

PUBLIC DISCLOSURE

August 12, 2019

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Ashton State Bank
Certificate Number: 11343

317 Third Street
Ashton, Iowa 51232

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
Scope of Evaluation	2
Description of Institution	3
Description of Assessment Area	4
Conclusions on Performance Criteria	6
Discriminatory or Other Illegal Credit Practices Review	9
Glossary	10

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.

Ashton 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 Lending Test performance.

- The bank's loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- The bank made a majority of its small farm, small business, and home mortgage loans in the assessment area.
- The assessment area consists entirely of middle-income geographies and review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.
- The distribution of borrowers reflects reasonable penetration of loans among farms and businesses of different sizes and individuals of different income levels.
- The institution did not receive any CRA-related complaints since its previous evaluation; therefore, this factor did not affect the CRA rating.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated September 16, 2013, to the current evaluation dated August 12, 2019. Examiners used the Interagency Small Institution Examination Procedures to evaluate Ashton State Bank's CRA performance.

These procedures considered the institution's performance according to the following criteria.

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

This evaluation does not include any lending activity performed by affiliates.

Loan Products Reviewed

Examiners determined the bank's major product lines are small farm, small business, and home mortgage loans. This conclusion considered the bank's business strategy, local area's credit needs, and the number and dollar volume of loans originated during the evaluation period. Further, bank records indicated that the lending focus and product mix remained consistent throughout the evaluation period. Examiners reviewed the bank's small farm, small business, and home mortgage loans to complete the lending test. The small farm, small business, and home mortgage loan samples were selected from a universe of loans originated from June 27, 2018, through June 26, 2019, because the universes were representative of the bank's lending activities during the evaluation period.

Examiners reviewed the entire universe of small farm, small business, and home mortgage loans originated during the evaluation period to evaluate the bank's performance under the Assessment Area Concentration criterion. Specifically, 67 small farm loans totaling approximately \$7,540,000; 30 small business loans totaling approximately \$3,081,000; and 14 home mortgage loans totaling approximately \$728,000 were reviewed. In addition, the entire universe of small business and home mortgage loans located inside the bank's assessment area was used to evaluate the Borrower Profile criterion. However, a sample of 36 small farm loans totaling approximately \$3,775,000 was taken from a universe of 63 small farm loans totaling approximately \$7,130,000 located inside the bank's assessment area to evaluate that product for the Borrower Profile criterion. Small farm loans contributed the greatest weight to overall conclusions because of the higher volume of loans originated compared to other loan products. While number and dollar volume of loans are presented, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of farms, businesses, and individuals served.

DESCRIPTION OF INSTITUTION

Background

Ashton State Bank is headquartered in Ashton, Iowa, and is owned by Ashton Bancshares, Inc., Saint Paul, Minnesota. This institution received a Satisfactory rating at its previous FDIC Performance Evaluation, dated September 16, 2013, using Interagency Small Institution Examination procedures.

Operations

Ashton State Bank operates one full-service office. The bank offers a variety of loan products, including agricultural, commercial, consumer, and home mortgage; primarily focusing on agricultural lending. The institution also provides a variety of deposit services including checking, savings, money market deposit accounts, and certificates of deposit. Internet banking is available as an alternative form of banking. The bank did not open or close any branches, and no merger or acquisition activities occurred since the previous evaluation.

Ability and Capacity

Assets total approximately \$50 million as of March 31, 2019. As of the same date, loans totaled \$34 million and total deposits of \$36 million. The loan portfolio is illustrated in the following table.

Loan Portfolio Distribution as of 3/31/19		
Loan Category	\$(000s)	%
Construction and Land Development	0	0.0
Secured by Farmland	12,583	37.3
1-4 Family Residential	4,805	14.3
Multi-family (5 or more) Residential	0	0.0
Commercial Real Estate	2,364	7.0
Total Real Estate Loans	19,752	58.6
Commercial and Industrial	3,928	11.7
Agricultural	8,402	24.9
Consumer	1,121	3.3
Other	509	1.5
Less: Unearned Income	0	0.0
Total Loans	33,712	100.0

Source: Reports of Condition and Income

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

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. Ashton State Bank designated a single assessment area within the non-metropolitan area of Iowa. The following sections discuss economic and demographic information for the assessment area.

