

# **PUBLIC DISCLOSURE**

October 23, 2023

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Vermillion State Bank  
Certificate Number: 10214

107 Main Street East  
Vermillion, Minnesota 55085

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 following points summarize the bank's performance.

**The Lending Test is rated Satisfactory.**

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- A majority of the small business and home mortgage loans reviewed were located inside the assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- 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 Lending Test rating.

**The Community Development Test is rated Satisfactory.**

- The bank demonstrated adequate responsiveness to community development needs of its assessment area through community development loans, qualified investments, and community development services. Examiners considered the institution's capacity and the need and availability of such opportunities for community development in the assessment area.

## DESCRIPTION OF INSTITUTION

Vermillion State Bank is chartered in Vermillion, Minnesota and is wholly owned by Vermillion Bancshares, Inc., a one-bank holding company also located in Vermillion. The bank currently operates six offices in the following locations in Minnesota: Inver Grove Heights, Hastings (two), Miesville, Rosemount, and Vermillion. The institution received a Satisfactory rating at its previous FDIC Performance Evaluation dated November 13, 2020, which was based on Intermediate Small Institution Examination Procedures.

Vermillion State Bank’s business focus continues to be commercial lending followed by home mortgage lending. The institution also offers a variety of consumer loan products. Vermillion State Bank offers and originates secondary market residential loans and loan products through the Small Business Administration (SBA). Vermillion State Bank also participated in the SBA’s Paycheck Protection Program (PPP), which assisted businesses and farms struggling with the impact of the Coronavirus Disease 2019 (COVID-19) pandemic.

Vermillion State Bank provides a variety of deposit account services, including checking, savings, and certificates of deposit. The bank also offers electronic banking services such as internet and mobile banking, mobile deposit, bill pay, electronic statements, and access to a network of surcharge-free ATMs.

As of June 30, 2023, the bank’s assets totaled approximately \$788.4 million, loans totaled \$358.9 million, and deposits totaled \$698.4 million. The loan portfolio distribution is illustrated in the following table.

<b>Loan Portfolio Distribution as of June 30, 2023</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	4,167	1.2
Secured by Farmland	38,835	10.8
Secured by 1-4 Family Residential Properties	114,955	32.0
Secured by Multifamily (5 or more) Residential Properties	137	0.0
Secured by Nonfarm Nonresidential Properties	99,196	27.6
<b>Total Real Estate Loans</b>	<b>257,290</b>	<b>71.6</b>
Commercial and Industrial Loans	74,921	20.9
Agricultural Production and Other Loans to Farmers	17,893	5.0
Consumer Loans	8,822	2.5
Other Loans	423	0.1
Less: Unearned Income	(435)	(0.1)
<b>Total Loans</b>	<b>358,914</b>	<b>100.0</b>
<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. Vermillion State Bank continues to designate one assessment area that includes all census tracts in Dakota County. Dakota County is located in the southeast corner of the Minneapolis-St. Paul-Bloomington, Minnesota-Wisconsin Metropolitan Statistical Area (MSA).

### **Economic and Demographic Data**

Based on 2020 U.S. Census data, the assessment area includes 106 census tracts and is comprised of 18 moderate-income, 60 middle-income, and 28 upper-income census tracts. The Lyn Way Hastings office is located in a moderate-income census tract, and the remaining offices are located in middle-income census tracts.

The following table illustrates select demographic characteristics of the assessment area based on 2020 U.S. Census data.

