

PUBLIC DISCLOSURE

August 27, 2020

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First State Bank of Fountain
Certificate Number: 9349

101 Main Street
Fountain, Minnesota 55935

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

1100 Walnut Street, Suite 2100
Kansas City, Missouri 64106

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

TABLE OF CONTENTS

INSTITUTION RATING	1
DESCRIPTION OF INSTITUTION	2
DESCRIPTION OF ASSESSMENT AREA	3
SCOPE OF EVALUATION	5
CONCLUSIONS ON PERFORMANCE CRITERIA	6
DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW	9
APPENDICES	10
SMALL BANK PERFORMANCE CRITERIA	10
GLOSSARY	11

INSTITUTION RATING

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

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

First State Bank of Fountain'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 assessment area credit needs.
- A majority of the small farm and small business loans reviewed were located inside the assessment area.
- The geographic distribution of small farm and small business loans reflects reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects excellent penetration among farms and businesses of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

DESCRIPTION OF INSTITUTION

First State Bank of Fountain is chartered in Fountain, Minnesota, which is where the bank operates its sole office. The institution continues to be controlled by Johnson Bancshares, Inc., Chatfield, Minnesota, a two-bank holding company. Johnson Bancshares, Inc. also owns Root River State Bank, which is chartered in Chatfield, Minnesota. First State Bank of Fountain received a Satisfactory rating at its previous FDIC Performance Evaluation dated October 1, 2014, which was based on Interagency Small Institution Examination Procedures. Since the previous CRA evaluation, the bank has not opened or closed any offices, and no merger or acquisition activities have occurred.

The bank offers various loan products including agricultural, commercial, home mortgage, and consumer loans. Agricultural loans continue to represent the institution's primary business line, followed by commercial loans to a lesser degree. Additionally, the bank offers loans through the Farm Service Agency and Small Business Administration.

The institution provides a variety of deposit services including checking, savings, money market, individual retirement accounts, and certificates of deposit. In addition to traditional banking services, customers have access to a bank-owned and operated automated teller machine; online banking, including electronic bill pay; periodic statements; and mobile banking, including mobile deposit.

As of June 30, 2020, assets totaled approximately \$34,948,000, loans totaled \$14,771,000, and deposits totaled \$31,372,000.

Loan Portfolio Distribution as of June 30, 2020		
Loan Category	\$(000s)	%
Secured by Farmland	4,999	33.8
1-4 Family Residential	2,883	19.5
Multi-family (5 or more) Residential	499	3.4
Commercial Real Estate	1,614	10.9
Total Real Estate Loans	9,995	67.6
Commercial and Industrial	2,139	14.5
Agricultural	2,272	15.4
Consumer	365	2.5
Total Loans	14,771	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 area's credit needs.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. First State Bank of Fountain designated a single assessment area in the State of Minnesota, which has not changed since the previous examination. The assessment area includes all census tracts in Fillmore County, which is part of the Rochester, Minnesota Metropolitan Statistical Area (MSA).

Economic and Demographic Data

According to 2015 American Community Survey (ACS) data, the assessment area is comprised of three moderate-income and three middle-income census tracts. The following table illustrates select demographic characteristics of the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	6	0.0	50.0	50.0	0.0	0.0
Population by Geography	20,843	0.0	44.4	55.6	0.0	0.0
Housing Units by Geography	9,813	0.0	47.0	53.0	0.0	0.0
Owner-Occupied Units by Geography	6,682	0.0	45.6	54.4	0.0	0.0
Occupied Rental Units by Geography	1,849	0.0	43.4	56.6	0.0	0.0
Vacant Units by Geography	1,282	0.0	59.1	40.9	0.0	0.0
Businesses by Geography	1,602	0.0	46.7	53.3	0.0	0.0
Farms by Geography	370	0.0	54.9	45.1	0.0	0.0
Family Distribution by Income Level	5,701	24.6	23.6	26.2	25.6	0.0
Household Distribution by Income Level	8,531	31.0	19.2	19.9	29.9	0.0
Median Family Income MSA - 40340 Rochester, MN MSA		\$81,036	Median Housing Value			\$141,867
			Median Gross Rent			\$594
			Families Below Poverty Level			7.4%
<i>Source: 2015 ACS and 2019 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.</i>						

According to 2019 D&B data, service industries represent the largest portion of farm and business operations at 30.5 percent; followed by agriculture, forestry, and fishing at 18.8 percent; and retail trade at 11.8 percent. Additionally, 71.2 percent of assessment area farms and businesses have 4 or fewer employees, and 90.3 percent operate from a single location.

