



**COMMUNITY REINVESTMENT ACT  
STRATEGIC PLAN  
2023 - 2026**

# **CONTENTS**

<b>INTRODUCTION – DRAFT STRATEGIC PLAN CALENDAR YEARS 2023 - 2026.....</b>	<b>3</b>
<b>DESCRIPTION OF INSTITUTION .....</b>	<b>3</b>
<b>PERFORMANCE CONTEXT .....</b>	<b>5</b>
<b>DAKOTA DUNES (UNION COUNTY) AA .....</b>	<b>5</b>
<b>DUPREE (ZIEBACH AND DEWEY COUNTIES) AA.....</b>	<b>9</b>
<b>PLAN GOALS.....</b>	<b>14</b>
<b>STRATEGIC PLAN GOALS – DAKOTA DUNES AA SMALL BUSINESS LENDING.....</b>	<b>17</b>
<b>STRATEGIC PLAN GOALS – DUPREE AA SMALL BUSINESS GRANT .....</b>	<b>21</b>
<b>STRATEGIC PLAN GOALS -- DUPREE AA CONSUMER LENDING .....</b>	<b>24</b>
<b>STRATEGIC PLAN GOALS -- DUPREE AA SMALL FARM LENDING.....</b>	<b>26</b>
<b>STRATEGIC PLAN GOAL – COMMUNITY SERVICE HOURS IN BOTH AAs.....</b>	<b>29</b>
<b>STRATEGIC PLAN GOAL – COMMUNITY DEVELOPMENT LOANS, INVESTMENTS, GRANTS     AND DONATIONS IN BOTH AAs .....</b>	<b>34</b>
<b>PUBLIC COMMENT SUMMARY .....</b>	<b>36</b>

## **INTRODUCTION – DRAFT STRATEGIC PLAN CALENDAR YEARS 2023 – 2026**

The Community Reinvestment Act (“CRA”) regulations provide that a financial institution may elect to have its CRA performance evaluated under the strategic plan option.<sup>1</sup> 1<sup>st</sup> Financial Bank USA (“1FBUSA” or the “Bank”) previously elected to be evaluated under this option for four years effective January 1, 2019 covering calendar years (“CY”) 2019 - 2022 (“current plan”). The following strategic plan covers CY 2023 – CY 2026 (“Plan”) and the performance goals for each year will be defined herein.

The Bank’s proposed Plan discusses 1FBUSA’s community development loans, investments, and services and how each meet the credit needs of consumers, small farms, and small businesses in its two assessment areas (“AAs”). The Bank’s CRA goals are consistent with its business strategy and operational focus by taking into account AA market factors, economic conditions and specific consumer needs while identifying areas in which to improve as well as identifying new opportunities for outreach. The Plan will (1) identify market factors in each AA believed to affect the Bank’s goals; (2) discuss economic factors that affect the Bank’s ability to offer products and services that are included in the CRA goals; (3) discuss the Bank’s historical performance in the context of meeting consumer needs within the Bank’s AAs; and (4) correlate all relevant factors into a narrative identifying how the Plan’s goals are designed to meet the credit needs of consumers, small farms and small businesses within the Bank’s AAs.

### **DESCRIPTION OF INSTITUTION**

1FBUSA’s nationwide credit card program is the primary lending product of the Bank and is an integral part of 1FBUSA’s overall business strategy, making up 46.3% of the lending activity as of the June 30, 2022 Report of Condition (“Call Report”). In CY 2013, 1FBUSA diversified its loan portfolio and started Home Builder Finance (“HBF”) which, in CY 2016, became Builder Finance Inc. (“BFI”). BFI is a wholly-owned subsidiary of 1FBUSA providing construction loans for builders and investors as well as other unique financing opportunities and makes up 18.5% of the Bank’s portfolio of loans. Additionally, on April 30, 2021, 1FBUSA acquired Premier Financial Services, LLC (“PFS”) as a wholly-owned subsidiary. PFS makes up 33.0% of the lending activity (specialty leasing for new and previously owned automobiles). These three segments make up a combined 97.7% of the Bank’s total lending activity as of June 30, 2022 with the Bank’s community banks loan portfolio making up the remaining 2.3%.

The Bank reported total assets of \$1,014,120,000 on its June 30, 2022 Call Report. Total loans were \$786,970,000 and total deposits were \$748,389,000. Of the \$786,970,000 in total loans, credit card loans comprised \$364,135,000 or 46.27%, BFI loans comprised \$145,275,000 or 18.46%, PFS lease financing receivables were \$259,372,000 or 32.96%, and the Bank’s community bank loans were \$18,188,000 or 2.31%.

---

<sup>1</sup> 12 C.F.R. §345.27 (2021).

The 1FBUSA community bank loans of \$18,188,000 are made up of residential real estate loans<sup>2</sup> (\$7,729,000 or 42.5 percent); agricultural loans<sup>3</sup> (\$4,747,000 or 26.1 percent); commercial loans<sup>4</sup> (\$3,411,000 or 18.8 percent); other loans and leases (\$1,591,000 or 8.7 percent); and consumer loans<sup>5</sup> (\$711,000 or 3.9 percent).

Although credit card receivables remain the largest portion of the Bank's loan portfolio, the addition of loans under BFI and leases under PFS<sup>6</sup> have become significant portions of the Bank's lending portfolio. All three of these credit products are offered on a national level, with the majority of those loans being made outside of the Bank's AAs. Loans offered by the community bank include farm loans, business loans, consumer loans and 1- to 4- family residential construction and commercial loans. In addition, 1FBUSA offers financing for special loan programs, including Farm Service Agency ("FSA") guaranteed loan programs, Small Business Administration ("SBA") guaranteed loan programs, Bureau of Indian Affairs ("BIA") loan programs, and the Small Dollar Loan Program ("SDLP"), which resembles the FDIC Small-Dollar Loan Pilot Program that concluded in the fourth quarter of 2009. The Bank has since adopted the SDLP as a permanent and successful program of the Bank.

Beyond credit products, the Bank also offers other traditional banking products and services including: demand deposit accounts, savings accounts, money market accounts, CDs, ATMs, safe deposit boxes, and notary services. In offering these products and services, the Bank primarily serves Union, Ziebach and Dewey counties in South Dakota. The Bank has six Automated Teller Machines ("ATMs") located in its AAs. The ATMs are located in Dupree, Isabel, Faith, Dakota Dunes, and North Sioux City and none of the Bank's ATMs accept deposits.

The Bank intends to continue its commitment to better serve community banking customers through investment and lending opportunities with the objective to grow its market share responsibly while recognizing and responding to the needs of the community. These opportunities will be focused on business development, agricultural support and growth, and underserved and underbanked consumers within Union, Ziebach and Dewey counties.

1FBUSA has designated two AAs: (1) the Dakota Dunes AA ("Dunes AA"), consisting of Union County, which is part of the Sioux City, Iowa-Nebraska-South Dakota metropolitan statistical area ("Sioux City MSA") and includes census tract ("CT") 201, 202, and 203; and (2) the Dupree AA ("Dupree AA"), consisting of Ziebach and Dewey counties in their entirety. Each AA has its own unique market factors, economic conditions and needs. The Bank has analyzed each AA separately to determine how these factors, conditions and needs affect the determination of CRA goals. Following is an analysis of each AAs relevant facts.

---

<sup>2</sup> Residential Real Estate loans are defined as loans secured by 1- to 4- family residential properties.

<sup>3</sup> Agricultural loans are defined as loans to finance agricultural production and loans secured by farmland.

<sup>4</sup> Commercial loans are defined as loans for commercial and industrial purposes as well loans secured by non-farm, non-residential properties.

<sup>5</sup> Consumer loans are defined as loans to individuals for household, family, and other personal expenditures.

<sup>6</sup> On August 26, 2022, PFS started originating loans secured by titled vehicles.

## **PERFORMANCE CONTEXT**

### **DAKOTA DUNES (UNION COUNTY) AA**

According to the 2020 Census, the Dunes AA consists of CT 201, 202 and 203. CT 201 is a middle-income CT while CT 202 and CT 203 are upper-income CTs.<sup>7</sup> The Bank's main office, located in CT 203, opened in December of 1994 and became the designated main office in August 1997. The communities in the Dunes AA include Dakota Dunes, North Sioux City, McCook Lake, Jefferson, Elk Point, Richland, Junction City, Big Springs, Alcester and Beresford.

There are a number of market factors and economic conditions that impact the Bank's operational strategy in regard to traditional and non-traditional banking product and service offerings. The Dunes AA has the unique challenge of being located along the border of three states. CT 203 is located in South Dakota, however, it borders Sioux City, IA and South Sioux City, NE. This Tri-State area results in a vast number of potential customers who live and transact business in communities outside the Dunes AA, for example, in Sioux City, IA and South Sioux City, NE.

According to the 2020 American Community Survey ("ACS") data<sup>8</sup>, there were 15,659 individuals in the Dunes AA of which 11,849 of the individuals were over 18 years old. The same ACS data indicates that there were 82,535 individuals in Sioux City, IA (60,334 were over 18) and 12,867 individuals in South Sioux City, NE (9,176 were over 18), both of which are outside the Dunes AA. South Dakota is attractive for locating and operating a business entity. There is currently no state income tax applicable to most businesses, which allows small and large businesses to reinvest a larger share of profits into the growth of the business. South Dakota also boasts a lower average commercial property tax<sup>9</sup> of 1.53% as compared to Iowa at 2.41% and Nebraska at 2.03%. The overall tax savings is a lucrative benefit to locating a business in the Dunes AA.

Currently, there are 614 businesses located within the Dunes AA.<sup>10</sup> Of those 614 businesses 384, or 63%, have gross sales over \$1.0MM annually, implying that over half the businesses within the Dunes AA would be classified as large businesses as defined under the CRA. These businesses are generally accessing credit from sources outside the Dunes AA through corporate headquarters located elsewhere and federally chartered financial institutions and are in the market for lending products in excess of the Bank's current lending limits. For those with relationships in the Dunes AA, there are seven, soon to be eight, financial institutions competing with the Bank for loans to

---

<sup>7</sup> Data taken from the Federal Financial Institutions Examination Council Online Census Data System. The data is from the 2020 ACS, 5-Year Estimates and is available at [FFIEC Home Page](#).

<sup>8</sup> Census data was taken from the 2020 ACS 5-Year Estimates on Demographic and Housing Estimates. Data is available at <https://data.census.gov/cedsci/>.

<sup>9</sup> Property tax data was taken from a study performed by the Lincoln Institute of Land Policy and the Minnesota Center for Fiscal Excellence <https://www.lincolnst.edu/publications/other/50-state-property-tax-comparison-study-2020>.

<sup>10</sup> Business data taken from reports issued by SNL Financial LC ("SNL") through an online subscription service purchased by the Bank. Bank management scrubbed the list provided by SNL to remove local governments and municipalities, nonprofits, banks and credit unions, farmers, individual physicians, duplicate addresses and businesses with no reported income.

these businesses. The other 230 businesses, or 37%, have annual gross sales of under \$1.0MM annually and are in the market for a variety of lending solutions, from equipment and capital financing to working capital.