<b>Demographic Information of the Assessment Area</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	106	0.0	17.0	56.6	26.4	0.0
Population by Geography	439,882	0.0	16.0	55.4	28.6	0.0
Housing Units by Geography	168,252	0.0	17.9	55.8	26.3	0.0
Owner-Occupied Units by Geography	122,750	0.0	13.4	55.5	31.1	0.0
Occupied Rental Units by Geography	40,713	0.0	30.4	57.1	12.5	0.0
Vacant Units by Geography	4,789	0.0	26.9	53.5	19.7	0.0
Businesses by Geography	45,796	0.0	16.8	55.9	27.3	0.0
Farms by Geography	1,160	0.0	13.3	64.3	22.4	0.0
Family Distribution by Income Level	113,001	17.1	17.7	24.6	40.6	0.0
Median Family Income - Minneapolis-St. Paul-Bloomington, MN-WI MSA	\$103,977		Median Housing Value			\$284,102
			Median Gross Rent			\$1,220
			Families Below Poverty Level			3.6%
<i>Source: 2020 U.S. Census and 2022 D&amp;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 2022 D&B data, service industries represent the largest portion of business operations at 35.8 percent; followed by non-classifiable establishments at 22.8 percent; and finance, insurance, and real estate at 10.2 percent. Additionally, 63.5 percent of assessment area businesses have four or fewer employees, and 92.8 percent operate from a single location.

Examiners used the FFIEC-estimated median family income to analyze home mortgage loans under the Borrower Profile criterion as well as community development activities. The following table

illustrates the annual median family income ranges since the previous CRA evaluation for the Minneapolis-St. Paul-Bloomington, Minnesota-Wisconsin MSA.

<b>Median Family Income Ranges</b>				
2020 (\$97,300)	<\$48,650	\$48,650 to <\$77,840	\$77,840 to <\$116,760	≥\$116,760
2021 (\$100,600)	<\$50,300	\$50,300 to <\$80,480	\$80,480 to <\$120,720	≥\$120,720
2022 (\$117,800)	<\$58,900	\$58,900 to <\$94,240	\$94,240 to <\$141,360	≥\$141,360
<i>Source: FFIEC</i>				

**Competition**

The assessment area is a competitive market for credit products and financial services. According to Consolidated Reports of Condition and Income (Reports of Condition) data filed by financial institutions, there are 39 financial institutions operating 96 locations within the assessment area. These institutions range from small community banks to larger national financial institutions. Vermillion State Bank is ranked 6<sup>th</sup> with 4.1 percent of the deposit market share.

Vermillion State Bank 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 2021 aggregate CRA data (most recent available), 118 CRA data reporters collectively reported 10,086 small business loans originated within the assessment area. These figures do not include the number of loans originated by smaller institutions that are not required to report small business lending data but operate within the assessment area. The overall volume of small business lending in the assessment area reflects a highly competitive market.

Vermillion State Bank also faces significant competition for home mortgage loans from financial institutions and mortgage companies originating or purchasing loans within the assessment area. Like many of these competing entities, Vermillion State Bank reports Home Mortgage Disclosure Act (HMDA) data. According to 2022 HMDA aggregate data, 411 HMDA-reporting institutions originated or purchased 15,243 home mortgage loans in the assessment area. Vermillion State Bank ranked 39<sup>th</sup> with 0.6 percent market share by number. The top lenders consist of large national institutions. The overall volume of home mortgage lending reflects significant competition.

**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 two recently conducted community contacts with representatives of community organizations familiar with the assessment area.

The first contact noted that the economy has improved and stabilized since the pandemic. Most businesses have improved and are expanding or starting up; however, there is still a need for skilled workers. The contact further noted that local community banks are in a very competitive market for loans and identified small business loans as the primary credit need.

The second contact noted that there is a short supply of affordable rental housing and stated that rents have increased so much that they have become unaffordable. The second contact further noted that home prices have increased along with interest rates, which has affected home affordability. This contact identified home mortgage loans as the primary credit need, specifically down payment assistance and proprietary products that serve low- and moderate-income borrowers.

### **Credit and Community Development Needs and Opportunities**

Considering information from the community contacts, bank management, and demographic and economic data, examiners determined that small business and home mortgage lending, including affordable housing, are the assessment area's primary credit needs. Further, there are community development opportunities in the assessment area, including the revitalization and/or stabilization of moderate-income areas, economic development, community services for low-and moderate-income individuals, and affordable housing initiatives.