Competition

The assessment area is a moderately competitive market for credit products and financial services. According to FDIC Deposit Market Share data as of June 30, 2019, there were 11 financial institutions operating 16 locations within Fillmore County. These institutions range from small community banks to larger national financial institutions. First State Bank of Fountain is ranked 8th with a 5.2 percent deposit market share. Furthermore, management and community contacts indicated the bank faces competition from other agricultural-related product and service providers that offer financing.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the 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 conducted an interview with a representative of a business development organization familiar with the assessment area. The contact stated that the economy is primarily driven by agriculture and tourism. Some businesses have closed due to the pandemic as many tourism-driven communities continue to struggle. Many downtown areas include vacant commercial buildings; however, there has been expansion for manufacturing-related companies within or adjacent to the assessment area. The contact mentioned that many residents of the smaller communities commute elsewhere for employment, particularly to Rochester or Winona, Minnesota. Local farmers continue to struggle to recover from low commodity prices, although some are looking to diversify their operations. The contact estimated that nearly one-third of farm operations are smaller with around 50 to 100 acres. There is housing availability in the smaller communities with some new developments in process, which will help provide more affordable housing. The contact stated that alternative financing for small businesses is available and mentioned a variety of local programs. Finally, the contact indicated there is a good mix of financial institutions and non-traditional lenders within the assessment area, including alternative financing related to the agricultural industry.

Examiners also reviewed a recently completed community contact for this performance evaluation. The contact was a representative of an agricultural-based organization familiar with the assessment area. The contact stated that the vast majority of existing farm operations are financially stable, but cash flows for most operations have tightened in the past four to six years. It was noted that beef and milk prices are currently down, although there is a higher concentration of pork operations nearby because of the proximity to a large pork plant in a nearby town. The contact stated that local banks, credit unions, and alternative financing organizations (cooperatives, implement dealers, and equipment dealers) are meeting the farming-related financial needs of the area.

Credit Needs

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

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the previous evaluation dated October 1, 2014, to the current evaluation dated August 27, 2020. Examiners used Interagency Small Institution Examination Procedures to evaluate First State Bank of Fountain's CRA performance. These procedures focus on the bank's performance under the Lending Test as outlined in the Small Bank Performance Criteria appendix.

Activities Reviewed

Examiners determined that the bank's major product lines are small farm loans followed by small business 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 farm 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.

Bank records indicate that the lending focus and product mix remained generally consistent throughout the evaluation period. Therefore, examiners reviewed all small farm and small business loans originated or renewed in 2019, as this period was considered representative of the bank's performance during the entire evaluation period. D&B data for 2019 provided a standard of comparison for the bank's small farm and small business lending performance.

Examiners did not analyze the bank's home mortgage lending activity because it was too limited to yield meaningful results or to provide material support for conclusions. Additionally, management indicated that home mortgage lending is not a focus of the institution and primarily commercial-related.

For the Lending Test, examiners reviewed the entire universe of loans to evaluate the Assessment Area Concentration criterion. All loans inside the assessment area were further reviewed to evaluate the Geographic Distribution criterion. Finally, examiners reviewed a sample of small farm loans and all small business loans originated inside the assessment area, 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 Farm	63	3,472	36	1,888
Small Business	34	1,625	18	396
<i>Source: 2019 Bank Records</i>				

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 farms and businesses served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

First State Bank of Fountain demonstrated reasonable performance under the Lending Test. The bank's Assessment Area Concentration, Geographic Distribution, and Borrower Profile performance primarily supports this conclusion.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's ratio, calculated from Report of Condition data, averaged 53.3 percent over the past 23 calendar quarters from December 31, 2014, to June 30, 2020. Since the previous CRA evaluation, the quarterly loan-to-deposit ratio has been generally stable with seasonal fluctuations. The ratio ranged from a low of 44.3 percent as of March 31, 2015, to a high of 62.1 percent as of September 30, 2019. As shown in the following table, First State Bank of Fountain's average loan-to-deposit ratio is lower than comparable institutions. Examiners selected comparable institutions based on their asset size, geographic location, and lending focus.

