

PUBLIC DISCLOSURE

February 1, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Glenwood State Bank (Incorporated)
Certificate Number: 8853

5 East Minnesota Street
Glenwood, Minnesota 56334

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 Community Reinvestment Act (CRA) performance:

- The loan-to-deposit ratio is more than reasonable given the institution's size, financial condition, and assessment area credit needs.
- The institution made a majority of its small business, small farm, and home mortgage loans within its assessment area.
- The assessment area does not include any low- or moderate-income geographies; as a result, a review of the Geographic Distribution criterion would not yield meaningful conclusions. Therefore, this criterion was not evaluated.
- The distribution of borrowers reflects reasonable penetration among businesses and farms of different sizes and individuals of different income levels, including low- and moderate-income borrowers.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the CRA rating.

DESCRIPTION OF INSTITUTION

Glenwood State Bank (Incorporated) is headquartered in Glenwood, Minnesota. In addition to the main office, the institution operates one full-service branch in Alexandria, Minnesota and a limited-service facility in Villard, Minnesota. The bank also opened a loan production office in Detroit Lakes, Minnesota as of April 1, 2019, that primarily originates commercial loans. Glenwood State Bank received a Satisfactory rating at its previous FDIC Performance Evaluation, dated February 26, 2018, using Interagency Small Institution Examination Procedures.

Glenwood State Bank offers a variety of loan products, including commercial, agricultural, home mortgage, and consumer loans. Additionally, the institution originates home mortgage loans for sale on the secondary market. The bank's primary business focus is commercial lending, followed by agricultural and home mortgage lending. Glenwood State Bank also provides a full line of traditional deposit products, including checking, savings, and money market deposit accounts; certificates of deposit; health savings accounts; and individual retirement accounts. Alternative banking services include telephone, online, and mobile banking; mobile check deposit; and bill pay. Finally, the bank owns and operates three cash-dispensing ATMs.

As of December 31, 2020, Glenwood State Bank reported total assets of \$395,789,000; total loans of \$330,779,000; and total deposits of \$337,657,000. The loan portfolio is illustrated in the following table; however, home mortgage loans originated by the bank and sold on the secondary market are not reflected in this table.

Loan Portfolio Distribution as of December 31, 2020		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	34,047	10.3
Secured by Farmland	36,348	11.0
Secured by 1-4 Family Residential Properties	55,384	16.7
Secured by Multi-family (5 or more) Residential Properties	10,333	3.1
Secured by Nonfarm Nonresidential Properties	78,667	23.8
Total Real Estate Loans	214,779	64.9
Agricultural Production and Other Loans to Farmers	23,606	7.1
Commercial and Industrial Loans	72,261	21.9
Consumer Loans	5,662	1.7
Obligations of State and Political Subdivisions in the U.S.	14,171	4.3
Other Loans	300	< 0.1
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	(0)	(0.0)
Total Loans	330,779	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 the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which its performance will be evaluated. Glenwood State Bank has designated a single assessment area that is comprised of all of Douglas and Pope counties within the nonmetropolitan portion of central Minnesota. The following sections discuss economic and demographic information for the area.

Economic and Demographic Data

Bank management stated that the economy in the assessment area is stable as local industries are well diversified. Although area bars and restaurants lost business during the COVID-19 pandemic, there have not been any closures. Furthermore, the population in the area's smaller communities continues to grow steadily due to their proximity to several lakes. Management noted that tourism helps keep the economy moving. The housing market is currently booming, as the supply of housing stock does not meet demand. In the rural portions of the assessment area, the economy is tied more to agriculture and related businesses. Farmers have suffered from low commodity prices in recent years; however, yields were relatively strong during the most recent harvest. 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 #
Geographies (Census Tracts)	13	0.0	0.0	92.3	7.7
Population by Geography	47,568	0.0	0.0	92.9	7.1
Housing Units by Geography	26,891	0.0	0.0	92.6	7.4
Owner-Occupied Units by Geography	15,725	0.0	0.0	92.1	7.9
Occupied Rental Units by Geography	4,643	0.0	0.0	98.2	1.8
Vacant Units by Geography	6,523	0.0	0.0	89.8	10.2
Businesses by Geography	5,000	0.0	0.0	94.2	5.8
Farms by Geography	474	0.0	0.0	93.0	7.0
Family Distribution by Income Level	13,463	15.0	18.1	24.4	42.4
Household Distribution by Income Level	20,368	21.0	15.3	19.2	44.5
Median Family Income – Nonmetropolitan Minnesota		\$63,045	Median Housing Value		\$182,327
Families Below Poverty Level		5.1%	Median Gross Rent		\$712
Source: 2015 ACS Data and 2020 D&B Data Due to rounding, totals may not equal 100.0					