Economic and Demographic Data

The assessment area is comprised of census tracts 4601 and 4602 in Osceola County and 9501 in Lyon County. All three tracts are designated as middle-income geographies. The following table illustrates select demographic characteristics of the assessment area.

Demographic Information of the Assessment Area						
Assessment Area: Ashton State Bank						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	3	0.0	0.0	100.0	0.0	0.0
Population by Geography	9,016	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	4,246	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	3,009	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	843	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	394	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	663	0.0	0.0	100.0	0.0	0.0
Farms by Geography	315	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	2,565	17.2	17.7	32.5	32.7	0.0
Household Distribution by Income Level	3,852	20.8	17.4	19.2	42.7	0.0
Median Family Income Non-metropolitan IA		\$61,934	Median Housing Value			\$81,282
			Median Gross Rent			\$570
			Families Below Poverty Level			6.4%

*Source: 2015 ACS Census and 2018 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.*

Data from the 2015 American Community Survey (ASC) Census reveals the assessment area population decreased by 243 residents since the 2010 U.S. Census and the total number of housing units decreased by 25. Population loss is associated with the current trend to move from rural to urban areas with higher paying employment opportunities.

The assessment area is rural and dependent on agriculture with 32.0 percent of the businesses operating in agriculture according to 2018 D&B information. Additionally, 98.4 percent of those farms have gross annual revenues of \$1 million or less. Area farms primarily raise grain and livestock. Livestock farmers typically raise hogs and cattle, while grain farmers mainly grow corn and soybeans. According to the 2017 Census of Agriculture, 79, and 73 percent of the products sold in Lyon and Osceola Counties were livestock and 21, and 27 percent were crop, respectively. The average farm size for Lyon and Osceola Counties are 309 and 397 acres, respectively.

Agriculture, forestry, and fishing comprise 32.2 percent of businesses in the assessment area while service industry businesses represent 29.8 percent of businesses. Area businesses, like the farms, are also predominantly small operations; with 90.4 percent of the farms and businesses operating from a single location and 79.9 percent employing less than five employees according to 2018 D&B information.

Employment opportunities remain prevalent within or near the assessment area and contribute to the low local unemployment levels. Unemployment levels have steadily declined throughout the evaluation period and current rates are at historic low levels. Data from the U.S. Bureau of Labor and Statistics reveals that as of May 2019, the unemployment rate was 1.3 and 1.7 percent for Lyon and Osceola counties, respectively. This compares favorably to the state of Iowa rate at 2.1 percent and the national rate at 3.4 percent.

Competition

The assessment area is moderately competitive for financial products and services. According to the FDIC Deposit Market Share data as of June 2018, there were 10 financial institutions that operate 17 branches in Lyon and Osceola counties. Of these institutions, Ashton State Bank ranked 8th with 5.2 percent deposit market share. Agricultural financing competition also comes from non-bank entities with options for operating, machinery, and land loans.

Community Contact

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

Examiners contacted a person familiar with the area's economic development efforts. The contact stated the local economy was strong and unemployment is low. The contact stated that agricultural, business, and home mortgage lending remains the area's greatest credit needs. Overall, the contact indicated that financial institutions have been responsive and meet the assessment area's credit needs.

Credit Needs and Opportunities

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that agricultural loans represent the primary credit need for the assessment area. Small business and home mortgage lending demand and opportunity are also sizable throughout the assessment area.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Ashton State Bank demonstrated reasonable performance under the Lending Test. The Loan-to-Deposit Ratio, Assessment Area Concentration, and Borrower Profile performance support this conclusion.