The Dunes AA business community is also unique in that the population density is low in most areas. Due to the significant distance between markets, businesses rely on strong relationships with customers, vendors and service providers. These relationships are highly valued and once established, continue for the long-term. Face-to-face interactions and the value of a handshake are considered stock and trade in the Dunes AA market. In order to develop these long-term relationships, Bank staff conduct sales visits to the owners and managers of small businesses in the community. Many of these businesses are not yet Bank customers and the goal is to make contact and encourage continued interaction with them in order to begin a business relationship with them.

Strong competition coming from a number of larger financial institutions in the Dunes AA, a majority of which have additional branches in neighboring communities, are all vying for a small number of businesses that have longstanding relationships with their financial institutions. This is a major impediment to the Bank's ability to originate new business growth. Union County has nine financial institutions with 12 locations consisting of eight banks and one credit union, all of which are located in the Dunes AA. There are currently seven institution (soon to be eight) locations in CT 203, two in CT 202, and three in CT 201. Of the current seven locations in CT 203, six are located within one block of one another, including 1FBUSA. All six of these institutions additionally have a presence in Sioux City, IA (Woodbury County)<sup>11</sup> which only makes the Bank's position more restrictive as it only has the one branch. North Sioux City and Dakota Dunes are part of the Sioux City MSA and are adjacent to Sioux City, IA, the largest city in the area.

The proximity of the communities<sup>12</sup> means that those who commute from one community to another are more likely to choose a bank with an office in both communities for the convenience of handling their day-to-day banking needs. Further, residents that commute into Sioux City and South Sioux City from North Sioux City and the Dakota Dunes for work have 27 financial institutions with 61 offices in Sioux City, IA (Woodbury County) and 7 financial institutions with 10 offices in South Sioux City, NE (Dakota County) in which to bank.

The proximity of businesses in the Dunes AA to Sioux City, Iowa (Woodbury County) and South Sioux City, Nebraska (Dakota County) enables businesses, many of whom have moved into Union County from the surrounding counties, to maintain their existing banking relationships, thereby, making it more difficult for the Bank to establish new relationships. Small businesses tend to maintain their lending relationships with the institutions in which their day-to-day deposit relationships are currently maintained. Businesses rely on strong relationships with their lenders which are highly valued and, once established, continue for the long-term. These long-term relationships pose a significant challenge to gaining market share as business owners have

---

<sup>11</sup> Financial institution and location information for CT 201, 202 and 203 taken from reports issued by SNL through an online subscription service purchased by the Bank.

<sup>12</sup> Dakota Dunes is 5.1 miles from Sioux City, IA via I-29 and 6.0 from South Sioux City, NE via I-29.

trepidations about leaving their existing relationships as they do not know if the new bank will be there when they need it – the way their existing bank has been.

Additionally, the Dunes AA is served by four Community Development Financial Institutions (“CDFIs”). Two of these CDFIs are GROW South Dakota (“GROW”) and Dakota Resources, which serve all of South Dakota. The third CDFI is South Eastern Development Foundation (“SEDF”), which serves 6 counties in South Dakota, including Union County. The fourth CDFI is Rural Electric Economic Development (“REED”), which serves counties in South Dakota, including Union County.<sup>13</sup>

The Bank’s lack of proximity to a significant number of businesses which value face-to-face interactions, a significant number of businesses without a physical presence, and a significant amount of competition within the Dunes AA pose challenges for the Bank in establishing small business relationships. In the new Plan, the Bank will be looking to expand its marketing efforts by establishing a digital marketing presence to increase the Bank’s exposure to small businesses in its AA. Increasing its digital presence will help reach borrowers that do not have a physical brick and mortar presence and/or are located outside of the Dakota Dunes – the physical location of the Bank. This strategy will be essential in helping to cultivate new business prospects by building brand awareness and keeping the Bank at the top of the minds of business owners in the event they are looking to change banking relationships, however, material growth in the Dakota Dunes small business lending goals will continue to be difficult.

Beyond the business market factors affecting the Bank’s strategies, the individual consumer market affects the Bank’s efforts as well. Similar to the business factors, the location of the Dunes AA in a Tri-State area presents both opportunities and challenges.

As previously mentioned, the CTs within the Dunes AA are middle- and upper-income tracts. Based on 2020 U.S. Census Bureau ACS there were 6,864 households and 4,502 families in the Dunes AA. Of the 4,502 families, 7.7% were below the poverty level and 39.2% of the families considered low- to moderate-income (“LMI”).<sup>14</sup>

According to 2020 ACS, the percentage of families below poverty level for the State of South Dakota is 8.0%. According to the same dataset, the percentage of families below poverty level for Union County, South Dakota is 7.7%.<sup>15</sup> According to the 2020 ACS, the median family income (“MFI”) for Union County, South Dakota was \$95,000 while the estimated MFI for the State of South Dakota was \$77,042. The MFI for the Union County is 23.3% higher than that of the State.

---

<sup>13</sup> CDFI information from the U.S. Department of the Treasury CDFI list dated April 14, 2021.

<sup>14</sup> These percentages were calculated based on income distributions taken from the U.S. Census ACS 5-Year Estimates - <https://data.census.gov/cedsci/> - 2020 Income in the Past 12 Months. Low- to moderate-income is defined as less than 80% of the MFI of the Sioux City MSA. With an MFI of \$95,000 for the Sioux City MSA, low- and/or moderate income would be any income less than \$76,000. The Bank used the percentage of families by stratification of income per the ACS 5-Year Estimates - Income in the Past 12 Months in determining this percentage. In deriving this percentage, the Bank used the percentage of families with incomes of \$74,999 or less due to limitations on the stratification of incomes by bucket used by the Census.

<sup>15</sup> Data taken from the U.S. Census ACS 5-Year Estimates for Median Income in the Past 12 Months, <https://data.census.gov/cedsci/>

Based on the 2022 FFIEC Census and Demographic data (“FFIEC data”), two of three CTs in Union County are considered upper-income tracts. When looking at the county as a whole, based on 2022 estimated incomes, the MFI of Union County expressed as a percentage of the MFI for the Sioux City MSA, has increased from 121.87% (2016) to 127.71% (2022).<sup>16</sup>

Upper-income is defined as an income greater than 120% of the MFI of the MSA. According to FFIEC data for 2021, Union County, as a whole, remains upper-income at an estimated 137.23%. The population of the Dunes AA has grown over the last decade according to FFIEC data covering the two most recent censuses. According to data reported per the 2010 and 2020 Decennial Census, Union County has grown by 2,412, or 16.8%, from 14,399 individuals in 2010 to 16,811 individuals in 2020. The census data indicates that the overwhelming majority of the growth in the Dunes AA has come from more affluent, financially secure consumers. The Dakota Dunes population has grown by 1,480, or 58.3%, from 2,540 individuals in 2010 to 4,020 individuals in 2020.<sup>17</sup> The affluent nature of families within the Dunes AA, specifically individuals residing in CT 203, results in lower overall demand for credit products and services targeted at LMI individuals currently residing in CT 203.

As previously mentioned, there are distinct advantages to living within the Dunes AA as opposed to living in Iowa or Nebraska, namely the lack of state income tax. In addition to no state income tax, South Dakota property taxes are the lowest in the Tri-State area at 1.53% as compared to 2.41% in Iowa and 2.03% in Nebraska.<sup>18</sup> These advantages are diminished by the lack of available housing within the Dunes AA, specifically affordable housing, in comparison to Sioux City, IA and South Sioux City, NE.

According to Realtor.com, on September 27, 2022, there were 43 single-family homes listed as pending or for sale in Union County of which six of the homes, or 14.0%, were under \$225,000. Comparatively, Sioux City, IA and South Sioux City, NE<sup>19</sup> have a combined 153 single-family homes listed of which 55 of those homes or 35.9% are listed at a price under \$225,000.

The more affluent population demographic in CT 203 has resulted in higher average home prices within the market. According to the 2020 ACS, the median value of owner-occupied housing in Dakota Dunes was \$355,800. Of the 43 listings, 14 are located in the Dakota Dunes, however, none of those homes are under \$225,000. North Sioux City, with a median value of owner-occupied housing of \$183,600, is more affordable. However, of the 43 listings, seven are located in North Sioux City with none of those homes being listed for under \$225,000.

The lack of affordable housing inhibits the young families who qualify as LMI individuals that are looking to establish roots in Union County, specifically in CT 203, from moving into the area. Elk Point, Beresford, Jefferson and Alcester are considerably less expensive and are more conducive

---

<sup>16</sup> Data taken from FFIEC Summary Census Demographic Information by Tract. Estimates for 2016 and 2021 can be found at [www.ffiec.gov/census](http://www.ffiec.gov/census).

<sup>17</sup> Data pulled taken from 2010 and 2020 U.S. Census Decennial Census; <https://data.census.gov/cedsci/>

<sup>18</sup> Property tax data was taken from a study performed by the Lincoln Institute of Land Policy and the Minnesota Center for Fiscal Excellence <https://www.lincolninst.edu/publications/other/50-state-property-tax-comparison-study-2020>. (see footnote 9)

<sup>19</sup> Listed properties based on a search of single-family homes within boundaries indicated on Realtor.com as of September 27, 2022.



to finding affordable housing with a median value of owner-occupied housing of \$155,700, \$152,400, \$140,600 and \$84,000, respectively.<sup>20</sup> As of September 27, 2022, there are 16 listings available in these markets of which six are listed for under \$225,000.

Current listings suggest that the homes that are available are in excess of \$225,000 and many young families cannot afford them. Additionally, there is a limited amount of land available in Union County, SD.<sup>21</sup> According to Realtor.com, there are currently 47 lots pending or listed for sale. In CT 203, lots are priced far in excess of what would be considered reasonable for affordable housing and are in developments where covenant restrictions would prevent them from conforming to the neighborhoods. There are currently 14 lots for sale in CT 203. Thirteen of the 14 are located in the Dakota Dunes where the price of those lots range from \$145,000 - \$300,000 per lot. CT 202 and CT 2023 have 33 lots that are currently listed or have a pending offer. These lots range in price from \$23,500 - \$69,900. The lack in affordability of those lots forces families to find housing in other markets outside the AA.

It should be noted that the affordable housing needs in the current plan were addressed, in large part, by utilizing the South Dakota Housing Development Authority's Governor's Housing Program. The current waiting period for a Governor's Home has increased. The current timeframe for delivery has moved from 8 months to 36 months from the date of purchase. The Bank will continue to engage with local leaders to try to develop strategies to bring affordable housing in the Dunes AA to fruition.

### **DUPREE (ZIEBACH AND DEWEY COUNTIES) AA**

The Dupree AA is not within an MSA, but rather consists of numerous small, rural communities that are distant from a population center. These communities include Dupree, Eagle Butte, Cherry Creek, Green Grass, La Plant, North Eagle Butte, Whitehorse, Timber Lake and Isabel.