## **SCOPE OF EVALUATION**

### **General Information**

This evaluation covers the period from the prior evaluation dated November 13, 2020, to the current evaluation dated October 23, 2023. Examiners used Interagency Intermediate Small Institution Examination Procedures to evaluate Vermillion State Bank's CRA performance. These procedures evaluate an institution's performance according to the Lending Test and Community Development Test, as detailed in the Appendices. Banks must achieve at least a Satisfactory rating under each test to obtain an overall Satisfactory rating.

### **Activities Reviewed**

Examiners determined that the bank's major product lines are small business loans and 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 Reports of Condition data. Small business lending received the most weight when deriving overall conclusions. This is consistent with management's stated business focus and Reports of Condition data. Examiners did not review small farm or consumer installment lending activities because they each represent small portions of the loan portfolio, are not major product lines, 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 2022, as this period was considered representative of the bank's performance during the entire evaluation period. D&B data for 2022 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, 2021, and 2022 HMDA Loan Application Registers. When analyzing the bank's 2020 and 2021 home mortgage lending performance, the 2015 ACS data and 2020 and 2021 HMDA aggregate data provided a standard of comparison. When analyzing the bank's 2022 home mortgage lending performance, the 2020 U.S. Census and 2022 HMDA aggregate data provided a standard of comparison.

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 all home mortgage loans inside the assessment area, and a sample of 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 loans reviewed.

<b>Loan Products Reviewed</b>				
<b>Loan Category</b>	<b>Universe</b>		<b>Reviewed</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Small Business	225	45,302	50	9,767
Home Mortgage				
2020	467	119,883	275	67,535
2021	370	97,838	208	48,337
2022	205	53,304	98	20,608
<i>Source: Bank Data; HMDA Data.</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 businesses and individuals served.

For the Community Development Test, bank management provided data on community development loans, qualified investments and donations, and community development services from the prior evaluation date of November 13, 2020, to the current evaluation date of October 23, 2023. Examiners reviewed community development activity for the entire review period and presented the information for each year within this performance evaluation.

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

### **LENDING TEST**

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

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

The average net loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's net loan-to-deposit ratio, calculated from Reports of Condition data, averaged 47.2 percent over the past 11 calendar quarters from December 31, 2020, to June 30, 2023. The ratio ranged from a high of 54.3 percent as of December 31, 2020, to a low of 41.7 percent as of December 30, 2021. The net-loan-to-deposit ratio decreased from 2020-2021, which management attributed to an influx of deposits due to uncertainties surrounding the COVID-19 pandemic. Examiners confirmed deposits increased by approximately 19.7 percent from December 31, 2020, to December 30, 2021, while loans decreased 8.0 percent. Additionally, Vermillion State Bank has 83 depositors with deposits over \$1 million, totaling approximately \$179 million, which impacts the data. As shown in the following table, Vermillion State Bank's average net loan-to-deposit ratio is the lowest of the comparable institutions. However, the bank's ratio is comparable to the ratios of two

of the institutions, and compares reasonably overall considering the influx of deposits and large depositors. Examiners selected comparable institutions based on their asset size, geographic location, and lending focus.

<b>Loan-to-Deposit Ratio Comparison</b>		
<b>Bank</b>	<b>Total Assets as of 06/30/23 \$(000s)</b>	<b>Average Net Loan-to-Deposit Ratio (%)</b>
Bank of Elk River Elk River, Minnesota	634,106	57.0
North American Banking Company Roseville, Minnesota	1,228,320	56.9
Premier Bank Maplewood, Minnesota	1,022,306	79.2
<b>Vermillion State Bank Vermillion, Minnesota</b>	<b>788,388</b>	<b>47.2</b>
<i>Source: Reports of Condition 12/31/2020 through 06/30/2023</i>		

### **Assessment Area Concentration**

As shown in the following table, Vermillion State Bank originated a majority of small business and home mortgage loans within the assessment area. The review of loans originated outside the assessment area indicated a majority were located close to the assessment area and within the Minneapolis-St. Paul-Bloomington, Minnesota-Wisconsin MSA.

