throughout the evaluation period, both locally and nationwide, with the exception of 2016 which shows an increase for the State and Cottonwood, Redwood, and Renville Counties. The county rates are higher than the state rates and generally lower than the national average. While rates are higher than the State and did increase in 2016, overall the unemployment rates have decreased, which indicates economic improvement.

**Competition**

The Wanda State Bank operates in a competitive banking environment. Competition largely comes from community banks, national banks, regional banking chains, and alternative forms of financing. According to the June 30, 2017, FDIC Deposit Market Share data, 23 financial institutions operate 37 offices in the assessment area. Of these institutions, The Wanda State Bank ranked 6<sup>th</sup> with a 5.8 percent deposit market share. The largest depository institution, Minnwest Bank, held 18.4 percent of the deposit market share.

The bank is not required to collect or report its small farm loan data, and it has not elected to do so. Therefore, the analysis of small farm loans does not include comparisons against aggregate data. The aggregate data, however, reflects the level of demand or small farm loans and is therefore included. Aggregate data for 2017 shows that 15 institutions reported 877 small farm loans in the assessment area, indicating a significant degree of competition for this product.

## **Community Contact**

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

For this evaluation, examiners used information from a previously conducted community contact. The contact is a representative of a government entity operating within the assessment area. The contact stated that crop yield prices have started to decline in 2017. Additionally, land rental costs are still relatively high and land prices have declined. The contact indicated that many farmers supplement their farming operation with off-farm income. The contact stated that local community banks are actively offering loan programs to assist farmers; however, some applications for financing are being referred to government agencies when the applicants are near their credit limits. The contact stated that the primary credit need is agricultural lending. The contact also stated that farmers' equity in farmland has been eroding because of increased borrowing. Finally, the contact confirmed that agricultural lending is very competitive, with a high number of alternative financing sources available.

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that agricultural loans represent the primary credit need of the assessment area. According to the community contact, opportunity exists for originating agricultural loans, including loans for grain storage facilities and general operating costs.

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

The Wanda State Bank demonstrated satisfactory performance under the Lending Test. The bank's reasonable performance in the Loan-to-Deposit Ratio, Assessment Area Concentration, and Borrower Profile performance support this conclusion.

### **LENDING TEST**

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

The Wanda State Bank's average net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The net loan-to-deposit ratio, calculated from Reports of Condition data, averaged 66.8 percent over the past 23 calendar quarters from March 31, 2013, to September 30, 2018. The ratio ranged from a low of 49.0 percent as of March 31, 2013, to a high of 79.6 percent as of June 30, 2018. The net-loan-to deposit ratio has trended upward during the evaluation period.

The Wanda State Bank's loan-to-deposit ratio is reasonable compared to the following similarly-situated banks, which were selected based on asset size, location, and lending focus.



Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of September 30, 2018 (\$000s)	Average Net LTD Ratio (%)
The Wanda State Bank Wanda, Minnesota	127,396	66.8
Farmers & Merchants State Bank of Springfield Springfield, Minnesota	116,698	79.4
United Southwest Bank Vesta, Minnesota	45,266	41.3
Integrity Bank Wabasso, Minnesota	59,952	91.8
<i>Source: Reports of Condition and Income 3/31/2013 through 9/30/2018</i>		

### **Assessment Area Concentration**

The Wanda State Bank originated a majority of its small farm loans, by number and dollar volume, within its assessment area. See the following table.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollars Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Farm	30	88.2	4	11.8	34	2,765	90.6	288	9.4	3,053
<i>Source: Bank Records</i>										

### **Geographic Distribution**

Examiners use the geographic distribution analysis to show the dispersion of loans in low-, moderate-, middle-, and upper-income CTs. The assessment area does not include any low- or moderate-income geographies and a review of the geographic distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.

### **Borrower Profile**

The distribution of borrowers reflects reasonable penetration among farms of different revenue sizes. The following table shows that 96.7 percent of The Wanda State Bank's small farm loans were to farms with gross annual revenues of \$1 million or less. The bank's performance is consistent with demographics, as 98.0 percent of farms in the assessment area are within this revenue category.

<b>Distribution of Small Farm Loans by Gross Annual Revenue Category</b>					
<b>Gross Revenue Level</b>	<b>% of Farms</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
≤ \$1,000,000	98.0	29	96.7	2,853	93.5
> \$1,000,000	1.0	1	3.3	200	6.5
Revenue Not Available	1.0	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>30</b>	<b>100.0</b>	<b>3,053</b>	<b>100.0</b>

*Source: 2017 D&B Data, Bank Records*

**Response to Complaints**

The Wanda State Bank did not receive any CRA-related complaints since the prior evaluation; therefore, this criterion did not affect the rating.

**DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

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