The Dupree AA consists of three census tracts covering Ziebach and Dewey counties, CT 9416 (Ziebach County), CT 9415 and CT 9417 (both Dewey County). According to 2020 ACS, all three CTs are classified as moderate income.<sup>22</sup>

Per the 2020 ACS, Dewey County is considered distressed<sup>23</sup> as it has a poverty rate of 27.1% and is considered underserved<sup>24</sup> as the area's population is sufficiently small, thin, and distant from a

---

<sup>20</sup> Median value (dollars) based on U.S. Census 2020 5-Year ACS Estimates for Owner-occupied housing units <https://data.census.gov/cedsci/>

<sup>21</sup> A list of pending or for sale lots based on a search of land located in Union County per Realtor.com as of September 27, 2022.

<sup>22</sup> On the June 1, 2022, the list of Middle Income Distressed or Underserved Tract List for 2022 was released by the FFIEC. Census Tract 9417 in Dewey County, South Dakota is no longer on the list and has been moved to a moderate-income tract.

<sup>23</sup> See the CRA Interagency Q&A - § 345.12(g)(4)(iii) – A1. 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 five percent or more over the five-year period preceding the most recent census.

<sup>24</sup> See the CRA Interagency Q&A - § 345.12(g)(4)(iii) – A1. A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion that indicate the area's

population center and is likely to have difficulty financing the fixed costs of meeting essential community needs.

There are a number of market factors and economic conditions that impact the Bank's operational strategy in regard to traditional and non-traditional banking product and service offerings. The Dupree AA is located in an extremely rural and underserved area of South Dakota reporting an area of 4,264 square miles according to 2020 census data. There are 1.2 persons per square mile and 2.3 persons per square mile in Ziebach and Dewey counties, respectively, which are substantially lower than the 11.7 persons per square mile for the State. In addition to the low population density, these communities are spread over the entire geography and the Bank's lack of proximity to a significant portion of the individuals, small businesses, and small farms makes it challenging to gain market share in the Dupree AA. The Dupree AA extends 90 miles from the Bank, inhibiting the ability to service prospective customers at the far reaches of the AA on a daily basis.

The Dupree AA continues to feel the effects of years of high poverty rates and high unemployment rates. This can be seen by the continued reduction of their population. According to the 2010 and 2020 U.S. Decennial Census, the total population of Dewey County has decreased 1.17% and the population of Ziebach County has decreased by 13.85% over the respective censuses. Of the 1,858 families, 63% of the families were considered low-income and moderate-income.<sup>25</sup> According to statistics taken from the 2020 ACS based on U.S. Census Bureau estimates, there were 2,506 households and 1,857 families in the Dupree AA. Of the 1,857 families, 27% of all families in Dewey County and 32% of all families in Ziebach County fell below the poverty level for a combined 27% of families that are below the poverty level within the Dupree AA.<sup>26</sup>

According to the 2020 ACS, the poverty levels for the State of South Dakota indicate that 8.0% of all families are below the poverty level, an average poverty rate almost one-third than that of Dewey County and one-quarter than Ziebach County.

In terms of unemployment within the Dupree AA, opportunities are limited due to a lack of businesses. According to the 2012 Economic Census, there were 51 establishments in Ziebach County. In CY 2016, there were 51 establishments, which, in CY 2020, had shrunk to 44 establishments. According to the 2012 Economic Census, there were 83 establishments in Dewey

---

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. The Agencies will use as the basis for these designations the "urban influence codes," numbered "7," "10," "11," and "12," maintained by the Economic Research Service of the U.S. Department of Agriculture.

<sup>25</sup> These percentages were calculated based on income distributions taken from the U.S. Census ACS 5-Year Estimates - <https://data.census.gov/cedsci/> - 2020 Income in the Past 12 Months. Low- to moderate-income is defined as less than 80% of the MFI of the rural State of South Dakota. With an MFI of \$81,200 for the Sioux City MSA, low- and/or moderate income would be any income less than \$65,000. The Bank used the percentage of families by stratification of income per the ACS 5-Year Estimates - Income in the Past 12 Months in determining this percentage. In deriving this percentage, the Bank used the percentage of families with incomes <\$50,000 and 60% of the families that had incomes between \$50,000 and <\$75,000 in determining percentage of families with incomes of \$65,000 or less due to limitations on the stratification of incomes by bucket used by the Census.

<sup>26</sup> Data taken from the U.S. Census website <https://data.census.gov/cedsci> - ACS 5-Year Estimates 2020 Poverty Status in the Past 12 Months of Families.

County, 80 in 2016 and had shrunk to 77 establishments in 2020.<sup>27</sup> The low number of establishments, which continues to decrease, places a higher emphasis on the financial strength and health of each establishment. Any new business development is hindered by a thin population that, as previously discussed, has a significant percentage of the families falling under the poverty level.

The high poverty in the Dupree AA means that a significant percentage of the population has little, if any, discretionary income available to support any new business. Any economic hardship resulting in a budget cut or closure can have a substantial impact on the unemployment rates in the area, further amplifying the financial stress on other establishments as individual consumers have even smaller budgets.

Per the most recent 2020 ACS, the unemployment rate in Dewey County was 21.4% or four times the national average of 5.4% or 6 times that of State of South Dakota’s average of 3.5% for the same time period. The unemployment rate in Ziebach County was 30.4%, which is slightly higher than that of Dewey County.<sup>28</sup> The high rate of unemployment observed in both Ziebach and Dewey counties results in a large number of potential borrowers being unable to qualify for loans with the Bank, limiting the Bank’s pool of prospects for consumer loans.

Unemployment rates are not the only factor limiting the Bank’s consumer lending pool within the Dupree AA. According to the 2020 ACS, the MFI for Ziebach and Dewey counties were \$40,833 and \$50,104, respectively. The MFIs for these counties are substantially lower than the State of South Dakota, which was \$77,042 over the same time-period. Data from the 2020 ACS also indicates that the estimated median housing value of owner-occupied units in Ziebach and Dewey counties were \$68,800 and \$50,400, respectively. These median housing values are significantly lower than South Dakota’s statewide median housing value of \$174,600.

According to the 2020 ACS, of the 3,051 total housing units in the Dupree AA, 2,506, or 82.1%, of those units are occupied units. Of those 2,506 occupied units, 1,467 or 58.5% are owner-

<sup>27</sup> The data was taken from the 2008 – 2012, 2012-2016 and 2016-2020 ACS County Business Pattern reports for both Ziebach and Dewey Counties <https://data.census.gov/cedsci>

<sup>28</sup> Data taken from the U.S. Census website <https://data.census.gov/cedsci> – 2016 – 2020 American Community Survey 5-Year Estimates (“2020 ACS”). More recent data is available per the Bureau of Labor Statistics which is significantly lower than the numbers reported per the ACS and are as follows <https://beta.bls.gov/dataQuery/find?fq=survey:%5Bla%5D&s=popularity:D>. BLS data is based on the Current Population Survey, a monthly sample survey of 60,000 households designed specifically to produce the current monthly employment and unemployment data and annual data on income and poverty for the nation. No monthly estimates are available from ACS. Employment and unemployment estimates from the ACS and CPS can differ because of differences in survey design and data collected, including but not limited to, different questions, samples, and collection methods.

Average Annual Unemployment Rates per the Bureau of Labor Statistics					
	2017	2018	2019	2020	2021
Dewey	9.4%	8.1%	7.1%	7.0%	5.9%
Ziebach	4.9%	4.8%	4.7%	4.2%	4.5%
National	4.4%	3.9%	3.7%	8.1%	5.3%
South Dakota	3.1%	2.8%	2.8%	4.3%	3.1%

occupied and 1,040, or 41.5%, are renter-occupied.<sup>29</sup> Of the occupied rental units, median rents were \$591 per month and \$586 per month for Ziebach and Dewey counties, respectively. The average rental housing cost, coupled with the high poverty and high unemployment of the Dupree AA, means consumers in these areas have limited financial capacity to take on debt. The Bank strives to extend credit consistent with maintaining safety and soundness standards and the limited debt capacity of consumers within the Dupree AA significantly impacts the Bank's lending strategies.

Compounding the impact of both the high poverty and unemployment rates, the current water system in Dupree has been deemed inadequate and has resulted in water flow restrictions. In 2004, Mni Wasté Water Company placed a moratorium on the construction of new development due to antiquated water line infrastructure which caused water shortages and outages across the Dupree AA. This moratorium closed out efforts to build new homes and limited the establishment of new businesses. In May of 2019, the moratorium was lifted, however, due to outdated distribution lines throughout a significant portion of the Mni Wasté Water Company's ("Mni Wasté") service area, an application and approval process have been implemented before any new distribution lines are laid.

In September of 2012, Mni Wasté, which is located in Eagle Butte, SD, was awarded \$65.9MM through funding from USDA to build a new water treatment plant and trunk line stemming from the Missouri River. The trunk line included 10.5 miles of raw water intake line, 25 miles of treated water transmission line, and water intake modifications. The entire project cost a total \$73.9MM and significantly increased the clean water flows from Mni Wasté's Missouri River Oahe Intake to its water treatment plant in the City of Eagle Butte.

In late October of 2020, the U.S. Department of Agriculture announced it had awarded \$891MM in loans and grants for rural drinking water and wastewater infrastructure projects through the USDA's Water and Waste Disposal Loan and Grant Program. The largest award went to Mni Wasté which received a \$9.6MM loan and a \$17.5MM grant to replace an undersized pipeline along Highway 63 connecting Eagle Butte to Timber Lake - the only town on the Cheyenne River Indian Reservation currently not being serviced by Mni Wasté. In addition to USDA's funds, in April of 2022, the Department of Agriculture and Natural Resources announced that Mni Wasté was awarded \$6,448,598 in additional grant funds for the project.

Until the water issues are fully resolved, and the water infrastructure is fully updated, new housing and new business development in the area will be somewhat restricted. The most logical option of addressing the affordable housing issues is in Eagle Butte due to the updated water infrastructure recently added<sup>30</sup>. Additionally, Bank management will continue to engage with local leaders to develop strategies in order to address the needs of the Dupree AA.

The inadequacy of the water system infrastructure has also impacted the business community within the Dupree AA. Small businesses have difficulty finding sufficient available space that has adequate access to water which inhibits the ability to build new structures. The Bank is limited to

---

<sup>29</sup> Data taken from the U.S. Census website <https://data.census.gov/cedsci> – ACS 5-Year Estimates 2020 Selected Housing Characteristics.

<sup>30</sup> See Plan goal 9 – Investments, Grants and Community Development Loans.

lending to businesses that are generally well established in the community or businesses that have been purchased by new owners. While new small businesses may be created, they are likely operated out of homes, making it more difficult to connect with those owners.

The number of commercial entities operating within the Dupree AA is also limited due to the rural nature of the environment, which is more conducive to agricultural business, however, the number of farms in the Dupree AA is shrinking as farmers are retiring and selling the farm to parties outside of the area. According to the 2007 Census of Agriculture<sup>31</sup> for Dewey and Ziebach counties, the counties had 410 and 234 farms, respectively. According to the 2017 Agricultural Census data for Dewey<sup>32</sup> and Ziebach<sup>33</sup> counties, the counties had 310 and 213 farms, respectively. From 2007 to 2017, the number of farms in the Dupree AA has decreased by from 644 to 523 farms or 18.8%.