<b>Lending Inside and Outside of the Assessment Area</b>										
<b>Loan Category</b>	<b>Number of Loans</b>				<b>Total #</b>	<b>Dollar Amount of Loans \$(000s)</b>				<b>Total \$(000s)</b>
	<b>Inside</b>		<b>Outside</b>			<b>Inside</b>		<b>Outside</b>		
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
Small Business	150	66.7	75	33.3	225	27,854	61.5	17,448	38.5	45,302
Home Mortgage										
2020	275	58.9	192	41.1	467	67,535	56.3	52,348	43.7	119,883
2021	208	56.2	162	43.8	370	48,337	49.4	49,501	50.6	97,838
2022	98	47.8	107	52.2	205	20,608	38.7	32,696	61.3	53,304
<b>Home Mortgage Subtotal</b>	<b>581</b>	<b>55.8</b>	<b>461</b>	<b>44.2</b>	<b>1,042</b>	<b>136,480</b>	<b>50.4</b>	<b>134,545</b>	<b>49.6</b>	<b>271,025</b>
<i>Source: Bank Data; HMDA Data.</i>										

**Geographic Distribution**

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. The bank’s reasonable small business and home mortgage lending performance supports this conclusion. Examiners focused on the percentage of loans made in the moderate-income census tracts, as the assessment area does not include any low-income census tracts.

***Small Business Loans***

The geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area. As shown in the following table, the bank’s lending performance in the moderate-income census tracts is comparable to demographic data.

<b>Geographic Distribution of Small Business Loans</b>					
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Moderate	16.8	25	16.7	5,740	20.6
Middle	55.9	110	73.3	18,661	67.0
Upper	27.3	15	10.0	3,453	12.4
<b>Totals</b>	<b>100.0</b>	<b>150</b>	<b>100.0</b>	<b>27,854</b>	<b>100.0</b>

*Source: 2022 D&B Data; 2022 Bank Data.*

***Home Mortgage Loans***

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the assessment area. The following table shows that Vermillion State Bank’s home mortgage lending performance in the moderate-income census tracts was slightly higher than aggregate lending data in 2020 and 2021 and slightly lower than demographic and aggregate data in 2022. Overall, the bank’s performance is comparable to aggregate data throughout the review period and considered reasonable.

<b>Geographic Distribution of Home Mortgage Loans</b>						
<b>Tract Income Level</b>	<b>% of Owner-Occupied Housing Units</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Moderate						
2020	15.9	13.4	41	14.9	7,127	10.6
2021	15.9	13.3	38	18.3	8,447	17.5
2022	13.4	12.9	7	7.1	1,494	7.2
Middle						
2020	46.4	47.5	167	60.7	40,580	60.1
2021	46.4	48.5	120	57.7	26,390	54.6
2022	55.5	56.5	83	84.7	16,477	80.0
Upper						
2020	37.7	39.1	67	24.4	19,828	29.4
2021	37.7	38.2	50	24.0	13,500	27.9
2022	31.1	30.7	8	8.2	2,637	12.8
<b>Totals</b>						
<b>2020</b>	<b>100.0</b>	<b>100.0</b>	<b>275</b>	<b>100.0</b>	<b>67,535</b>	<b>100.0</b>
<b>2021</b>	<b>100.0</b>	<b>100.0</b>	<b>208</b>	<b>100.0</b>	<b>48,337</b>	<b>100.0</b>
<b>2022</b>	<b>100.0</b>	<b>100.0</b>	<b>98</b>	<b>100.0</b>	<b>20,608</b>	<b>100.0</b>
<i>Source: 2015 ACS Data and 2020 U.S. Census Data; 2020-2022 HMDA Data; 2020-2022 HMDA Aggregate Data. Due to rounding, totals may not equal 100.0%</i>						

### **Borrower Profile**

The bank's lending performance demonstrates 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. Examiners focused on the percentage of lending to businesses with gross annual revenues of \$1 million or less and on the percentage of home mortgage loans to low- and moderate-income borrowers.

