

PUBLIC DISCLOSURE

March 29, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The State Bank of Faribault
Certificate Number: 1610

428 Central Avenue
Faribault, Minnesota 55021

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 State Bank of Faribault's satisfactory Community Reinvestment Act (CRA) performance under the applicable performance criteria supports the overall rating. The following points summarize the bank's performance.

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and the assessment areas' credit needs.
- A majority of the small business and home mortgage loans reviewed were located inside the assessment areas.
- The geographic distribution of small business and home mortgage loans reflects reasonable dispersion throughout the assessment areas.
- The distribution of borrowers reflects reasonable penetration among businesses of different sizes and individuals of different income levels.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

DESCRIPTION OF INSTITUTION

The State Bank of Faribault is headquartered in Faribault, Minnesota and is wholly owned by Faribault Bancshares, Inc., a one-bank holding company based in Faribault, Minnesota. In addition to its main office in Faribault, the bank operates two full-service branches located in Faribault and Prior Lake, Minnesota. On June 3, 2019, the bank opened its branch in Prior Lake, Minnesota. The State Bank of Faribault received a Satisfactory rating at its previous FDIC Performance Evaluation dated May 26, 2015, which was based on Interagency Small Institution Examination Procedures.

The bank offers various loan products including commercial, agricultural, home mortgage, and consumer loans. Commercial loans continue to represent the institution's primary business line, followed by home mortgage loans. Additionally, the bank offers loans through the Small Business Administration (SBA). The bank participated in the Paycheck Protection Program, administered by the SBA, by originating 231 loans totaling approximately \$15.1 million from April 6, 2020, to August 12, 2020.

The institution provides a variety of deposit services including checking, savings, individual retirement accounts, and certificates of deposit. In addition to traditional banking services, customers have access to ATMs; online banking, including electronic bill pay and periodic statements; telephone banking; and mobile banking, including mobile deposit.

As of December 31, 2020, assets totaled approximately \$267,715,000, loans totaled \$143,630,000, and deposits totaled \$239,803,000.

Loan Portfolio Distribution as of December 31, 2020		
Loan Category	\$ (000s)	%
Construction and Land Development	8,727	6.1
Secured by Farmland	11,903	8.3
Secured by 1-4 Family Residential Properties	39,900	27.8
Secured by Multifamily (5 or more) Residential Properties	8,767	6.1
Secured by Nonfarm Nonresidential Properties	36,634	25.6
Total Real Estate Loans	105,931	73.8
Commercial and Industrial Loans	24,688	17.2
Agricultural Loans	5,539	3.8
Consumer Loans	7,394	5.1
Other Loans	78	0.1
Less: Unearned Income	0	0.0
Total Loans	143,630	100.0
<i>Source: Reports of Condition</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 CRA performance will be evaluated. The State Bank of Faribault designated two contiguous assessment areas that consist of portions of the nonmetropolitan area of Minnesota and portions of the Minneapolis-St. Paul-Bloomington, Minnesota-Wisconsin Metropolitan Statistical Area (MSA). The Faribault Assessment Area is made up of nonmetropolitan areas in Minnesota, and the Prior Lake Assessment Area is made up of portions of the Minneapolis-St. Paul-Bloomington, Minnesota-Wisconsin MSA. The Faribault Assessment Area remains the same as the previous evaluation; however, the Prior Lake Assessment Area is new and incorporates the new Prior Lake branch. Additional details regarding assessment area demographics and other information can be found in the Conclusions on Performance section for each respective assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the previous evaluation dated May 26, 2015, to the current evaluation dated March 29, 2021. Examiners used Interagency Small Institution Examination Procedures to evaluate The State Bank of Faribault's CRA performance. These procedures focus on the bank's performance under the Lending Test as outlined in the Small Bank Performance Criteria appendix.

Examiners determined it was most appropriate to complete full scope reviews of both assessment areas when considering the volume of loan activity and distribution of offices amongst the assessment areas. Furthermore, a full scope review of the Prior Lake Assessment Area was completed as it's a new assessment area since the previous evaluation. To assess the overall performance, examiners gave greater weight to conclusions derived from the Faribault Assessment Area because it comprises the vast majority of the bank's loans and branches.