The Bank's ability to lend within the consumer, commercial and agricultural markets within the Dupree AA is further impacted by the concentration of competition from other financial institutions and credit providers within the area. Within the Dupree AA, there are three banks, including 1FBUSA, with five offices. In addition to the banks, there is also a credit union that is located in the Dupree AA. In addition to the banks and credit union in the Dupree AA, there are banks and credit unions outside of the Dupree AA as well as other alternative financing sources.

The Dupree location currently has four CDFIs that serve its AA. One is Four Bands Community Fund, Inc., which serves the Cheyenne River Indian Reservation encompassing all of the Dupree AA. Two are GROW and Dakota Resources, which serve the entire state of South Dakota. The other one is Akiptan, Inc., which serves Indian Country agricultural and food systems throughout the country.

Since the population is spread out over a large area (approximately 4,416 square miles)<sup>34</sup>, which is larger than the size of the states of Rhode Island and Delaware combined<sup>35</sup>, often consumers, businesses and farmers choose to bank with the institution that is located closest for convenience. The State Bank of Eagle Butte and Western Dakota Bank share a competitive advantage over the Dupree office due to their physical presence in Dewey County, which is proximate to the plurality of the population base within the AA.

Through lending, investment and service hours, the Bank will partner with local community leaders, non-profits and other support organizations to accomplish the goals set out in this Plan.

---

<sup>31</sup> According to the report on South Dakota Agriculture 2007:

[https://www.agcensus.usda.gov/Publications/2007/Online\\_Highlights/County\\_Profiles/South\\_Dakota/cp46041.pdf](https://www.agcensus.usda.gov/Publications/2007/Online_Highlights/County_Profiles/South_Dakota/cp46041.pdf)

<sup>32</sup> According to the report on South Dakota Agriculture 2017 (this is the most recent report information available as of the date of this strategic plan):

[https://www.nass.usda.gov/Publications/AgCensus/2017/Online\\_Resources/County\\_Profiles/South\\_Dakota/cp46041.pdf](https://www.nass.usda.gov/Publications/AgCensus/2017/Online_Resources/County_Profiles/South_Dakota/cp46041.pdf)

<sup>33</sup> According to the report on South Dakota Agriculture 2017 (this is the most recent report information available as of the date of this strategic plan):

[https://www.agcensus.usda.gov/Publications/2017/Online\\_Resources/County\\_Profiles/South\\_Dakota/cp46137.pdf](https://www.agcensus.usda.gov/Publications/2017/Online_Resources/County_Profiles/South_Dakota/cp46137.pdf)

<sup>34</sup> <https://www.google.com/search?client=firefox-b-1-d&q=how+large+is+dewey+and+ziesbach+counties+SD>

<sup>35</sup> <https://www.thoughtco.com/us-states-by-area-1435125>

## PLAN GOALS

There are two primary objectives of the Plan. The first is to continue expanding its community development footprint by proactively engaging with community leaders and non-profits to address the affordable housing and small business development needs of its AAs through community development loans, grants, and investments originated by the Bank or through its wholly-owned subsidiary, First Community Development Corporation. The second is to continue to increase the Bank's penetration in serving LMI consumers and small farmers in the Dupree AA and small businesses in the Dunes AA. Although management has actively supported finding solutions and opportunities to address community development needs as they arise, these opportunities have been limited. The Bank will continue to seek out community development opportunities.

The Bank's Plan is designed so that it may engage in a satisfactory level of CRA activities that are consistent with management's business strategies and the needs and opportunities within the communities that the Bank serves. Thus, in reviewing and evaluating the goals for this Plan and measuring their reasonableness in achieving a satisfactory level of CRA activities, the Bank believes that the needs and opportunities in its AAs must be taken into account.

The available opportunities in those AAs, the extent to which those opportunities are affected by the market factors and economies of those AAs, and the level of competition in those areas have played, and will continue to play, a key role in the demand for banking products and the ability of the Bank to increase the size of its lending share within its two AAs.

In creating the Plan, management classified its small business lending goals into two categories; 1) Small Business Lending which includes all "commercial and industrial loans" and "loans secured by nonfarm or nonresidential real estate" (as defined in the general instructions under Call Report Schedule RC-C, Part I) and includes loans to business borrower(s) located in the Bank's Dunes AA and where the loan origination is less than or equal to \$1,000,000 and 2) Lending to Small Businesses which includes loans originated that meet the definition under Small Business Lending and where the annual gross revenue of the business borrower(s) used in making its credit decision is less than or equal to \$1,000,000.

With respect to its consumer lending goals, management classified its goals into two categories; 1) Consumer Lending which includes all "automobile loans" and "other consumer loans" (as defined in the general instructions under Call Report Schedule RC-C, Part I) to individuals for household, family, and other personal expenditures and where the borrower(s) is/are located in the Dupree AA and 2) Consumer Lending to LMI individuals which includes loans originated that meet the definition under Consumer Lending and where the MFI of the borrower(s), as determined by the gross annual income used in making its credit decision, is/are below 80% of the MFI for the rural State of South Dakota<sup>36</sup>.

---

<sup>36</sup> The income category (low, moderate, middle, & upper) are calculated based on the assumptions below taken from the FFIEC website [<http://www.ffiec.gov/census/censusInfo.aspx>]:

Low-income:	Income of less than 50 percent of the area MFI
Moderate-income:	Income of at least 50 percent and less than 80 percent of the area MFI
Middle-income:	Income of at least 80 percent and less than 120 percent of the area MFI
Upper-income:	Income of at least 120 percent or more of the area MFI

In addition, the Bank has classified its small farm lending goals into two categories; 1) Small Farm Lending which includes all “loans to finance agricultural production and other loans to farmers” and “loans secured by farmland” (as defined in the general instructions under Call Report Schedule RC-C, Part I) and includes loans to farm borrower(s) located in the Dupree AA and where the loan origination is less than or equal to \$500,000 and 2) Lending to Small Farmers which includes loans originated that meet the definition under Small Farm Lending and where the annual gross revenue of the farm borrower(s) used in making its credit decision is less than or equal to \$500,000.

It should be noted that loan goals in the Plan were not allocated by CT income distributions. In other words, the Bank has excluded goals, at the CT level, for lending or lending-related activities based on the geographic distribution of loans by income. Goals at the CT level for the Dunes AA were not broken out according to income because none of the CTs in the Dunes AA include tract income levels defined as low- or moderate-income. Rather, the Dunes AA includes three CTs with income designations defined as two middle-income tracts and one upper-income tract. Similarly, loan goals for the Dupree AA were not broken out according to income. The Dupree AA includes three CTs with all three tracts having an income designation defined as three moderate-income tract.

When setting the Plan goals, Bank management evaluated goals in its current plan to determine which had the greatest impact on the communities the Bank serves. In doing so, the Bank identified the number volume of loans and total dollar volume of loans in each of the goals in the current plan, how those goals were met, or not met, and why. In regard to those particular goals, the Bank also analyzed the economic conditions of the AAs and examined whether the loan volumes were small because there was still some unmet credit need or there were other factors.

More specifically, in setting the Plan goals, 1FBUSA determined that the economies of both AAs have remained flat or have declined in recent years and, with respect to Ziebach and Dewey counties, have been among the worst in the country. These conditions indicate declining demand for credit in the AAs. The Bank has also identified market factors that impact the Bank’s ability to grow its loan portfolio in terms of traditional lending.

These factors include (1) the limited population within the Bank’s respective AAs, especially in the Dupree AA, (2) the entrenched position of, and intense competition from, existing banks, and (3) a product demand that is currently met. The Bank continues to mitigate these factors through its marketing efforts and outreach programs, which include its service activities with local non-profit organizations as well as its financial literacy and small business and small farm education seminars in each of its respective markets.

With respect to its marketing efforts, both offices have actively advertised lending products through various promotions. The rates and terms offered under these promotions have been extremely competitive with those offered by area competition. The Bank’s success under these

	2018	2019	2020	2021	2022
MFI rural State of South Dakota	\$66,600	\$66,500	\$68,900	\$70,600	\$81,200

MFI’s for Ziebach & Dewey counties were based on the MFI for the rural State of South Dakota as these counties do not fall within a designated MSA.

efforts has been a key component in attaining the goals set in prior year plans and will be a large component in achieving the goals in this Plan.

In setting the goals under this Plan, management has evaluated the reach of its marketing efforts and analyzed the market factors and economic conditions in the Bank's AAs that impact the performance ability for future growth.

As was the case in the current plan, covering CY 2019 - 2022, the Bank will not track separate goals for the consumer lending and farm lending products offered at the Dakota Dunes office or the beginning producer loans at the Dupree office, which have had a limited impact on the economic development of the Bank's respective communities. The Bank will continue to make loans in these loan categories, but their elimination from the Plan as specific and separate goals is appropriate as a result of the limited impact these loans have on the economic development of the Dunes AA or Dupree AA, respectively. These loan goals and the actual number of such loans to borrowers in the AAs have been low or insignificant due to a lack of market demand for such loans and other market constraints on the Bank, such as significant competition in the AAs as noted in the market analysis included in this Plan.

Additionally, the Bank is proposing to change its Dupree AA Small Business Lending goal in the current plan to a Dupree AA Small Business Grant goal in this Plan. The election to replace the small business lending goal in the Dupree AA with a small business grant goal was determined based on the fact that the number of small businesses in the Dupree AA is declining and that the loss of any one business in the Dupree AA has significant implications on an already depressed economy. Bank management believes that its efforts and resources would be best served by working with local community leaders and the FDIC Community Affairs Division to help in devising retention efforts as they relate to existing Dupree AA small businesses as well as helping in new business development.

In the current plan, the Bank split its community development loans, grants and investments into two goals: 1) community development loans and 2) grants & investments. For this Plan, the Bank has elected to combine the two goals into one goal. The Bank's election to combine the community development loans, grants and investments into one category is so that it does not limit an already limited pool of available opportunities due to complexities related to bringing the opportunity to fruition. Complexities such as legal technicalities and/or a lack of resources available to address more complex financing deals, as is the case with some of the opportunities with partnering organizations, should not be a reason that prevents the Bank and/or the partnering organization from participating.

Should the Bank fail to substantially meet its goals in the Plan, the Bank would elect to be evaluated as an intermediate small bank as defined under §345.12 (u). As an intermediate small bank, the Bank will be evaluated under two tests: the small bank lending test and community development test.



## **STRATEGIC PLAN GOALS – DAKOTA DUNES AA SMALL BUSINESS LENDING**

**Goals 1 & 2:** Achieve predetermined total dollar volume of small business loans (originations  $\leq$  \$1,000,000) and dollar volume of lending to small businesses (gross revenues  $\leq$  \$1,000,000) in the Dunes AA.

<b>Plan Year</b>	<b>Dakota Dunes AA – Small Business Lending</b>
	<b>Total Number Volume for Plan Year</b>
<b>2023</b>	\$1,000,000
<b>2024</b>	\$1,000,000
<b>2025</b>	\$1,000,000
<b>2026</b>	\$1,000,000

<b>Plan Year</b>	<b>Dakota Dunes AA – Lending to Small Businesses</b>
	<b>Total Number Volume for Plan Year</b>
<b>2023</b>	\$200,000
<b>2024</b>	\$200,000
<b>2025</b>	\$200,000
<b>2026</b>	\$200,000

### **GOAL RATIONALE**

In setting the “Small Business Lending” and “Lending to Small Businesses” goals for plan years 2023 – 2026 (“Plan”), management analyzed the historical loan volumes from CY 2018 – August 5, 2022 (“Review Period”) by unique borrower.