### ***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 table below, the bank's record of lending to businesses with gross annual revenues of \$1 million or less lags demographic data. However, according to the community contact and bank management, competition for small business loans in the area is significant, which is supported by 2021 CRA aggregate data. Further, the bank is an SBA lender, originating PPP loans in 2020 and 2021, illustrating its willingness to extend loans to businesses of all sizes, including smaller businesses. Considering these factors, the bank's performance is reasonable.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<=\$1,000,000	89.5	34	68.0	5,739	58.8
>1,000,000	3.3	16	32.0	4,028	41.2
Revenue Not Available	7.2	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>50</b>	<b>100.0</b>	<b>9,767</b>	<b>100.0</b>
<i>Source: 2022 D&amp;B Data; 2022 Bank Data.</i>					

### ***Home Mortgage Loans***

The distribution of home mortgage loans reflects reasonable penetration among individuals of different income levels. As illustrated in the following table, Vermillion State Bank’s lending performance to low-income borrowers was slightly higher than aggregate data from 2020-2022, and performance to moderate-income borrowers was comparable to aggregate data from 2020-2022. Overall, the distribution of home mortgage lending to individuals of different income levels is reasonable.

<b>Distribution of Home Mortgage Loans by Borrower Income Level</b>						
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>Low</b>						
2020	16.8	6.2	23	8.4	4,012	5.9
2021	16.8	8.0	24	11.5	3,048	6.3
2022	17.1	10.7	15	15.3	2,497	12.1
<b>Moderate</b>						
2020	16.8	19.7	58	21.1	11,195	16.6
2021	16.8	21.0	43	20.7	8,807	18.2
2022	17.7	24.7	24	24.5	3,513	17.0
<b>Middle</b>						
2020	23.5	23.6	85	30.9	19,850	29.4
2021	23.5	23.2	63	30.3	14,112	29.2
2022	24.6	23.7	11	11.2	2,920	14.2
<b>Upper</b>						
2020	42.9	33.9	92	33.5	28,233	41.8
2021	42.9	30.6	69	33.2	20,439	42.3
2022	40.6	25.8	37	37.8	9,042	43.9
<b>Not Available</b>						
2020	0.0	16.6	17	6.2	4,245	6.3
2021	0.0	17.2	9	4.3	1,931	4.0
2022	0.0	15.0	11	11.2	2,636	12.8
<b>Totals</b>						
<b>2020</b>	<b>100.0</b>	<b>100.0</b>	<b>275</b>	<b>100.0</b>	<b>67,535</b>	<b>100.0</b>
<b>2021</b>	<b>100.0</b>	<b>100.0</b>	<b>208</b>	<b>100.0</b>	<b>48,337</b>	<b>100.0</b>
<b>2022</b>	<b>100.0</b>	<b>100.0</b>	<b>98</b>	<b>100.0</b>	<b>20,608</b>	<b>100.0</b>
<i>Source: 2015 ACS Data and 2020 U.S. Census Data; 2020-2022 HMDA Data; 2020-2022 HMDA Aggregate Data. Due to rounding, totals may not equal 100.0%</i>						

### **Response to Complaints**

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

### **COMMUNITY DEVELOPMENT TEST**

Vermillion State Bank's community development performance demonstrates adequate responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services. Examiners considered the bank's capacity and the need and availability of such opportunities within the

assessment area. Comparable institutions are also used in the analysis of a financial institution to help provide perspective on a bank’s performance. For this evaluation, examiners reviewed the activities of four institutions that either have operations in a similar assessment area and/or a similar lending focus as Vermillion State Bank and were evaluated using Interagency Intermediate Small Institution Examination Procedures since October 25, 2022. All four of the institution’s performance also included SBA PPP lending. Vermillion State Bank’s overall community development performance compares reasonably to these institutions.