Activities Reviewed

Examiners determined that the bank's major product lines are small business loans followed by home mortgage loans. This conclusion considered discussions with management regarding the bank's business strategy, review of bank records of the number and dollar volume of loans originated during the evaluation period, and a review of the Consolidated Report of Condition and Income (Report of Condition). Small business lending received the most weight when deriving overall conclusions. This is consistent with the bank's loan portfolio composition, volume of loans recently originated, and management's stated business focus. Management stated, and examiners confirmed, that the increase in small business loans originated in 2020 stems from the bank's participation in the SBA's Paycheck Protection Program. Examiners did not review small farm or consumer installment lending activities because they each represent a small portion of the loan portfolio, are not a major product line, and provide no material support for conclusions.

Bank records indicate that the lending focus and product mix remained generally consistent throughout the evaluation period. Therefore, examiners reviewed all small business loans originated or renewed in 2020, as this period was considered representative of the bank's performance during the entire evaluation period. D&B data for 2020 provided a standard of

comparison for the bank's small business lending performance. In addition, examiners reviewed all home mortgage loans reported as originated or purchased on the bank's 2020 Home Mortgage Disclosure (HMDA) Loan Application Register. The State Bank of Faribault was a new HMDA reporter in 2020 with the addition of the Prior Lake branch; therefore, that is the only year of HMDA data available to analyze and review. The 2015 American Community Survey (ACS) data provided a standard of comparison for the bank's home mortgage lending performance.

For the Lending Test, examiners reviewed the entire universe of loans to evaluate the Assessment Area Concentration criterion. All loans inside the assessment areas were further reviewed to evaluate the Geographic Distribution criterion. Finally, examiners reviewed a sample of small business loans and all home mortgage loans originated inside the assessment areas, to evaluate the Borrower Profile criterion. The table below provides information on the number and dollar volume of loan products reviewed.

Loan Products Reviewed				
Loan Category	Universe		Reviewed	
	#	\$(000s)	#	\$(000s)
Small Business	468	44,424	60	4,166
Home Mortgage	290	55,893	214	39,927

Source: 2020 Bank Data, 2020 HMDA Data

While the 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 businesses and individuals served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

The State Bank of Faribault demonstrated satisfactory performance under the Lending Test. The bank's performance under all of the evaluated criteria supports this conclusion.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and credit needs in the assessment areas. The bank's ratio, calculated from Report of Condition data, averaged 68.3 percent over the past 23 calendar quarters from June 30, 2015, to December 31, 2020. The ratio ranged from a high of 73.7 percent as of June 30, 2019, to its current low of 58.8 percent as of December 31, 2020. The loan-to-deposit ratio has slightly decreased in 2020, which management attributed to an influx of deposits due to uncertainties surrounding the global pandemic. Examiners confirmed deposits have increased by approximately 27 percent from 2019 to 2020. Overall, The State Bank of Faribault maintained a ratio that reasonably compares to the similarly situated institutions shown in the following table. Examiners selected comparable institutions based on their asset size, geographic location, and lending focus.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 12/31/20 \$(000s)	Average Net LTD Ratio (%)
1 st United Bank Faribault, Minnesota	175,029	58.2
Castle Rock Bank Castle Rock, Minnesota	237,382	52.5
Community Resource Bank Northfield, Minnesota	348,403	92.6
The State Bank of Faribault Faribault, Minnesota	267,715	68.3

Source: Reports of Condition 6/30/2015 through 12/31/2020

Assessment Area Concentration

The State Bank of Faribault originated a majority of small business and home mortgage loans within its assessment areas as shown in the following table.

Lending Inside and Outside of the Assessment Areas										
Loan Category	Number of Loans				Total	Dollar Amount of Loans \$(000s)				Total
	Inside	Outside	#	%		Inside	Outside	#	%	
#	\$	#	%	#	\$	%	#	\$	%	\$(000s)
Small Business	367	78.4	101	21.6	468	34,002	76.5	10,422	23.5	44,424
Home Mortgage	214	73.8	76	26.2	290	39,927	71.4	15,966	28.6	55,893

Source: 2020 Bank Data, 2020 HMDA Data

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion. Both assessment areas do not include any low-income census tracts; therefore, conclusions were based on performance in the moderate-income census tracts. Reasonable overall performance in both assessment areas support this conclusion. Refer to comments specific to each assessment area later in this evaluation for further information.

