

PUBLIC DISCLOSURE

August 19, 2024

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Union State Bank of Hazen
Certificate Number: 13195

209 Central Avenue North
Hazen, North Dakota 58545

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 institution's Community Reinvestment Act (CRA) performance:

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.
- The bank originated a majority of its small farm, small business, and home mortgage loans inside its assessment area.
- The assessment area does not include any low- and moderate-income geographies, and a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.
- The distribution of borrowers reflects excellent penetration among farms and businesses of different revenue sizes and individuals of different income levels.
- The institution has not received any Community Reinvestment Act (CRA)-related complaints since the previous evaluation; therefore, this criterion did not affect the rating.

DESCRIPTION OF INSTITUTION

Union State Bank of Hazen is controlled by Hazen Bancorporation, Inc., and operates from its main office in Hazen, North Dakota, with branch offices in Stanton, Beulah, and Hazen, North Dakota. The institution received a Satisfactory rating at its previous FDIC Performance Evaluation dated June 18, 2018, based on Interagency Small Institution Examination Procedures.

The bank continues to offer traditional credit products including agricultural, commercial, residential real estate, and consumer loans, with agricultural, commercial, and residential real estate lending being its primary lending focuses. Additionally, the bank participates in government-sponsored loan programs. Specifically, in 2020 and 2021 the bank originated 217 loans totaling approximately \$8.1 million through the Small Business Administration’s (SBA) Paycheck Protection Program, which was established to assist small farms and businesses struggling with the impact of the Coronavirus pandemic. Furthermore, the bank participates in various loan programs through the SBA, Dakota Business Lending, Lewis & Clark Regional Development, U.S. Department of Agriculture Rural Development, and Bank of North Dakota. The institution also provides a variety of traditional deposit services including checking, savings, and certificates of deposit. Alternative banking services include internet banking, mobile banking, and ATMs (including one which is deposit taking).

As of June 30, 2024, the institution reported total assets of \$222.8 million, total loans of \$118.8 million, and total deposits of \$207.1 million. Notably, net loans have gradually increased 52.8 percent during the review period. The table below illustrates the bank’s loan portfolio.

Loan Portfolio Distribution as of 6/30/2024		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	1,309	1.1
Secured by Farmland	14,707	12.4
Secured by 1-4 Family Residential Properties	30,060	25.3
Secured by Multifamily (5 or more) Residential Properties	1,889	1.6
Secured by Nonfarm Nonresidential Properties	21,506	18.1
Total Real Estate Loans	69,471	58.5
Commercial and Industrial Loans	13,280	11.2
Agricultural Production and Other Loans to Farmers	19,028	16.0
Consumer Loans	11,476	9.7
Obligations of State and Political Subdivisions in the U.S.	5,512	4.6
Other Loans	17	<0.1
Total Loans	118,784	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 assessment area credit needs.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which its performance will be evaluated. The bank’s assessment area includes all of Mercer and Oliver counties in west central North Dakota. Oliver County is part of the Bismarck, ND MSA; however, the bank does not operate any offices in Oliver County. The bank’s Beulah office is located in an upper-income census tract while the remaining locations are in middle-income census tracts.

Economic and Demographic Data

The following table provides select demographic characteristics for the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	4	0.0	0.0	75.0	25.0	0.0
Population by Geography	10,227	0.0	0.0	69.2	30.8	0.0
Housing Units by Geography	5,830	0.0	0.0	68.0	32.0	0.0
Owner-Occupied Units by Geography	3,716	0.0	0.0	70.2	29.8	0.0
Occupied Rental Units by Geography	690	0.0	0.0	54.5	45.5	0.0
Vacant Units by Geography	1,424	0.0	0.0	68.8	31.2	0.0
Businesses by Geography	1,201	0.0	0.0	69.6	30.4	0.0
Farms by Geography	154	0.0	0.0	91.6	8.4	0.0
Family Distribution by Income Level	3,158	19.3	16.0	20.3	44.4	0.0
Household Distribution by Income Level	4,406	22.0	13.5	13.2	51.3	0.0
Median Family Income MSA - 13900 Bismarck, ND MSA		\$93,359	Median Housing Value			\$194,078
Median Family Income Nonmetropolitan - ND		\$82,366	Median Gross Rent			\$763
			Families Below Poverty Level			6.2%