**Community Development Loans**

During the CRA review period, the bank originated or renewed 295 community development loans totaling approximately \$61.2 million throughout its assessment area and the broader statewide area. The bank extended loans primarily in an effort to promote economic development by supporting permanent job creation, retention, or improvement to low- and moderate-income individuals; and to revitalize and/or stabilize moderate-income geographies. The bank was responsive to its assessment area credit needs; therefore, qualified community development lending activity totaling approximately \$4.3 million that benefitted the broader statewide area was also included.

Community development lending activity includes 267 SBA PPP loans totaling approximately \$12.7 million originated during 2021. These loans helped finance small businesses or small farms as they struggled with the impact of the COVID-19 pandemic. The bank’s community development loans to total assets ratio of 7.8 percent, and community development loans to net loans ratio of 17.2 percent compares reasonably to the ratios of comparable institutions, which ranged from 6.6 percent to 22.9 percent and 11.2 percent to 27.0 percent, respectively. The following tables provide a breakdown of the community development loans by area benefited and by year and activity for each community development purpose.

<b>Community Development Lending by Area</b>										
<b>Area</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Assessment Area	3	693	1	436	171	35,223	59	20,526	<b>234</b>	<b>56,878</b>
Broader Statewide Activities	0	0	0	0	56	3,349	5	928	<b>61</b>	<b>4,277</b>
<b>Total</b>	<b>3</b>	<b>693</b>	<b>1</b>	<b>436</b>	<b>227</b>	<b>38,572</b>	<b>64</b>	<b>21,454</b>	<b>295</b>	<b>61,155</b>
<i>Source: Bank Data</i>										

<b>Community Development Lending by Year</b>										
<b>Activity Year</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
2020	1	261	0	0	0	0	3	2,499	4	2,760
2021	1	187	0	0	222	18,572	51	5,861	274	24,620
2022	0	0	1	436	1	7,200	7	11,321	9	18,957
2023 Year-to-Date	1	245	0	0	4	12,800	3	1,773	8	14,818
<b>Total</b>	<b>3</b>	<b>693</b>	<b>1</b>	<b>436</b>	<b>227</b>	<b>38,572</b>	<b>64</b>	<b>21,454</b>	<b>295</b>	<b>61,155</b>
<i>Source: Bank Data</i>										

### **Qualified Investments**

Qualified investments and donations funded since the previous evaluation were considered under this criterion. Vermillion State Bank received consideration for 64 qualified investments totaling approximately \$9.1 million. The 64 qualified investments also included 21 equity investments that primarily supported affordable housing initiatives and community services to low- and moderate-income individuals. Of these qualified investments, 13 totaling approximately \$3.8 million were made during the prior evaluation period, but remained outstanding at the current evaluation. The bank also received credit for 43 donations totaling approximately \$66,000 that promoted community development by donating to organizations that provide community services to low- and moderate-income individuals. The bank was responsive to its assessment area's community development investment and donation needs; therefore, qualified community development investment and donation activity that benefitted the broader statewide area was included.

When aggregated for the evaluation period, the bank's qualified investments to total assets ratio was 1.2 percent and represents 2.5 percent of total securities. Vermillion State Bank's qualified investments to total assets ratio compares reasonably to similarly-situated institutions whose qualified investments to total assets ratios ranged from 0.5 percent to 1.8 percent, and qualified investments to total securities ratios ranged from 1.2 percent to 14.7 percent. Overall, Vermillion State Bank's community development investment and donation activity is responsive to the needs within the assessment area over the evaluation period. The following tables illustrate the bank's qualified investments by area benefited and activities by year for each community development purpose.