Borrower Profile

The distribution of borrowers reflects reasonable penetration of loans among businesses of different sizes and individuals of different income levels. Reasonable overall performance in both assessment areas support this conclusion. Examiners focused on the bank's record of lending to businesses with gross annual revenues of \$1 million or less and low- and moderate-income home mortgage borrowers. Refer to comments specific to each assessment area later in this evaluation for further information.

Response to Complaints

The institution has not received 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 inconsistent with helping to meet community credit needs.

FARIBAULT ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION'S OPERATIONS IN FARIBAULT ASSESSMENT AREA

The Faribault Assessment Area contains all census tracts in Rice County, which is part of the nonmetropolitan area of Minnesota. This assessment area remains unchanged since the previous CRA evaluation.

According to 2015 ACS data, the assessment area includes 1 moderate-income census tract, 7 middle-income census tracts, and 5 upper-income census tracts. As previously stated, the bank operates its main office and a branch office in Faribault, Minnesota. The Faribault main office is located in a middle-income census tract, and the Faribault branch office is located in the moderate-income census tract.

Economic and Demographic Data

The following table illustrates select demographic characteristics of the assessment area.

Demographic Information of the Faribault Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	13	0.0	7.7	53.8	38.5	0.0
Population by Geography	64,886	0.0	6.0	57.3	36.7	0.0
Housing Units by Geography	24,531	0.0	5.9	58.2	35.9	0.0
Owner-Occupied Units by Geography	16,655	0.0	5.8	50.9	43.3	0.0
Occupied Rental Units by Geography	5,877	0.0	7.3	77.1	15.6	0.0
Vacant Units by Geography	1,999	0.0	2.9	62.4	34.7	0.0
Businesses by Geography	4,751	0.0	5.7	52.1	42.3	0.0
Farms by Geography	389	0.0	1.8	26.5	71.7	0.0
Family Distribution by Income Level	15,434	16.6	13.4	22.9	47.1	0.0
Household Distribution by Income Level	22,532	19.2	14.6	17.2	49.1	0.0
Median Family Income Non-Metropolitan - MN	\$63,045	Median Housing Value			\$188,198	
		Median Gross Rent			\$753	
		Families Below Poverty Level			7.6%	

*Source: 2015 ACS and 2020 D&B Data
Due to rounding, totals may not equal 100.0%
(*) The NA category consists of geographies that have not been assigned an income classification.*

According to 2020 D&B data, service industries represent the largest portion of farm and business operations in the assessment area at 34.1 percent; followed by non-classifiable establishments at 16.5 percent; and retail trade at 11.4 percent. Additionally, 66.3 percent of assessment area farms and businesses have 4 or fewer employees and 91.9 percent operate from a single location.

The Federal Financial Institutions Examination Council (FFIEC)-updated median family income level is used to analyze home mortgage loans under the Borrower Profile criterion. The low-, moderate-, middle-, and upper-income categories for the assessment area are presented in the following table.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
MN NA Median Family Income (99999)				
2020 (\$68,800)	<\$34,400	\$34,400 to <\$55,040	\$55,040 to <\$82,560	≥\$82,560
<i>Source: FFIEC</i>				

Competition

The assessment area is a moderately competitive market for credit products and financial services. Competing institutions range from small community banks to larger national financial institutions. According to Report of Condition data filed by financial institutions, 10 financial institutions operate either a main or branch office in the assessment area and hold deposits of between \$22.5 million and \$294.7 million. The State Bank of Faribault is ranked 3rd with approximately 14.1 percent of the deposit market share.

The State Bank of Faribault is not required to collect or report small business CRA loan data and has elected not to do so. Therefore, examiners did not compare the bank's small business lending performance to aggregate CRA data within this evaluation. However, the aggregate CRA data provides an indication of the level of demand for small business loans and the level of competition within the assessment area. According to 2019 aggregate CRA data, 46 CRA data reporters collectively reported 1,094 small business loans within Rice County. The top 5 lenders by number originated 62.5 percent of the market share. These figures do not include a high number of loans originated by smaller institutions that are not required to report small business lending data but that operate within these counties. The overall volume of small business lending reflects a competitive market.