Management attributed the bank's lower loan-to-deposit ratio to several factors including the dollar volume of participation loans sold since the previous CRA evaluation, decreased demand for agricultural and commercial loans, and significant competition for loans. Management stated, and examiners confirmed, that the bank has sold over \$3.1 million in participation loans from January 1, 2015, to June 30, 2020, which contributes to the lower loan-to-deposit ratio. Management stated that loan demand has declined, which is partially attributed to the strong competition from alternative forms of financing as well as local economic conditions. Both community contacts mentioned the availability of alternative financing for both business and agricultural credit needs, in addition to the variety of local banks and credit unions. Furthermore, according to the 2017 Census of Agriculture, the percentage of farmers that did not pay interest in Fillmore County was 49.1 percent. Therefore, there is a large population of farms that do not appear to have credit needs. Overall, the bank demonstrates a willingness to extend credit in relation to its financial capacity and lending opportunities, particularly when considering the volume of participation loans sold, loan demand, and competition.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 6/30/20 \$(000s)	Average Net LTD Ratio (%)
First State Bank Minnesota Le Roy, Minnesota	75,687	73.4
First State Bank of Fountain Fountain, Minnesota	34,948	53.3
Root River State Bank Chatfield, Minnesota	74,900	58.4
Rushford State Bank Rushford, Minnesota	62,882	85.9
<i>Source: Reports of Condition 12/31/2014 through 6/30/2020</i>		

Assessment Area Concentration

First State Bank of Fountain originated a majority of small farm and small business loans by number within the assessment area. Although the percentage of small business loans originated within the assessment area is only 52.9 percent, by number, it is the result of ten small business loans extended to the same business entity outside of the bank's assessment area. The following table illustrates the bank's performance.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans					Dollar Amount of Loans \$(000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$	%	\$	%	\$(000s)
Small Farm	57	90.5	6	9.5	63	2,714	78.2	758	21.8	3,472
Small Business	18	52.9	16	47.1	34	396	24.4	1,229	75.6	1,625
<i>Source: 2019 Bank records Due to rounding, totals may not equal 100.0%</i>										

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. The bank's reasonable small farm and small business lending performance supports this conclusion. Examiners focused on the percentage of lending by number of loans in moderate-income census tracts.

Small Farm Loans

The geographic distribution of small farm loans reflects reasonable dispersion. The following table indicates that the bank's lending performance in moderate-income census tracts reasonably compares to demographic data.

Geographic Distribution of Small Farm Loans					
Tract Income Level	% of Farms	#	%	\$(000s)	%
Moderate	54.9	25	43.9	943	34.7
Middle	45.1	32	56.1	1,771	65.3
Totals	100.0	57	100.0	2,714	100.0
<i>Source: 2019 D&B Data; 2019 Bank Data Due to rounding, totals may not equal 100.0%</i>					

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 reasonably compares to demographic data.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate	46.7	8	44.4	155	39.1
Middle	53.3	10	55.6	241	60.9
Totals	100.0	18	100.0	396	100.0
<i>Source: 2019 D&B Data; 2019 Bank Data Due to rounding, totals may not equal 100.0%</i>					

Borrower Profile

The bank’s lending performance demonstrates overall excellent penetration among farms and businesses of different revenue sizes. Examiners focused on the percentage of small farm and small business loans to operations with gross annual revenues of \$1 million or less.

Small Farm Loans

The distribution of sampled small farm loans reflects excellent lending penetration to farms with gross annual revenues of \$1 million or less. As shown in the following table, the bank’s performance exceeds demographic data.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	98.4	36	100.0	1,888	100.0
>1,000,000	1.3	0	0.0	0	0.0
Revenue Not Available	0.3	0	0.0	0	0.0
Total	100.0	36	100.0	1,888	100.0
<i>Source: 2019 D&B Data; 2019 Bank Data Due to rounding, totals may not equal 100.0%</i>					

Small Business Loans

The distribution of small business loans reflects reasonable lending penetration to businesses with gross annual revenues of \$1 million or less. As shown in the following table, the bank’s performance reasonably compares to demographic data.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	82.8	15	83.3	216	54.5
>1,000,000	5.1	3	16.7	180	45.5
Revenue Not Available	12.1	0	0.0	0	0.0
Totals	100.0	18	100.0	396	100.0

*Source: 2019 D&B Data; 2019 Bank Data
Due to rounding, totals may not equal 100.0%*

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.

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 bank'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;
- 4) The geographic distribution of the bank's loans; 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.

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).

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.