<b>Community Development Qualified Investments by Area</b>										
<b>Area</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Assessment Area	7	3,017	43	66	0	0	3	985	53	4,068
Broader Statewide Activities	4	3,087	7	1,932	0	0	0	0	11	5,019
<b>Total</b>	<b>11</b>	<b>6,104</b>	<b>50</b>	<b>1,998</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>985</b>	<b>64</b>	<b>9,087</b>
<i>Source: Bank Data</i>										

<b>Community Development Qualified Investments by Year</b>										
<b>Activity Year</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Prior Period	8	2,104	4	1,241	0	0	1	405	13	3,750
2020	0	0	0	0	0	0	0	0	0	0
2021	1	519	0	0	0	0	0	0	1	519
2022	1	1,153	3	691	0	0	1	331	5	2,175
2023 Year-to-Date	1	2,328	0	0	0	0	1	249	2	2,577
<b>Subtotal</b>	<b>11</b>	<b>6,104</b>	<b>7</b>	<b>1,932</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>985</b>	<b>21</b>	<b>9,021</b>
Qualified Grants & Donations	0	0	43	66	0	0	0	0	43	66
<b>Total</b>	<b>11</b>	<b>6,104</b>	<b>50</b>	<b>1,998</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>985</b>	<b>64</b>	<b>9,087</b>

*Source: Bank Data*

### **Community Development Services**

During the CRA review period, bank employees provided 26 instances of financial expertise or technical assistance to six different community development-related organizations. The bank’s level of community development services is comparable to similarly-situated institutions, whose community development services ranged from 11 to 34 during their respective evaluation periods. The following table provides a breakdown of community development services by year and activity for each community development purpose.

<b>Community Development Services by Year</b>					
<b>Activity Year</b>	<b>Affordable Housing</b>	<b>Community Services</b>	<b>Economic Development</b>	<b>Revitalize or Stabilize</b>	<b>Totals</b>
	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>
2020	0	0	0	0	0
2021	0	8	0	0	8
2022	0	9	0	0	9
2023 Year-to-Date	0	9	0	0	9
<b>Total</b>	<b>0</b>	<b>26</b>	<b>0</b>	<b>0</b>	<b>26</b>

*Source: Bank Data*

In addition to the services noted above, Vermillion State Bank’s Lyn Way Hastings office is located in a moderate-income census tract, and the remaining offices are centrally located within the assessment area for low-and moderate-income individuals. The bank continues to waive surcharges and bank fees at Money Pass network ATMs and provides no-cost electronic and mobile banking services. Branch hours provide residents easy access to personalized services, while electronic banking services provide convenient 24-hour access to account information. Overall, the bank provides reasonable access to products and services specifically designed to meet the needs of the communities served, including low- and moderate-income residents.

## **DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

The bank's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

## APPENDICES

### INTERMEDIATE 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 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; 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).

#### **Community Development Test**

The Community Development Test considers the following criteria:

- 1) The number and amount of community development loans;
- 2) The number and amount of qualified investments;
- 3) The extent to which the bank provides community development services; and
- 4) The bank's responsiveness through such activities to community development lending, investment, and service needs.

## 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 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.

**Community Development:** For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms; or
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

**Community Development Corporation (CDC):** A CDC allows banks and holding companies to make equity type of investments in community development projects. Institution CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Institution CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

**Community Development Financial Institutions (CDFIs):** CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

**Community Development Loan:** A loan that:

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose institution:
  - (i) Has not been reported or collected by the institution or an affiliate for consideration in the institution's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
  - (ii) Benefits the institution's assessment area(s) or a broader statewide or regional area including the institution's assessment area(s).

**Community Development Service:** A service that:

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the institution's retail banking services under § 345.24(d).

**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.

**Distressed Middle-Income Nonmetropolitan Geographies:** A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

**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.

**Low Income Housing Tax Credit:** The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

**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.

**Qualified Investment:** A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**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 Investment Company (SBIC):** SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

**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.

**Underserved Middle-Income Nonmetropolitan Geographies:** A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area’s population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

**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.