The State Bank of Faribault faces significant competition for home mortgage loans from financial institutions and mortgage companies originating or purchasing loans within the assessment area. In 2019, 193 HMDA-reporting institutions originated or purchased 2,168 home mortgage loans in the assessment area. The top 5 lenders collectively accounted for a 35.8 percent total market share, by number. The State Bank of Faribault was not required to report HMDA data until 2020, so market share ranking was not available in 2019. The overall volume of home mortgage lending reflects a competitive market.

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 determine whether local financial institutions are responsive to these needs. It also shows what credit opportunities are available. For this evaluation, examiners reviewed a completed interview from 2020 with a county representative familiar with the assessment area.

The contact stated that the county is growing moderately and is diversified in age and race. The workforce is fighting for the same employees, and there is a shortage of trade workers. The business economy is growing throughout the county, but especially in Faribault. In terms of housing, the contact stated that new housing stock moves quickly but are not considered first-time homebuyer homes. The contact further stated that there was a study completed that indicated there's a shortage of affordable housing and rental housing throughout the county. There are rental properties being built, but at market rate they are not considered affordable. The contact stated that local business needs are being met by financial institutions; banks are lending and involved in the community.

Credit Needs

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that small business and home mortgage lending represent the primary credit needs of the assessment area.

CONCLUSIONS ON PERFORMANCE CRITERIA IN FARIBAULT ASSESSMENT AREA

LENDING TEST

The State Bank of Faribault demonstrated reasonable performance under the Lending Test in the Faribault Assessment Area. This conclusion is based upon the bank's reasonable Geographic Distribution and Borrower Profile performance.

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. The bank's reasonable small business performance primarily supports this conclusion as it received the most weight; however, the excellent home mortgage lending performance was also considered.

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion. The following table indicates that the bank's lending performance in the moderate-income census tract is comparable to demographic data.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate	5.6	23	7.2	1,754	5.8
Middle	52.1	223	69.5	21,118	70.0
Upper	42.3	75	23.3	7,319	24.2
Totals	100.0	321	100.0	30,191	100.0

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

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects excellent dispersion. The following table shows that the bank's lending performance in the moderate-income census tract exceeds demographic data.

Geographic Distribution of Home Mortgage Loans					
Tract Income Level	% of Owner-Occupied Housing Units	#	%	\$(000s)	%
Moderate	5.8	19	10.4	2,124	7.0
Middle	50.9	130	71.4	21,050	69.3
Upper	43.3	33	18.1	7,190	23.7
Totals	100.0	182	100.0	30,363	100.0

Source: 2015 ACS Data, 2020 HMDA Data
Due to rounding, totals may not equal 100.0%

Borrower Profile

The distribution of borrowers reflects overall reasonable penetration among businesses of different revenue sizes and individuals of different income levels. The bank's reasonable small business and home mortgage lending performance supports this conclusion.

Small Business Loans

The distribution of sampled small business loans reflects reasonable penetration to businesses with gross annual revenues of \$1 million or less. As illustrated in the following table, the bank's lending performance to businesses with gross annual revenues of \$1 million or less is lower than demographic data. The bank originated approximately 10 percent more loans in the revenue category not available than demographic data. Examiners recognize that a substantial majority of the nine loans in that category had small dollar amounts and likely benefited small business borrowers. As stated previously, there's a competitive market for small business loans in the assessment area. Furthermore, the bank is an active SBA lender illustrating its willingness to extend loans to businesses of all sizes, including smaller businesses. Considering these factors, performance is reasonable.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	87.4	30	60.0	1,446	41.6
>1,000,000	4.2	11	22.0	1,575	45.4
Revenue Not Available	8.4	9	18.0	450	13.0
Total	100.0	50	100.0	3,471	100.0

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

Home Mortgage Loans

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, is reasonable. As illustrated in the following table, lending among low-income borrowers lagged demographic data; however, lending among moderate-income borrowers exceeded demographic data. As previously stated, there is competition for home mortgage loans in the assessment area. Management stated, and the community contact confirmed, that it's difficult for low-income families to find housing in the assessment area as there's a shortage of affordable housing. Considering these factors, performance is considered reasonable.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	16.6	8	4.4	854	2.8
Moderate	13.4	36	19.8	4,649	15.3
Middle	22.9	31	17.0	5,182	17.1
Upper	47.1	78	42.9	16,077	53.0
Income Not Available	0.0	29	15.9	3,601	11.9
Total	100.0	182	100.0	30,363	100.0

*Source: 2015 ACS Census, 2020 HMDA Data.
Due to rounding, totals may not equal 100.0%*

PRIOR LAKE ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION'S OPERATIONS IN PRIOR LAKE ASSESSMENT AREA

The Prior Lake Assessment Area contains all census tracts in Scott County and western portions of Dakota County, Minnesota. Both counties are part of the Minneapolis-St. Paul-Bloomington, Minnesota-Wisconsin MSA. This assessment area was added since the previous CRA evaluation upon the bank opening its Prior Lake branch on June 3, 2019.