According to 2020 D&B data, area businesses are predominantly small operations. Specifically, 90.9 percent of the businesses operate from a single location and 66.8 percent employ fewer than five employees. The majority of businesses within the assessment area are located in Glenwood and Alexandria, with service industries representing the largest business type at 32.3 percent. Per bank management, some of the assessment area's largest employers include FAST Global Solutions;

American Solutions for Business; Douglas Machine, Inc.; Aagard Group; and 3M. D&B data for 2020 also confirms that a portion of the assessment area is dependent on agriculture with 8.7 percent of the businesses operating in agriculture. Bank management noted that livestock farmers primarily raise cattle while crop producers grow corn, soybeans, and wheat.

The Federal Financial Institutions Examination Council's-estimated median family income is used to analyze home mortgage loans under the Borrower Profile criterion. The following table illustrates the 2020 median family income ranges for the nonmetropolitan portion of the State of Minnesota.

Median Family Income Ranges				
Median Family Incomes	Low < 50%	Moderate 50% to < 80%	Middle 80% to < 120%	Upper ≥ 120%
2020 (\$70,900)	< \$35,450	\$35,450 to < \$56,720	\$56,720 to < \$85,080	≥ \$85,080
<i>Source: FFIEC</i>				

Competition

The assessment area is moderately competitive for financial services. Per 2020 FDIC Deposit Market Share data, 17 FDIC-insured financial institutions operate 26 offices within Douglas and Pope counties. Of these institutions, Glenwood State Bank ranked 2nd with a deposit market share of 17.7 percent. Furthermore, there is a significant level of demand and competition for small business loans within the assessment area. Specifically, 2019 aggregate CRA data illustrates that 39 lenders reported 938 small business loans in the assessment area. Glenwood State Bank was not required to collect or report its small business loan data during the evaluation period. However, the data is included as an indicator of the level of demand for this product.

Community Contacts

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 what credit opportunities are available and whether local financial institutions are responsive to the credit needs. The community members also provide general economic and demographic information. For this evaluation, examiners reviewed two previously conducted community contact interviews, one with a member of a local economic development organization and one with a representative of an agricultural entity. Both community contacts agreed that local financial institutions are meeting the credit needs of the assessment area.

One contact noted that the counties that make up the assessment area are rural but include large manufacturing industries. Tourism is also important to the local economy due to the many area lakes. The contact added that the area has an ongoing population influx as many retirees want to purchase lake homes. Young families are also moving to the lakes area. However, they generally commute to larger cities for employment. The unemployment rate is low and the manufacturing companies are always hiring. The contact indicated that the primary credit needs of the community include home mortgage and small business loans.

The second contact stated that the area is relatively dependent upon agriculture and related businesses and described the overall economy as unstable due to ongoing low market prices for both crops and livestock. The outlook of the agricultural economy is also unclear as yields depend on the weather. The contact indicated that the majority of producers in the area rely on off-farm income to obtain benefits, such as health insurance. The contact added that manufacturing, healthcare, and education are also important local industries. Based on the comments from this community contact, agricultural lending is also a credit need within the assessment area.

Credit Needs

Examiners determined that small business, small farm, and home mortgage loans represent the primary credit needs of the assessment area considering information from community contacts, bank management, and demographic and economic data.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated February 26, 2018, to the current evaluation dated February 1, 2021. Examiners used the Interagency Small Institution Examination Procedures to evaluate Glenwood State Bank's CRA performance. These procedures evaluate an institution's performance according to the Lending Test criteria as detailed in the Appendices.

Activities Reviewed

Bank records indicated that the lending focus and product mix remained consistent throughout the evaluation period. Examiners determined that the bank's major product lines are commercial, agricultural, and home mortgage loans. This conclusion was based on the bank's business strategy, loan portfolio distribution, and bank records regarding the number and dollar volume of loans originated or renewed during the evaluation period. For the Assessment Area Concentration analysis, examiners reviewed all small business, small farm, and home mortgage loans originated, renewed, extended, or purchased in 2020. This timeframe was considered representative of the bank's performance during the entire evaluation period. Examiners selected random samples of these loans that were located in the assessment area for the Borrower Profile analysis. The following table details the loan universes and samples selected for review.