More specifically, management looked at its loan originations in each year and determined, first, that an adjustment to the Bank’s Plan goals was warranted due to a material change in the lending relationship with the Bank’s commercial loan borrowers.

Second, Bank borrowers refinanced with a competitor bank due to rates and terms offered by that bank (“Refinance Adjustment”).

Third, the Bank had a number of originations to businesses under the SBA’s Paycheck Protection Program (“PPP”) where the origination under the PPP was the only loan origination with the Bank during or after the Review Period. In the event that the PPP loan was the only loan of the borrower during or after the Review Period, management determined that it could not rely on future loans from any one of the borrowers and, therefore, the origination was removed from the historical analysis (“PPP Adjustments”).

Fourth, the Bank had *two* loans that were originated during the Review Period that required an adjustment due to the one-off nature of each of those loan originations. The Bank has classified these loans as one-off as they are atypical in terms of their reoccurring frequency and size relative to the Bank’s portfolio of other small business loans.

Fifth, Bank management made a timing adjustment to ensure only one operating line-of-credit be reflected in any given year, as would be the case under normal circumstances.

Further, the Bank has observed limited growth over the Review Period. The limited growth is directly related to strong competition from a number of other financial institutions within the AA competing for loans from a small number of businesses with longstanding relationships with their financial institutions.

#### Small Business Lending:

In order to come up with a Projection Base, Bank management, first, looked at a change in the lending relationship with the Bank's small business loan borrowers, which requires a Material Change Adjustment to the historical originations observed over the Review Period to remove originations that are no longer anticipated in the Plan.

Second, Bank management looked at the originations over the Review Period and determined that a Refinance Adjustment was necessary to account for the Bank's borrowers who recently refinanced with a competitor.

Third, in CY 2020 and CY 2021, Bank management removed originations to account for loans originated under the PPP where the origination to the borrower was his or her only loan with the Bank during or after the Review Period. The adjustment was warranted, as management does not expect to get future loans from these borrowers. The PPP featured a forgivable loan to borrowers that used the proceeds to support the payroll of the proprietor(s) and his/her/their respective workforce during the Coronavirus crisis. The one-off, forgivable nature of the PPP loans and a shrinking pool of earmarked funds available to borrowers on a first-come, first-served basis, created a sense of urgency that caused small business borrowers, who typically would not borrow from the Bank, to borrow from the Bank.

Fourth, in CY 2019 and CY 2020, Bank management looked at One-Off Adjustments and removed originations in each of the respective years. The Bank has considered the loans to be atypical as the nature of the origination is not something the Bank can rely on year-over-year.

Fifth, in CY 2021 and CY 2022, Bank management made an adjustment for borrowers whose regular timing on the renewal of their operating line-of-credit was delayed for CY 2021 and happened in CY 2022. The adjustment is necessary in order to smooth the data for projection purposes ("Operating Line-of-Credit Timing Adjustment").

Strong competition coming from a number of larger financial institutions in the Dunes AA, a majority of which have offices in neighboring communities as well, all vying for a small number of businesses that have longstanding relationships with their financial institutions is a major impediment to the Bank's ability to originate new business growth. As mentioned in the Performance Context section of this Plan, Union County has 9 financial institutions with 12 locations consisting of eight banks and one credit union, all of which are located in the Dakota Dunes AA. There are currently seven institution (soon to be eight) locations in CT 203, two in CT 202, and three in CT 201. Of the current seven locations in CT 203, six are located within one

block of one another, including 1FBUSA. All six of these institutions additionally have a presence in Sioux City, IA (Woodbury County)<sup>37</sup> which only makes the Bank’s position more restrictive as it only has the one branch. North Sioux City and the Dakota Dunes are part of the Sioux City MSA and are adjacent to Sioux City, IA the largest city in the area. The proximity of the communities<sup>38</sup> means that those who commute from one community to another are more likely to choose a bank with an office in both communities for the convenience of handling their day-to-day banking needs. Further, residents that commute into Sioux City and South Sioux City from North Sioux City and the Dakota Dunes for work have 27 financial institutions with 61 offices in Sioux City, IA (Woodbury County) and 7 financial institutions with 10 offices in South Sioux City, NE (Dakota County) in which to bank.

As mentioned in the Performance Context section of this Plan, there are a small number of businesses in the Bank’s Dunes AA. According to data pulled from SNL, there are 614 businesses located in the Dakota Dunes AA, of which, 361 businesses are operating in CT 203<sup>39</sup> where seven, soon to be eight, institutions compete for loans to those businesses. Additionally, 165 businesses, or 26.9%, are located in CT 201.<sup>40</sup> Further, a significant portion of those potential business prospects are located in the further reaches of the Dakota Dunes AA. The proximity of competitor banks gives those banks a competitive advantage in that 26.9% of the potential business market as those customers have developed long-standing relationships with financial institutions capable of interacting face-to-face on a regular basis.

The proximity of businesses in the Dunes AA to Sioux City, Iowa (Woodbury County) and South Sioux City, Nebraska (Dakota County) enables businesses, many of whom have moved into Union County from the surrounding counties, to maintain their existing banking relationships, thereby, making it more difficult for the Bank to establish new relationships. Small businesses tend to maintain their lending relationships with the institutions in which their day-to-day deposit relationships are currently being maintained. Businesses rely on strong relationships with their lenders which are highly valued and once established, continue for the long-term. These long-term relationships pose a significant challenge to gaining market share as business owners have trepidations about leaving their existing relationships as they do not know if the new bank will be there when they need it – the way their existing bank has been.

Additionally, the Dunes AA is served by four Community Development Financial Institutions (“CDFIs”). Two of these CDFIs are GROW South Dakota and Dakota Resources, which serve all of South Dakota. The third CDFI is South Eastern Development Foundation, which serves 6 counties in South Dakota, including Union County. The fourth CDFI is Rural Electric Economic Development (“REED”), which serves counties in South Dakota, including Union County.<sup>41</sup> These CDFI’s, with the exception of Dakota Resources which lends to CDFIs throughout the State, compete directly with the Bank for small business loans. Management believes that increasing its

---

<sup>37</sup> Financial institution and location information for CT 201, 202 and 203 taken from reports issued by SNL through an online subscription service purchased by the Bank.

<sup>38</sup> The Dakota Dunes is 5.1 miles from Sioux City, IA via I-29 and 6.0 from South Sioux City, NE via I-29.

<sup>39</sup> The City of North Sioux City’s website has 246 businesses listed on its business directory, [Business Directory | North Sioux City, SD \(northsiouxcity-sd.gov\)](https://www.northsiouxcity-sd.gov/business-directory/)

<sup>40</sup> Bank management scrubbed the list provided by SNL to remove local governments and municipalities, nonprofits, banks and credit unions, farmers, individual physicians, duplicate addresses and businesses with no reported income.

<sup>41</sup> CDFI information from the U.S. Department of the Treasury CDFI list dated April 14, 2021.

visibility, specifically for new small business development, is essential to the success in growing its small business lending portfolio. As such, the Bank has been active in advertising for new business and existing business development within the *Siouxland Business Journal*. The Bank has included an advertisement promoting the Bank's products each month of the Review Period.

In the new Plan, the Bank will be looking to expand its marketing efforts by establishing a digital marketing presence to increase the Bank's exposure to small businesses in its AA. Increasing its digital presence will help reach borrowers that do not have a physical brick and mortar presence and/or are located outside of the Dakota Dunes – the physical location of the Bank. This strategy will be essential in helping to cultivate new business prospects by building brand awareness and keeping the Bank at top of the minds of business owners in the event they are looking to change banking relationships, however, any material growth in the originations under this goal will be difficult.

The Plan goals for Small Business Lending and Lending to Small Businesses of \$1,000,000 and \$200,000 for each respective Plan years are considered a stretch. When compared to the average historical loan originations from CY 2018 – 2021 after adjustments of \$472,000 and \$72,000 (See Table A - Projection Base), the Plan goals represent an increase of 112% and 178%, respectively.

## **STRATEGIC PLAN GOALS – DUPREE AA SMALL BUSINESS GRANT**

**Goals 3:** Achieve predetermined total dollar volume of small business development grants in the Dupree AA.

<b>Plan Year</b>	<b>Dupree AA Small Business Grant Program</b>
	<b>Dollar Volume of Grants by Plan Year</b>
<b>2023</b>	\$60,000
<b>2024</b>	\$60,000
<b>2025</b>	\$60,000
<b>2026</b>	\$60,000

### **GOAL RATIONALE**

In setting the goal for small business in the Dupree AA, management considered several factors present in the Dupree AA, which has caused the Bank to establish a new goal for its business lending.

New business development in the Dupree AA is hindered by a thin population with a significant percentage of the families falling under the poverty level. The demographic profile of Ziebach and Dewey Counties, which comprise the Dupree AA, puts them among the most depressed and underserved counties in the United States.<sup>42</sup> The distressed designation is due to a substantial portion of the population falling below the poverty level and the high unemployment observed in both counties that make up the Dupree AA. Additionally, the Dupree AA is considered an underserved market due to the low population density of the AA. The Dupree AA has a small population living in a large rural geography that is not proximate to a significant population center.

Both the distressed nature of the Dupree AA (extreme poverty and the high unemployment) as well as the underserved nature of the market (low population density) makes owning and operating a profitable business a daunting task. There is a significant percentage of the population with little, if any, discretionary income available to support existing businesses, let alone any new business development. Any economic hardship resulting in a budget cut or closure can have a substantial impact on the unemployment rates in the area, further amplifying the financial stress on other establishments as individual consumers have even smaller budgets. The recent COVID-19 pandemic highlighted these vulnerabilities.

The loss of any one business only exacerbates the issues of unemployment and poverty in the Dupree AA. As stated in the performance context, according to the 2016 Economic Census, County Business Patterns (“Economic Census”), there were 51 establishments in Ziebach County. The number of establishments has dropped to 44 establishments according to the 2020 Economic Census. This is a drop of 7 establishments or 13.7% over the three-year period. With respect to Dewey County, according to the 2016 Economic Census, there were 80 establishments. The number of establishments has dropped to 77 establishments according to the 2020 Economic Census. This is a drop of 3 establishments or 3.8% over the three-year period. The low number

---

<sup>42</sup> See pages 10 - 12, *infra*.

of establishments, which have declined in recent years, places a higher emphasis on the financial strength and health of each establishment.

The small number of businesses that intend to borrow have a number of financial institutions from which to choose. Therefore, loan demand in the Dupree AA is not going unmet, and additional loans to be made by the Bank to replace the lost ones are difficult to find. With a limited number of businesses and low business loan demand coupled with a relatively significant number of financial institutions vying for this limited market, it is very difficult to increase small business loans in the Dupree AA.