According to 2015 ACS data, the assessment area includes 5 moderate-income census tracts, 14 middle-income census tracts, and 13 upper-income census tracts. The branch in Prior Lake is located in Scott County, in an upper-income census tract.

Economic and Demographic Data

The following table illustrates select demographic characteristics of the assessment area.

Demographic Information of the Prior Lake Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	32	0.0	15.6	43.8	40.6	0.0
Population by Geography	189,402	0.0	9.8	42.8	47.4	0.0
Housing Units by Geography	68,589	0.0	10.8	44.2	45.0	0.0
Owner-Occupied Units by Geography	53,777	0.0	7.9	41.8	50.3	0.0
Occupied Rental Units by Geography	11,955	0.0	22.8	52.8	24.4	0.0
Vacant Units by Geography	2,857	0.0	15.3	53.4	31.3	0.0
Businesses by Geography	18,267	0.0	11.6	39.5	48.9	0.0
Farms by Geography	794	0.0	5.7	50.8	43.6	0.0
Family Distribution by Income Level	49,897	14.3	15.9	22.6	47.1	0.0
Household Distribution by Income Level	65,732	15.8	13.5	18.2	52.5	0.0
Median Family Income MSA - 33460 Minneapolis-St. Paul-Bloomington, MN-WI MSA		\$84,589	Median Housing Value		\$253,543	
			Median Gross Rent		\$1,085	
			Families Below Poverty Level		4.6%	

*Source: 2015 ACS and 2020 D&B Data
Due to rounding, totals may not equal 100.0%
(*) The NA category consists of geographies that have not been assigned an income classification.*

According to 2020 D&B data, service industries represent the largest portion of business and farm operations at 34.8 percent; followed by non-classifiable establishments at 20.5 percent; and construction at 10.8 percent. Additionally, 65.9 percent of assessment area businesses and farms have 4 or fewer employees, and 93.6 percent operate from a single location.

The FFIEC-updated median family income level is used to analyze home mortgage loans under the Borrower Profile criterion. The low-, moderate-, middle-, and upper-income categories for the assessment area are presented in the following table.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Minneapolis-St. Paul-Bloomington, MN-WI MSA Median Family Income (33460)				
2020 (\$93,000)	<\$46,500	\$46,500 to <\$74,400	\$74,400 to <\$111,600	≥\$111,600
<i>Source: FFIEC</i>				

Competition

The assessment area is a highly competitive market for credit products and financial services. Competing institutions range from small community banks to larger national financial institutions. According to Report of Condition data filed by financial institutions, 23 financial institutions operate either a main or branch office in the assessment area and hold deposits of between \$2.1 million and \$916.9 million within the area. The State Bank of Faribault is ranked last with approximately 0.1 percent of the deposit market share.

According to 2019 aggregate CRA data, 93 CRA data reporters collectively reported 11,465 small business loans within Scott and Dakota counties. The top 4 lenders by number originated 62.6 percent of the market share. These figures do not include a high number of loans originated by smaller institutions, such as The State Bank of Faribault, that are not required to report small business lending data but that operate within these counties. The overall volume of small business lending reflects a highly competitive market.

The State Bank of Faribault faces significant competition for home mortgage loans from financial institutions and mortgage companies originating or purchasing 10,973 home mortgage loans in the assessment area. The top 5 lenders collectively accounted for a 30.7 percent total market share, by number. The overall volume of home mortgage lending reflects a highly competitive market.