Loan Products Reviewed				
Loan Category	Universe		Reviewed	
	#	\$(000s)	#	\$(000s)
Small Business	667	88,247	60	7,028
Small Farm	194	24,565	51	6,223
Home Mortgage	192	34,726	47	7,394
<i>Source: Bank Data</i>				

For the Lending Test, small business loans received more weight when drawing overall conclusions because of the higher volume of loan activity compared to other loan products. D&B data for 2020 provided a standard of comparison for the small business and small farm loans, while home mortgage lending was compared to American Community Survey (ACS) data. Further, while both the 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 businesses, farms, and individuals served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

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

Loan-to-Deposit Ratio

The loan-to-deposit ratio is more than reasonable given the institution's size, financial condition, and assessment area credit needs. As shown in the table below, Glenwood State Bank's net loan-to-deposit ratio averaged 108.1 percent over the past 11 calendar quarters, which exceeds the ratio of comparable institutions. Examiners selected comparable institutions based on their asset size, branching structure, geographic location, and lending focus.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 9/30/2020 (\$000s)	Average Net Loan-to-Deposit Ratio (%)
Glenwood State Bank (Incorporated); Glenwood, Minnesota	364,755	108.1
Viking Bank, National Association; Alexandria, Minnesota	242,792	101.5
United Community Bank; Perham, Minnesota	311,072	70.7
Minnesota National Bank; Sauk Centre, Minnesota	235,915	74.6
<i>Source: Reports of Condition and Income 3/31/2018 - 9/30/2020</i>		

Assessment Area Concentration

As detailed in the following table, Glenwood State Bank made a majority of its small business, small farm, and home mortgage loans, by number and dollar volume, within its assessment area.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Business	436	65.4	231	34.6	667	62,218	70.5	26,029	29.5	88,247
Small Farm	157	80.9	37	19.1	194	18,884	76.9	5,681	23.1	24,565
Home Mortgage	145	75.5	47	24.5	192	25,816	74.3	8,910	25.7	34,726
Total	738	70.1	315	29.9	1,053	106,918	72.5	40,620	27.5	147,538
Source: Bank Data										

Source: Bank Data

Geographic Distribution

The assessment area does not include any low- or moderate-income census tracts. As a result, the Geographic Distribution Criterion was not analyzed as it would not yield meaningful conclusions.

Borrower Profile

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

Small Business Loans

The distribution of borrowers reflects reasonable penetration among businesses of different sizes. Glenwood State Bank originated 76.7 percent of the sampled small business loans, by number, to operations with gross annual revenues of \$1 million or less. The bank's performance is lower than 2020 D&B data, which indicates that 85.6 percent of assessment area businesses are in the same revenue category. However, bank management stated that there is a significant level of local competition for small business loans. This is evidenced by FDIC Deposit Market Share data, which reveals that 17 FDIC-insured financial institutions operate 26 offices within the assessment area. Furthermore, as noted earlier, 2019 aggregate CRA data illustrates a high level of demand for small business loans. Given this information, the bank's performance is considered reasonable.

Small Farm Loans

The distribution of borrowers reflects reasonable penetration among farms of different sizes. Glenwood State Bank originated 90.2 percent of the sampled small farm loans to operations with gross annual revenues of \$1 million or less. The bank's performance of lending to farms in this revenue category is comparable to 2020 D&B data, which indicates that that 97.7 percent of assessment area farms have gross annual revenues of \$1 million or less.

Home Mortgage Loans

The distribution of borrowers reflects reasonable penetration among individuals of different income levels. As shown in the following table, the bank's performance of lending to low- and moderate-income borrowers is slightly less than 2015 ACS data for the same income levels. Although the bank's performance is lower than demographic data, examiners noted that six of the 27 loans to upper-income individuals were originated to the same borrower, which somewhat skews the analysis and mitigates the bank's performance. Further, demographic data indicates that the assessment area's median housing value is \$182,327. As such, low- and moderate-income families may have difficulty affording a home loan payment. Given this information, the bank's performance is considered reasonable.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	15.0	6	12.8	716	9.7
Moderate	18.1	5	10.6	425	5.7
Middle	24.4	9	19.2	1,110	15.0
Upper	42.4	27	57.4	5,143	69.6
Total	100.0	47	100.0	7,394	100.0
<i>Source: 2015 ACS Data; Bank Data</i> <i>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 rating.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices inconsistent with helping meet community credit needs. Therefore, this consideration did not affect the institution's overall CRA rating.

APPENDICES

SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans and, as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The 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).

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.

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 that update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses ACS 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.