Based on its analysis of these factors, management has elected to change its goal methodology for the Plan goals from small business lending goals to a Small Business Grant Program (“Program”) where the Bank can more focus its efforts on small business development and the retention of existing businesses in the Dupree Bank AA. The Bank has established a goal of \$60,000 for each of the respective years of the Plan, CY 2023 – CY 2026.

More specifically, the Bank, through its subsidiary First Community Development Corporation (“FCDC”), will be setting up a grant fund available to small business proprietors, entrepreneurs, financial intermediaries (such as CDFIs), or other community development organizations with initiatives or activities that promote economic development within the Dupree AA. These initiatives or activities could include the following:

- Retention, expansion, or creation of small businesses in the Dupree AA
- Technical assistance or supportive services for small businesses in the Dupree AA
- Initiatives that include creating or improving access to jobs, job training or workforce development programs for low- or moderate-income persons in the Dupree AA

The Program will be administered through FCDC. FCDC will open an account at the Dakota Dunes office, which the Bank will fund with an initial deposit of \$60,000 in CY 2023 and \$60,000 in each of the subsequent Plan years for a total of \$240,000. In addition, the Board of the FCDC will establish an application process for the Program and will be responsible for the review and approval of all grants under the Program. The application process will include the requestor’s bona fide intent for the purpose and use of awarded grant funds, which must include at least one of the aforementioned economic development initiatives or activities.

In the event that the FCDC does not receive an application in a given year or if the Bank receives and approves an application(s), however, the application(s) is/are short of the \$60,000 per year goal, the balance will carry-over to the next Plan year. The Bank’s intent is to allow the Bank to focus its efforts on developing strategies and programs to help retain existing businesses through economic hardships and to foster the entrepreneurial spirit by helping to encourage and develop new businesses in the Dupree AA. This goal is separate and apart from the Bank’s Community Development Loans, Investments and Grant goal.

The opportunity to bring new business into the Dupree AA continues to be a priority for the Bank; however, this initiative also has been limited due to the lack of available retail space. The

inadequate water system has put a strain on new construction and has resulted in little to no new available space from which to operate a profitable business. The Bank is committed to working with community leadership to develop solutions to the lack of space, *such as a partnership with Four Bands*, and encourage new business migration and formation in the Dupree AA.

Bank management has also reached out to Teresa Green, Community Affairs Specialist with the FDIC, in order to brainstorm ideas on how to address small business needs in the Dupree AA. The Bank will continue with its outreach to the FDIC as well as other community contacts in the Dupree AA to see if there are other areas of opportunity to expand small business development.

**STRATEGIC PLAN GOALS -- DUPREE ASSESSMENT AREA (“DUPREE AA”)**  
**CONSUMER LENDING**

**Goals 4 & 5:** Achieve predetermined total number volume of consumer loans in the (“Consumer Lending”) and total number volume of consumer loans to low- or moderate-income individuals (“Consumer Lending to LMI”) individuals in the Dupree AA.

Plan Year	Dupree AA – Consumer Lending
	Total Number Volume for Plan Year
2023	98
2024	103
2025	108
2026	113

Plan Year	Dupree AA – Consumer Lending to LMI
	Total Number Volume for Plan Year
2023	84
2024	88
2025	92
2026	97

**GOAL RATIONALE**

In establishing the goals for Consumer Lending and Consumer Lending to LMI for the Dupree AA, management analyzed the historical loan originations from CY 2018 – CY 2021 as well as the volume of loan originations through August 5, 2022 (“Review Period”). Specifically, management looked at its loan originations in each year and determined that the population in the Dupree AA has decreased,<sup>43</sup> which means that the pool of prospective borrowers is also likely going to be less. Bank management also observed that the Dupree AA has existing lending competitors, which makes it even more difficult to find new loan customers in a shrinking population. More specifically, the population aged 18 and over has shrunk over the last 11 years according to Census data. This means that any pool of new prospective borrowers to the Dupree AA are being more than offset by existing consumers exiting the market. Gaining new Bank customers from existing consumers is difficult as they have developed long-standing relationships with Dupree AA competitors.

---

<sup>43</sup> According to the Census Bureau, <https://www.census.gov/quickfacts/fact/table/deweycountysouthdakota,ziebachcountysouthdakota,US/SBO060217>, Ziebach County had 2,801 people as of 2010 Decennial Census (4/1/2010) and just 2,380 per the Census Bureau’s Population Estimates Program (as of 7/1/2021), a decline of more than 15%. Dewey County over the same period has declined from 5,301 people to 5,246, a decline of 1%.



### Market Context:

The Dupree AA has undergone few economic changes over the last several years and is consistently, considered a depressed area. The area's sparse population and high poverty level make it difficult to generate new economic activity. The Dupree AA in its entirety (Ziebach & Dewey County) has seen little movement in terms of its population of individuals aged 18 years and older. According to the Decennial 2010 Census data there were 5,204 individuals compared to the Census Bureau's Population Estimates Program ("PEP") through July 1, 2021 (which uses the 2020 Decennial Census as its base) which estimates that there are 5,020 individuals aged 18 years and older in the Dupree AA. This represents an estimated decrease of 184 individuals or 3.5% over the 11-year period.

According to the PEP (through July 1, 2021), of the 7,626 individuals in the Dupree AA, 30.8% fall below the poverty level. Borrowers that fall below the poverty have a small portion of their discretionary income available to take on debt and therefore a small capacity for loans. Further, the median family income ("MFI") of both Ziebach and Dewey County, according to the 2020 ACS estimates, are \$40,833 and \$50,104, respectively. This means that there is little discretionary income left for savings to cover any unforeseen expenses. Any single financial incidental can have a significant impact on a borrower's ability-to-repay its loans.

Further, the Bank is in a market with a significant number of competitors vying for the credit demands of the small population. Further, there are five competitor financial institutions in the Dupree AA with locations in Dewey County, which has the largest segment of the population 18 years of age and over.<sup>44</sup> In fact, the overall population of Eagle Butte represents more than 50% of the entire population of Ziebach County as a whole.<sup>45</sup>

The proximity of the competitor institutions to the largest population base gives them a competitive advantage in that a significant number of the consumers in that market have developed long-standing relationships with financial institutions capable of interacting face-to-face on a regular basis. This is a particular advantage in the Dupree AA where the distance from the Bank to Eagle Butte is approximately 22 miles.

Since CY 2019, the Bank has actively marketed to residents of both Ziebach and Dewey County through ongoing mailers promoting the Bank's Small Dollar Loan Program and titled vehicle loans. The Bank recently acquired an updated mailing list that will be used to market for loans over the Plan in order to achieve its defined goals.

---

<sup>44</sup> According to the 2020 ACS, Dewey County has an estimated 3,683 individuals or 65.1% of the total population in the Dupree AA (5,655).

<sup>45</sup> Total Population of Ziebach County is 2,380 according to the Census Bureau's PEP (July 1, 2021): <https://www.census.gov/quickfacts/fact/table/deweycountysouthdakota,ziebachcountysouthdakota,US/SBO06021> and the total population of Eagle Butte is 1246 as of 2022: <https://worldpopulationreview.com/us-cities/eagle-butte-sd-population>.

**STRATEGIC PLAN GOALS -- DUPREE ASSESSMENT AREA (“DUPREE AA”)**  
**SMALL FARM LENDING**

**Goals 6 & 7:** Achieve predetermined total dollar volume of small farm loans under its Small Farm Lending goal (originations ≤ to \$500,000) and total dollar volume of small farm loans under its Lending to Small Farmers goal (gross revenues ≤ \$500,000) in the Dupree AA.

Plan Year	Dupree AA – Small Farm Lending
	Total Dollar Volume for Plan Year (Originations ≤ \$500,000)
<b>2023</b>	\$5,000,000
<b>2024</b>	\$5,000,000
<b>2025</b>	\$5,000,000
<b>2026</b>	\$5,000,000

Plan Year	Dupree AA – Lending to Small Farmers
	Total Dollar Volume for Plan Year (Gross Revenues ≤ \$500,000)
<b>2023</b>	\$4,300,000
<b>2024</b>	\$4,300,000
<b>2025</b>	\$4,300,000
<b>2026</b>	\$4,300,000

**GOAL RATIONALE**

In setting the “Small Farm Lending” and “Lending to Small Farmers goals for Plan years 2023 – 2026, management analyzed the historical loan volumes from CY 2018 – August 5, 2022 (“Review Period”) by unique borrower to determine who borrowed and the types of loans they borrowed. Specifically, management looked at its loan originations in each year and determined, first, that the Bank has lost a significant number of unique borrowers (“Adjustments”).

Second, in CY 2021, there was a significant number of originations to farmers under the SBA’s Paycheck Protection Program (“PPP”) where the origination(s) under the PPP was/were his/her/their only loan with the Bank during or after the Review Period. In the event that the PPP loan was the only loan of the borrower(s) during or after the Review Period, management determined that it could not rely on future loans from any one of the borrowers and, therefore, his/her/their loan origination(s) was/were removed from the historical analysis (“PPP Adjustments”).

Third, management observed that during the Review Period there was a significant dollar volume of loan originations related to the purchase or refinance of equipment under promotional terms with fixed rates that were discounted from the New York Prime Rate (“NYP”). The relatively high probability of a recession looming on the horizon coupled with managements observation

that the Federal Reserve’s current monetary policy has been, and future policy<sup>46</sup> will be, to increase interest rates to combat significant inflation (surging consumer prices have caused the largest year-over-year price increases since 1981<sup>47</sup>) will likely reduce the purchase of new farm equipment and demand for loans to finance or refinance such purchases.

Rising interest rates has significant implications for the Bank’s future loan volumes for those same types of loans. Borrowers, who previously purchased or refinanced equipment at a lower rate and/or cost (lower cost of financing and/or lower purchase price), will curb their appetite for spending (higher cost to purchase or refinance) which, in turn, will reduce demand for those same loans. In fact, even absent rate and price changes, many of the people who took out these loans may not be in the market again for the same loan since they already purchased equipment, in some cases earlier than they would have because of the lower rates offered at that time. Therefore, management has removed loan originations for the purchase or refinance of equipment under promotional rates and terms from the historical originations (“Equipment Adjustments”).

Fourth, management made an adjustment for any borrower(s) whose timing of renewal of his/her/their annual operating line-of-credit for cattle production caused multiple loans in any given year. More specifically, if a borrower had two operating lines-of-credit originated in any given year, one of those lines-of-credit was moved to the prior or subsequent year in order to reflect the normal timing (i.e., 1<sup>st</sup> quarter or 4<sup>th</sup> quarter) of his/her/their operating line-of-credit renewal. For example, if a small farm borrower typically sells his/her/their calves in the 4<sup>th</sup> quarter of any given year, he/she/they would have a line-of-credit with a maturity to coincide with the sale of calves. That same borrower would typically renew his/her/their line-of-credit in the 4<sup>th</sup> quarter to cover the following years’ operating expenses. If a borrower was late in renewing his/her/their operating line-of-credit (i.e., renewed in the 1<sup>st</sup> quarter of the subsequent year of the maturity of his or her operating line) and subsequently renewed his/her/their line-of-credit under normal 4<sup>th</sup> quarter timing in the same calendar year, the borrower would have two operating lines-of-credit in one year. Bank management made a timing adjustment for those borrowers by moving the 1<sup>st</sup> quarter or 4<sup>th</sup> quarter renewal to the preceding or subsequent calendar year to ensure only one operating line-of-credit be reflected in any given year. The adjustment is necessary in order to smooth the data for projection purposes (“Operating Line-of-Credit Timing Adjustment”).