*Source: 2020 U.S. Census and 2023 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.*

The Federal Financial Institutions Examination Council (FFIEC) median family income is used to analyze home mortgage loans under the Borrower Profile criterion. The following table illustrates the 2023 median family income ranges for the nonmetropolitan portions of ND and the Bismarck, ND MSA.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Bismarck, ND MSA Median Family Income (13900)				
2023 (\$109,000)	<\$54,500	\$54,500 to <\$87,200	\$87,200 to <\$130,800	≥\$130,800
Nonmetropolitan ND Median Family Income (99999)				
2023 (\$95,700)	<\$47,850	\$47,850 to <\$76,560	\$76,560 to <\$114,840	≥\$114,840
<i>Source: FFIEC</i>				

Competition

Union State Bank of Hazen operates in a competitive market for financial services. According to the FDIC Deposit Market Share data as of June 30, 2023, four FDIC-insured institutions operate eight offices in the assessment area. Of these institutions, the bank ranked first with a deposit market share of 53.4 percent. Other competition includes a local credit union and Farm Credit Services.

Community Contacts

As part of the evaluation process, examiners contact third parties to assist in identifying the credit needs of the assessment area. This information helps determine whether local financial institutions are responsive to these needs. Examiners interviewed an individual knowledgeable of the agricultural industry. The contact indicated that farm and ranch operations are in stable condition. The impact of Covid-19 greatly escalated the cost of living overall; however, it had a very beneficial effect on area farms and ranches due to high payments from government programs. Also, the increased size and improved efficiency of farm machinery has decreased the time needed for doing farm work. As such, many farmers and ranchers also work off the farm, primarily at energy-related jobs. Annual wages at both the mines and coal conversion facilities are higher than average. All these factors decrease the need for further financial assistance for farmers or ranchers. All credit needs are present; however, commercial, home mortgage, and agricultural lending are likely in the most demand. It is the contact’s perception that local financial institutions are meeting the credit needs of the area.

Credit Needs

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

SCOPE OF EVALUATION

General Information

The evaluation covers the period from the prior evaluation dated June 18, 2018, to the current evaluation dated August 19, 2024. Examiners used Interagency Small Institution Examination Procedures to evaluate Union State Bank of Hazen’s CRA performance.

Activities Reviewed

Bank records indicate that the lending focus and product mix remained relatively consistent throughout the evaluation period. Therefore, examiners selected 2023, the most recent calendar year, as the review period. This timeframe was considered representative of the bank’s performance during the entire evaluation period.

Agriculture loans, followed by commercial loans and home mortgage loans, represent the institution’s primary lending focus. This conclusion considered the bank’s business strategy, lending activity during the evaluation period, and Reports of Condition and Income data. As a result, examiners reviewed all available small farm, small business, and home mortgage loans that were originated, renewed, or extended in 2023. Loans that were originated, renewed, or extended and subsequently paid off in 2023 were not included in the review as this data was not provided. All of the available loans were used to evaluate the Assessment Area Concentration criterion. As revenue information was not readily available, examiners selected random samples of loans that were located within the assessment area for the Borrower Profile analysis. The following table details the loan universes and samples that were selected for review. D&B data for 2023 provided a standard of comparison for small business and small farm lending, while 2020 Census data provided a standard of comparison for home mortgage lending.

Loan Products Reviewed				
Loan Category	Universe		Reviewed	
	#	\$(000s)	#	\$(000s)
Small Farm	63	5,715	36	2,796
Small Business	84	9,564	30	3,840
Home Mortgage	20	3,658	18	3,192

Source: 2023 Bank Data

When determining the rating, the loan products received equal weight. No other loan types, such as consumer loans represent a major product line; therefore, they provided no material support for conclusions and were not analyzed. While both the number and dollar volume of loans are presented, examiners emphasized performance by number of loans as it is a better indicator of the bank’s lending efforts.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Union State Bank of Hazen demonstrated satisfactory performance under the Lending Test. The bank’s performance under each applicable criteria supports this conclusion. While the bank’s Borrower Distribution performance was excellent, this performance did not enhance the overall conclusion.