Loan-to-Deposit Ratio

The LTD ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's LTD ratio, calculated from Call Report data, averaged 83.0 percent over the past 23 quarters from September 30, 2013, to March 31, 2019. The ratio has increased during this evaluation period as a result of improved economic conditions. Ashton State Bank's ratio is similar to the comparable institutions, as 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 3/31/19 \$(000s)	Average Net LTD Ratio (%)
Ashton State Bank, Ashton, IA	49,688	83.0
Melvin Savings Bank, Melvin, IA	71,567	46.5
The First National Bank of Primghar, Primghar, IA	33,468	82.4
Sanborn Savings Bank, Sanborn, IA	65,485	90.5

Source: Reports of Condition and Income 9/30/13 through 3/31/19

Assessment Area Concentration

Overall, the bank made a majority of the combined small farm, small business, and home mortgage loans, by number and dollar volume, within its assessment area. However, examiners noted that only 30.5 percent of small business loans, by dollar volume, were originated within the assessment. See the following table.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total	Dollar Amount of Loans \$(000s)				Total
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage	12	85.7	2	14.3	14	622	85.4	106	14.6	728
Small Business	21	70.0	9	30.0	30	941	30.5	2,140	69.5	3,081
Small Farm	63	94.0	4	6.0	67	7,130	94.6	410	5.4	7,540
Total	96	86.5	15	13.5	111	8,693	76.6	2,656	23.4	11,349

*Source: Evaluation Period: 6/27/2018 - 6/26/2019 Bank Data
Due to rounding, totals may not equal 100.0*

Geographic Distribution

The assessment area consists entirely of middle-income geographies and 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 and businesses of different sizes and individuals of different income levels in the assessment area. The bank's reasonable performance of small farm and excellent performance of small business and home mortgage lending supports this conclusion. Examiners focused on the percentage by number of small farm and business loans to farms and businesses with gross annual revenues of \$1 million or less. They also focused on the percentage by number of home mortgage loans to low- and moderate-income borrowers.

Small Farm Loans

The distribution of small farm loans reflects reasonable penetration of loans to farms with gross annual revenues of \$1 million or less. The following table shows that 80.6 percent of the sampled loans were originated to farms with gross annual revenues of \$1 million or less. This number reasonably compares to the percent of farms in this revenue category. The level of lending reflects reasonable performance.

Distribution of Small Farm Loans by Gross Annual Revenue Category

Assessment Area: Ashton State Bank

Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	98.4	29	80.6	2,705	71.7
>1,000,000	1.6	7	19.4	1,070	28.3
Revenue Not Available	0.0	0	0.0	0	0.0
Total	100.0	36	100.0	3,775	100.0

Source: 2018 D&B Data, 6/27/2018¹ - 6/26/2019 Bank Data.

Due to rounding, totals may not equal 100.0

Small Business Loans

The distribution of small business loans reflects excellent penetration of loans to businesses with gross annual revenues of \$1 million or less. Examiners determined that all of the small business loans originated within the assessment area during the review period were made to businesses with gross annual revenues of \$1 million or less, which exceeds the 80.8 percent of businesses in this revenue category according to 2018 D&B information.

Home Mortgage Loans

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, is excellent. While home mortgage lending to low-income families is less than demographic data, the bank's performance of lending to moderate-income families is substantially higher than demographic data. Additionally, low-income families may have a harder time qualifying under traditional underwriting standards, and examiners noted that 6.4 percent of families in the assessment area are below the poverty level. Overall, the level of home mortgage lending reflects excellent performance.

Distribution of Home Mortgage Loans by Borrower Income Level

Assessment Area: Ashton State Bank

Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	17.2	1	8.3	21	3.4
Moderate	17.7	5	41.7	243	39.1
Middle	32.5	2	16.7	128	20.6
Upper	32.7	4	33.3	230	37.0
Not Available	0.0	0	0.0	0	0.0
Total	100.0	12	100.0	622	100.0

Source: 2015 ACS Census; 6/27/2018 - 6/26/2019 Bank Data

Due to rounding, totals may not equal 100.0

Response to Complaints

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

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

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