Community Contact

Examiners reviewed a community contact conducted in 2020 with a community development agency in Dakota County. The contact stated that Dakota County is one of the most ethnically diverse outer ring counties and is currently experiencing an influx of North African immigrants who have been priced out of the urban ring cities. The county is generally affluent; however, there are pockets of lower-income individuals living throughout the area. In general, the pandemic has significantly affected area businesses with ties to the travel and entertainment industries. The contact also stated that the retail business landscape is changing with many businesses restructuring and transitioning to single locations. However, the overall economic conditions in the county remain favorable and the government assistance programs are helping businesses keep employees on the payroll, limiting the economic impact of the pandemic. In terms of housing, the current supply of market rate housing is limited with approximately three people competing for every one affordable housing unit. The contact further stated that local institutions were doing a good job of meeting the needs of the community.

Credit Needs

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that small business and home mortgage lending represent the primary credit needs of the assessment area.

CONCLUSIONS ON PERFORMANCE CRITERIA IN PRIOR LAKE ASSESSMENT AREA

LENDING TEST

The State Bank of Faribault demonstrated reasonable performance under the Lending Test in the Prior Lake Assessment Area. The bank's Geographic Distribution and Borrower Profile performance support this conclusion.

Geographic Distribution

The geographic distribution of loans reflects overall reasonable dispersion throughout the assessment area. The bank's reasonable small business and home mortgage lending performance supports this conclusion.

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion. The following table indicates that the bank's lending performance in moderate-income census tracts is slightly lower but comparable to demographic data. As stated previously, competition for small business loans is significant and affects lending opportunities in these areas. Additionally, the assessment area and Prior Lake branch is new since the previous evaluation, making it difficult to immediately penetrate these areas considering the level of competition already present. Examiners review of Report of Condition data filed by financial institutions confirmed that four competing financial institutions operate branches in these moderate-income geographies and engage in small business lending. Therefore, the bank's performance is considered reasonable.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate	11.6	4	8.7	609	16.0
Middle	39.5	10	21.7	482	12.6
Upper	48.9	32	69.6	2,720	71.4
Totals	100.0	46	100.0	3,811	100.0

Source: 2020 D&B Data, 2020 Bank Data

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion. The following table shows that the bank's lending performance in the moderate-income census tracts is comparable to demographic data.

Geographic Distribution of Home Mortgage Loans					
Tract Income Level	% of Owner-Occupied Housing Units	#	%	\$(000s)	%
Moderate	7.9	3	9.4	505	5.3
Middle	41.8	14	43.8	3,928	41.1
Upper	50.3	15	46.9	5,132	53.7
Totals	100.0	32	100.0	9,564	100.0

*Source: 2015 ACS Data, 2020 HMDA Data
Due to rounding, totals may not equal 100.0%*

Borrower Profile

The distribution of borrowers reflects overall reasonable penetration among businesses of different revenue sizes and individuals of different income levels. The bank's reasonable small business performance primarily supports this conclusion. The bank's home mortgage performance is poor; however, it carried less weight when deriving overall conclusions.

Small Business Loans

The distribution of sampled small business loans reflects reasonable lending penetration to businesses with gross annual revenues of \$1 million or less. The following table shows the bank's lending performance to businesses with gross annual revenues of \$1 million or less is lower than demographic data. However, as shown below, all the loans to borrowers with revenues were to borrowers with gross annual revenues of \$1 million or less; considering this factor, performance is reasonable.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	89.7	7	70.0	441	63.5
>1,000,000	3.8	0	0.0	0.0	0.0
Revenue Not Available	6.5	3	30.0	254	36.5
Total	100.0	10	100.0	695	100.0

Source: 2020 D&B Data, 2020 Bank Data.

Home Mortgage Loans

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, is poor. As shown in the following table, the bank did not originate any loans to low-income borrowers and only one loan to a moderate-income borrower, which significantly lagged demographic data. The assessment area and Prior Lake branch are new since the previous evaluation, making it difficult to immediately reach these borrowers considering the level of competition already present. Further, the community contact indicated that affordable housing is limited. However, even considering these factors, the bank's performance is considered poor.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$ (000s)	%
Low	14.4	0	0.0	0	0.0
Moderate	15.9	1	3.1	200	2.1
Middle	22.6	5	15.6	1,554	16.2
Upper	47.1	23	71.9	7,258	75.9
Income Not Available	0.0	3	9.4	552	5.8
Total	100.0	32	100.0	9,564	100.0

Source: 2015 ACS Census, 2020 HMDA Data

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.