In addition to the four aforementioned adjustments (“Total Adjustments”), management also took into consideration: 1) the Bank’s loan performance relative to its competition and 2) the ability, or lack thereof, to grow its market share based on its unique customer base and market demographics on farming as it relates to the potential for new loan growth.

---

<sup>46</sup>According to the Monetary Policy Report issued by the Board of Governors of the Federal Reserve System, dated June 17, 2022, the median projection of the Federal funds rate through CY2024 is 3.4% with a high range projection of 4.1% through the same period. The projections, with a current NYP of 5.50% imply a 1.50%-2.00% increase in NYP to 7.0% - 7.5% over the intervening period.

<sup>47</sup> Inflation data was taken from the U.S. Bureau of Labor Statistics; <https://www.bls.gov/opub/ted/2022/consumer-prices-up-9-1-percent-over-the-year-ended-june-2022-largest-increase-in-40-years.htm>

### Market Context:

As mentioned under the Performance Context section of the Plan, the Bank's farm goals are impacted by significant competition in the Dupree AA. Within the Dupree AA, there are three banks, including 1FBUSA, with five offices. In addition to the banks, there is also a credit union that is located in the Dupree AA. In addition to the banks and credit union in the Dupree AA, there are banks and credit unions outside of the Dupree AA that compete with the Bank for small farm loans.

1FBUSA has a significant percentage of the market share of farm loans among the banks in the Dupree AA. According to the Consolidated Reports of Condition and Income Reporting ("Call Report"), as of March 31, 2022, 1FBUSA had \$3.659MM or 12.0% of the \$30.403MM in farm loan balances among the Dupree AA banks. The Bank's 3.659MM in originations represents 57 unique borrowers out of the 523 farms reported in the Dupree AA per the 2017 Census of Agriculture ("Census"). This is significant as, according to the 2017 Census, 310, or 59.3%, of the 523 farms in the Dupree AA are located in Dewey County where all of the competitor banks with offices in the Bank's Dupree AA are located and which is outside of a 30-mile radius from the Bank's Dupree office. The Bank's lack of proximity to the producers in the Dupree AA creates an added challenge to gaining market share as drive times can be up to 75 minutes from the Bank, inhibiting the ability to service these producers on a daily basis.

With respect to the credit union and alternative sources of financing in the Dupree AA, these financing sources are able to offer very attractive interest rates and loan terms due to the nature of their business structure.

The significant amount of competition makes it difficult to add to the Bank's existing relationships as a significant portion of the farmers have developed longstanding relationships with their existing financial institutions, including the ongoing relationships between 1FBUSA and its customers within the AA. This fact makes it difficult to get farmers to move their relationship from those competing institutions to the Bank.

Despite significant competition from area competitors vying for the business of a shrinking pool of farmers in the Dupree AA, the Bank has had some success in adding new borrowers over the Review Period.

**STRATEGIC PLAN GOAL – COMMUNITY DEVELOPMENT SERVICE HOURS IN BOTH AAs**

**Goal 8:** Have employees provide a predetermined number of community development service hours (“CD Services”).

Plan Year	Community Development Service Hours*
	Total Hours by Plan Year
<b>2023</b>	400.00
<b>2024</b>	400.00
<b>2025</b>	400.00
<b>2026</b>	400.00

*\*Neither AA shall receive less than 25% of the total hours for the Bank.*

The Bank and its Board of Directors encourage employees, on behalf of the Bank, to lend their financial expertise to serve as members of the board, committee members or as volunteers with local community-based organizations engaged in community development activities within the Bank’s respective AAs. From CY 2018 – August 5, 2022 (“Review Period”), the CD Services performed by Bank employees in its respective AA’s reflect the Bank’s commitment to affordable housing, small business development, and social services to LMI youth, transition and assimilation services for immigrant families, and youth education within the Bank’s AAs.

In determining its goal for each year of the Plan, Bank management analyzed the CRA-qualified CD Services performed by employees for various local community-based organizations over the Review Period. In its analysis, management determined that, first, COVID-19 had a significant impact on the Bank’s CD Service opportunities as organizations, including the Bank, adapted to a changing social landscape where health concerns related to how we interact with one another challenged the current social paradigm and caused organizations to rethink the ways in which we interact through our social engagements. Second, management determined that the Bank’s ability to get CD Services is limited due to organizational needs. Third, management determined there are a small number of organizations that meet the definition of community development in the Bank’s AAs.

On March 13, 2020, the President of the United States declared the Coronavirus (“COVID-19”) outbreak a national emergency. As the outbreak spread throughout the country, uncertainty surrounding the virus and its impact on individuals’ health, individuals’ finances, and the economy intensified as local, state and national authorities issued guidelines/recommendations, restrictions and/or mandates on individuals and businesses in an effort to help prevent exposures to the virus. Social distancing restrictions related to the COVID-19 virus prevented in-person gatherings for the health and well-being of staff and community members. The impact of these restrictions had a significant impact on the Bank’s ability to engage in CD Services beginning in CY 2020 and will continue to impact its ability to engage in CD Services through the Bank’s current strategic plan covering CY 2023 – CY 2026.

The level of services provided by nonprofit organizations that have community development missions and initiatives at large drives the Bank’s opportunity to participate for CD Services.

The CD Services performed by Bank representatives through their participation on the boards and/or committees of the various community development organizations saw a drop over the Review Period due to COVID-19 as volunteer service, in general, decreased due to health concerns related to social engagements during and following the pandemic. Community development organizations were forced to change to a new social paradigm with respect to how they do business specifically as it relates to face-to-face social interactions. More specifically, as organizations evaluated their current social engagements, many have switched over to virtual engagements that have created time efficiencies related to travel as well as less social interruptions (less hours for the same activity).

Additionally, CD Services performed by the Bank, specifically those that included large social gatherings, dropped off significantly in CY 2020 due to COVID-19.

In an effort to create service hour opportunities beyond the reliance of volunteering with various third-party nonprofits, the Bank has proactively developed internal community development service initiatives to bring small business education and development and financial literacy to its respective AAs. With respect to the Bank's internal opportunities for CD Services as they related to small business education seminars, with the onset of the pandemic, most opportunities for small business seminars were curtailed and remain so even today and likely will remain so for the foreseeable future. With the possible onset of a recession CD Services for this type of event are also likely to be curtailed as business people will have fewer hours available to participate in these types of activities as small businesses will likely have to work more hours to earn the same or less money.

Further, there are limitations to the availability of positions for volunteers within community-based organizations serving the Bank's AAs. Organizations desire board and committee diversification, requiring volunteers with diverse skillsets and backgrounds. This diversity allows the organization to realize expanded governance experience and expertise in addition to a larger financial resource base. As a result, the amount of support that the Bank can provide in terms of the number of volunteers on any given board or committee is limited by the availability of appropriate board positions, the number of Bank employees already serving the organization, or the need for new board members. This fact, coupled with the fact that there a small number of organizations in which to serve, causes there to be a limited number of viable CD Service opportunities.

Further, it should be noted that, when an organization has multiple board members, the CD Service potential of at least one of those board members is limited. Non-profit organizations generally do not have two members, employed by the same employer, serving concurrently as Executive Committee members for the same steering concerns with board membership. Executive Committee positions typically require additional CD Services as the positions provide general oversight and direction for the organization, which means that with a small number of organizations in which to engage, this further limits the potential for CD Service opportunity.

The Bank has been proactive in trying to serve on various boards with community development initiatives, however, board participation is dependent on an organization's needs at a specific time. Boards typically look for specific qualifications of its board members and target members with those qualifications to ensure that they have a diverse group of members with diverse skillsets.

These organizations typically have a set number of board members that serve for a specified term. When the term of a board member expires, organizations will typically look to fill that position with someone from a similar skillset and/or a skillset specific to the strategic needs of the organization at that time. If it is the desire of the non-profit organization to fill a board position with someone of the same individual core competencies, educational skillsets or other desirable attribute of the entity, the Bank might not have a member of staff that can fill the position.

Further, in the event that a position opens up and the Bank has someone with the required attributes of the organization, the Bank is proactive in serving its community, however, a spot on a board and/or committee requires an appointment. Whether or not a Bank employee is appointed to a board is outside of the Bank's control. When officers or employees of the Bank do get the opportunity to serve, service hours can vary based on the role in which the member serves and the structure of the organization.

In setting the Community Development Service Hours Goal for Both AAs for plan years 2023 – 2026, management analyzed the historical CD Services over the Review Period by unique activity to determine the viability of future service hours in the Plan. Based on that analysis, the Bank determined that it would set its goals at 400.00 hours for each of the Plan years from 2023 - 2026. Despite the aforementioned constraints on its CD Services related to the pandemic, the Bank continues to look for ways to provide CD Services to its respective AA's.

In April and May of 2021, the Bank held four Agricultural Online Forums for area agricultural producers. The Bank invited producers in the Dupree AA to take part in four (4) one-hour Online (Zoom) meetings. The Bank hosted guest speakers from the USDA Farm Service Agency and the USDA Natural Resource Conservation Service. The Bank's intention for these meetings was to ensure that the producers in the Dupree AA were aware of governmental programs that are available to them. These programs are not highly advertised or promoted, therefore, many producers are not aware of them.

The speakers' topics included:

- USDA Farm Service Agency's Livestock Indemnity Program and Acreage Reporting
- USDA Natural Resources Conservation Service's Environmental Quality Incentives Program
- USDA Natural Resource Conservation Service's Conservation Stewardship Program
- USDA Farm Service Agency's Noninsured Crop Disaster Assistance Program

The meetings generated many questions to the speakers and was well received by those that participated. Bank representatives participated in the meetings by answering questions in regard to how these products could be used in conjunction with products offered by the Bank. The Bank intends to continue to provide these seminars in the Plan.

The Bank also held an in-person Ag Day in the fall of 2021. The Bank is always looking for ways to help their producers improve their operations and overall bottom line. The Bank invited a local veterinarian to discuss fall vaccinations and other livestock needs. Ziebach County Natural Resource Conservation Service spoke about Conservation Strategies and programs that are available through the USDA, including water lines and shelterbelts. Ziebach County Farm Service

Agency discussed some of the newer programs available through the USDA. YieldPoint Specialists with the local farm cooperative in the Dupree AA spoke about the benefits of using precision agriculture techniques. There are few ways to get a large number of people out to these meetings and, thus, doing these too often likely will not yield the benefits sought by the programs. With that said, management plans to continue to host these types of seminars and increase attendance in the future through advertisement of the seminars on the Bank's website and digital advertisements in addition to its regular mailing channels.