Loan-to-Deposit Ratio

Union State Bank of Hazen’s average net loan-to-deposit ratio is reasonable given the institution’s size, financial condition, and assessment area credit needs. The loan-to-deposit ratio, calculated from Reports of Condition and Income data, averaged 56.5 percent over the past 25 quarters from June 30, 2018, to June 30, 2024. The average net loan-to-deposit ratio at the time of the prior examination was 59.6 percent.

Examiners compared the bank’s ratio to two comparable institutions. The institutions were selected based on asset size, geographic location, and lending focus. While lower than the comparable institutions’ average net loan-to-deposit ratios, the bank’s lending is nevertheless considered reasonable. The bank has relationships with various municipalities and cooperatives that maintain significant deposits that impact the loan-to-deposit ratio. Additionally, home mortgage loans originated and sold on the secondary market are not reflected in the bank’s portfolio. The following table provides specific comparison details.

Loan-to-Deposit (LTD) Ratio Comparison		
Bank	Total Assets as of 6/30/2024 (\$000s)	Average Net LTD Ratio (%)
Union State Bank, Hazen, North Dakota	222,817	56.5
The Union Bank, Beulah, North Dakota	289,593	71.9
TruCommunity Bank, Garrison, North Dakota	313,087	69.3

Source: Reports of Condition and Income 6/30/2018 - 6/30/2024

Assessment Area Concentration

The following table shows the bank originated a majority of its small farm, small business, and home mortgage loans inside its assessment area.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans				Total \$ (000)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$ (000)	%	\$ (000)	%	
Small Farm	58	92.1	5	7.9	63	4,573	80.0	1,142	20.0	5,715
Small Business	43	51.2	41	48.8	84	5,284	55.2	4,280	44.8	9,564
Home Mortgage	18	90.0	2	10.0	20	3,192	87.3	466	12.7	3,658
Total	119	71.3	48	28.7	167	13,049	68.9	5,888	31.1	18,937

*Source: Bank Data
Due to rounding, totals may not equal 100.0%*

Geographic Distribution

The assessment area does not include any low- and moderate-income geographies, and a 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 excellent penetration among farms and businesses of different revenue sizes and individuals of different income levels. This conclusion is supported by the bank's excellent small farm and home mortgage lending performance, along with the reasonable small business lending performance.

Small Farm Loans

The distribution of borrowers reflects excellent penetration among farms with gross annual revenues of \$1 million or less. All loans reviewed were originated to farms with annual gross revenues of \$1 million or less. The comparable D&B data revealed that 99.4 percent of farms in the assessment area have gross annual revenues of \$1 million or less.

Small Business Loans

The distribution of borrowers reflects reasonable penetration among businesses of different sizes throughout the assessment area. As shown in the following table, the bank's lending to businesses with gross annual revenues of \$1 million or less is similar to demographic data.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	86.0	25	83.3	2,247	58.5
>\$1,000,000	3.2	5	16.7	1,593	41.5
Revenue Not Available	10.7	0	0.0	0	0.0
Total	100.0	30	100.0	3,840	100.0

*Source: 2023 D&B Data, Bank Data
Due to rounding, totals may not equal 100.0%*

Home Mortgage Loans

The distribution of borrowers reflects excellent penetration among individuals of different income levels, including low- and moderate-income borrowers. As depicted in the table below, lending to low- and moderate-income borrowers exceeds demographic data.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	19.3	4	22.2	302	9.5
Moderate	16.0	4	22.2	532	16.7
Middle	20.3	3	16.7	736	23.0
Upper	44.4	4	22.2	1,194	37.4
Not Available	0.0	3	16.7	428	13.4
Total	100.0	18	100.0	3,192	100.0

*Source: 2020 U.S. Census, Bank Data
Due to rounding, totals may not equal 100.0%*

Response to Complaints

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

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices inconsistent with helping meet community credit needs.

APPENDICES

SMALL BANK PERFORMANCE CRITERIA

Lending Test

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

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The 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 which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (e.g., geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary

counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as non-MSA): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Rated Area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-Income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.