In the spring of 2022, the Bank held another in person seminar. The Bank invited an insurance agent specializing in Multi-Peril Crop Insurance and Livestock Risk Insurance. The intent of the Bank in having this speaker was to inform producers of the details of these types of insurances. On the same day, the Bank hosted a seminar where it invited two attorneys from a law firm in Rapid City, SD to speak about succession planning for the family farming/ranching operation. The attorneys spoke about wills, trusts, LLC planning, and tax implications surrounding estate planning. This meeting was well attended and generated some lengthy and informative discussions with the audience. Bank representatives participated in the meetings by answering questions in regard to how these products could be used in conjunction with products offered by the Bank. The Bank plans to continue to bring these types of professionals to the area for informational purposes to help out the residents of the Dupree AA.

While financial literacy is crucial for individuals in the Bank's AAs, small businesses are also in need of financial education. In the Dakota Dunes AA, the Bank has created several small business seminars which have included topics educating small business owners and entrepreneurs on (1) the impact cash flows have on the business cycle with a focus on the process involved in obtaining credit from financial institutions; (2) strategies that small businesses should use before setting up accounting records as well as ongoing strategies once the initial record keeping has been set up; (3) budgeting and forecasting; and (4) strategic planning and decision making.

Additionally, the Bank has also collaborated with local experts to educate small businesses on (1) the impact of proposed tax reform changes on individuals, small businesses, and the ability to get credit; and (2) government guaranteed loans and how to get and use credit under the SBA lending programs. Bank employees, either through instructing or attending each seminar, have been able to build relationships with local small business owners, provide vital insights, and answer questions about banking, credit and other relevant financial topics.

The Bank will continue to promote small business development in the Dakota Dunes AA through its small business seminars, however, to date the Bank has seen limited attendance in these seminars. Unfortunately, with the onset of the pandemic, these seminars have largely ceased to exist as people did not want to go out and sit in a large room full of people. This is still largely true today and with the potential onset of a recession is likely to continue to be true going forward. The Bank included a small number of seminars in its current Plan projections covering CY 2023-2026. The Bank will market these seminars through the Bank's website as well as through local newspaper advertisements.

The Bank will continue in its community service activities within its AAs by encouraging staff involvement on non-profit boards and/or committees as well as participation in internally created



community development initiatives. Currently, all members of the community bank's lending staff are actively involved in community development services through involvement in financial literacy education and/or participation on boards of directors, loan committees, selection committee, development committees, or finance committees of qualifying organizations.

**STRATEGIC PLAN GOAL – COMMUNITY DEVELOPMENT LOANS, GRANTS & INVESTMENTS IN BOTH AAs**

The Bank will maintain that at least 25% of the aggregate amounts for community development loans (“CDLs”), grants and investments in any given year be attributable to either of its two AAs. Further, the Bank will only consider CDLs, grants and investments disbursed during the Plan with no carry-forward consideration between Plan years. This goal is separate and apart from the Dupree AA Small Business Grant goal. Any activity considered under Goal 9 will not receive consideration under Goal 3 and vice versa.

**Goal 9:** Achieve predetermined dollar volume of Community Development Loans, Grants & Investments.

Plan Year	Investments, Grants & Community Development Loans
	Total Dollar Volume by Plan Year
<b>2023</b>	\$2,000,000
<b>2024</b>	\$2,000,000
<b>2025</b>	\$2,000,000
<b>2026</b>	\$2,000,000

When the opportunities arise, the Bank has been, and will continue to be, proactive in supporting community development initiatives. Bank management reviewed opportunities for credit under this goal, from CY 2018 – August 5, 2022 (“Review Period”), and as was the case in its current plan, the Bank has identified affordable housing and small business development the two biggest needs in its AAs.

**Affordable Housing – Dupree AA**

The Bank has identified single-family housing renovation and development as one of the most pressing needs in the Dupree AA. The need for new, affordable housing has been a long-standing issue due to infrastructure constraints with the current water system in the Dupree AA. The current water system in Dupree is antiquated and inadequate and has resulted in water flow restrictions. A moratorium on the construction of new housing was issued in 2004 due to local water shortages and outages but, in May of 2019 was removed. Very few new homes have been built in the AA, and ones that are built, are put on lots with existing infrastructure. Because of issues with the water system, there are challenges with respect to the construction of new, affordable housing in the Dupree AA. As referenced in the Bank’s current plan, bringing new homes to the Dupree AA will not be possible until the water issue is resolved.

In light of the issues with the current water system and the limitations it poses on the construction of new, affordable housing in the Dupree AA, management determined that its efforts were best served by working with local leaders to partner in bringing affordable housing renovation and rehabilitation programs to the Dupree AA as many of the homes are in marginal condition.

In creating this Plan, the Bank will continue to look for available properties to address the affordable housing needs in the Dupree AA. Addressing these needs is a challenge as, in addition

to the water infrastructure issues, most properties are tribally or privately owned with the owners not wanting to sell and potential vacant properties may not be suitable for new construction due to being in a flood plain.

### Affordable Housing – Dakota Dunes AA

In the Dunes AA, the Bank continues to identify affordable housing as one of the most prevalent needs. The need was identified through housing studies conducted by Community Partners Research, Inc. for three of the cities located in the Dunes AA; Beresford (October 2013), Elk Point (May 2015), and North Sioux City (July 2015). It should be noted that Beresford ordered a new study that was issued in January of 2019 and the City of North Sioux City ordered and received an updated study in February of 2022. Both of these updated studies have validated the need for affordable housing in each of the respective markets. The Bank will continue to have conversations with city leaders and their respective housing groups to identify opportunities to work together to address affordable housing needs.

### CDFIs

Four CDFIs serve Dupree AA. One is Four Bands Community Fund, Inc. (“Four Bands”), which serves the Cheyenne River Indian Reservation encompassing all of the Dupree AA is the only CDFI that exclusively serves one of the Bank’s AA. The other two are GROW South Dakota (“GROW”) and Dakota Resources that serve the entire state of South Dakota, which includes the Dupree AA.

Four CDFIs serve the Dunes AA. Two of those CDFIs are GROW and Dakota Resources. A third is South Eastern Development Foundation (“SEDF”), which serves 6 counties in South Dakota and includes Union County - the Dunes AA. A fourth is Rural Electric Economic Development (“REED”), which serves parts of Minnesota and South Dakota and includes Union County. In creating this Plan, the Bank will look to continue supporting these CDFIs through loans and/or investments,

In creating this Plan, the Bank would first look to provide loans and/or investments specifically earmarked for use in either of the Bank’s AAs. More specifically, with respect to CDFIs, the Bank will look to provide grants to help the CDFIs with marketing efforts within the Bank’s respective AAs. In the event those marketing efforts do not materialize in loan demand, the Bank would look to provide loans and/or investments for use in their respective loan funds without earmarked restrictions. In the event that the CDFI serves a broader statewide or regional area that includes both of the Bank’s respective AAs, the Bank would count the loan and/or investment for equal credit between its AAs.

Without an earmark, proceeds from loans and/or investments are dispersed by the CDFIs to small businesses based on demand for loans. As the markets served by these CDFIs include a broader statewide or regional area, proceeds from loans and/or investments are often loaned outside of the Bank’s respective AAs due to low demand for loans within the Bank’s AAs. The Bank has established the goals on the basis that it will receive consideration for loans and/or investments extended to CDFI’s or other entities engaged in community development initiatives that serve a broader statewide or regional area that includes either of the Bank’s AAs.

During the Review Period, the Bank found other opportunities to support its AAs, specifically the Dupree AA. The Bank has been responsive to the needs of its AAs when the opportunities arise, however, there are not a significant number of community development opportunities.

The Bank's opportunities to finance other community developments loans is limited. The Bank will continue to provide favorable rates and terms to entities that are actively engaged in community development initiatives when those opportunities arise.

The Bank actively donates to non-profits with community development initiatives. In addition to its commitment to affordable housing and small business development donations, the Bank actively donates to organizations that provide emergency services, social services to LMI youth, homeless shelters, and scholarships for LMI youth within the Bank's AAs.

Management believes the goals established are appropriate, as opportunities for community development, specifically in the Dunes AA of Union County, are limited as the CTs that comprise Union County consist of two, middle- and one, upper- income CTs. With respect to the Dupree AA of Ziebach and Dewey County, which consists of two, moderate- and one, middle- income tract (designated as a distressed and underserved tract as of CY 2021), the opportunities are limited due to a sparse, rural population.

In creating this Plan, the Bank contacted local city leaders as well as community development leaders to seek their input on the needs of the community and to help identify and brainstorm creative ideas to address the needs prevalent in each of the Banks' markets. Through these conversations, affordable housing and small business development remain as the two most prevalent needs in both of the Bank's respective markets. The Plan has identified potential opportunities to address both of these needs. With respect the affordable housing needs, the Bank's success in achieving its goals is dependent, in large, upon several affordable housing developments coming to fruition. Further, the Bank has used subjective estimates of the Bank's involvement in these potential opportunities. These projects are in the early stages of planning.

In the event that the Bank should fall short in meeting its goals due to any one of the aforementioned projects not materializing, the Bank, first, would ask that it be able to consider a LIHTC investment in a neighboring community or MSA, adjacent to either of the Bank's respective AAs. If the Bank can expand outside of its AAs to adjacent neighboring communities, it is far more likely to be able to complete this goal while still having an impact on its AAs as these communities are considered anchor communities to the Bank's AAs, specifically with respect to the Dupree AA. Second, if there is not an opportunity in an adjacent neighboring community, the Bank would look to invest in a LIHTC investment in the broader statewide area. The aforementioned short fall considerations are in priority order.

### **PUBLIC COMMENT SUMMARY**

While developing the strategic plan, the Bank informally sought suggestions from members of the public in its assessment areas. Certain officers of 1FBUSA and members of its Board of Directors spoke with individuals within the AAs regarding the credit needs of each community. In addition to the conversations mentioned above, a Bank officer in Dupree spoke again several times with the mayor of Dupree, county commissioners and city councilmen, various community leaders and

a representative of Mni Wasté Water Company about infrastructure improvements in Dupree to the city's water and sewer systems. A Bank officer in Dakota Dunes spoke with the City Administrators of North Sioux City, Elk Point and Beresford, various members of the cities' housing and redevelopment commissions, including Alcester's, various community leaders and real estate agents as well as the Executive Directors of CDFIs serving Union County. In addition, the Bank posted flyers in both of its offices encouraging customers to provide input regarding ways in which the Bank might better meet the credit needs of its AAs.

The Bank also formally solicited public comment on the Plan by publishing notices in each of the following newspapers on November 17, 2022: *West River Eagle* and *Timber Lake Topic*, which are newspapers of general circulation in the Dupree AA, and *The Southern Union County Leader-Courier* and *Dakota Dunes/North Sioux City Times*, which are newspapers of general circulation in the Dunes AA. The public comment period associated with the notices was at least 30 days from the publishing date in each newspaper. In addition, the Bank made copies of the plan available for review by the public at no cost in each of its offices. In the event a request for a copy of the Plan is made during the comment period, a reasonable fee will be assessed to cover the bank's costs of copying and mailing the Plan. Copies of the public notice are attached to the Plan. The Bank did not receive any comments about the Plan during the public comment period.