



PUBLIC DISCLOSURE

January 24, 2022

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

FNB Washington
RSSD# 209559

101 C Street
Washington, KS 66968

Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, Missouri 64198

NOTE: This document is an evaluation of this bank's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the bank. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this bank. The rating assigned to this bank does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial bank.

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INSTITUTION'S COMMUNITY REINVESTMENT ACT RATING

FNB Washington (the bank) is rated **Satisfactory**. This rating is based on the following conclusions with respect to the performance criteria:

- The bank's net loan-to-deposit ratio (NLTD) is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- A majority of the bank's loans are originated inside the AA.
- An evaluation of the distribution of loans among geographies of different income levels was not conducted as the AA consists entirely of middle-income tracts and an analysis would not be meaningful.
- Lending reflects a reasonable distribution among businesses and farms of different sizes.
- Neither the bank nor the Federal Reserve Bank of Kansas City (Reserve Bank) received any Community Reinvestment Act (CRA)-related complaints since the previous evaluation.

SCOPE OF EXAMINATION

Examiners utilized the Federal Financial Institutions Examination Council's (FFIEC's) *Interagency Examination Procedures for Small Institutions* to evaluate the bank's CRA performance. The evaluation considered CRA performance context, including the bank's asset size, financial condition, business strategy and market competition, as well as AA demographic and economic characteristics and credit needs. Lending performance was assessed within the bank's only AA. Examiners reviewed the following data:

- The bank's 16-quarter average NLTD ratio,
- A statistical sample of 59 small business loans selected from a universe of 84 loans originated between January 1, 2020 and December 31, 2020.
- A statistical sample of 97 small farm loans selected from a universe of 187 loans originated between January 1, 2020 and December 31, 2020.

More weight was placed on small farm loans in this analysis due to the bank's strategic focus on agricultural lending.

DESCRIPTION OF INSTITUTION

The bank is a community bank headquartered in Washington, Kansas. The bank's characteristics include:

- The bank is a wholly owned subsidiary of Washington 1st Banco, Inc., Washington, Kansas.

- The bank has total assets of \$80.5 million (MM) as of June 30, 2021.
- The bank operates one location in Washington, Kansas.
- As shown in the table below, the bank’s primary business focus is agricultural and residential real estate lending.

Table 1

Composition of Loan Portfolio as of June 30, 2021		
Loan Type	\$(000)	%
Construction and Land Development	0	0.0
Farmland	18,985	55.3
1- to 4-Family Residential Real Estate	8,297	24.2
Multifamily Residential Real Estate	0	0.0
NonFarm NonResidential Real Estate	2,199	6.4
Agricultural	1,567	4.6
Commercial and Industrial	1,757	5.1
Consumer	1,489	4.3
Other	21	0.1
Gross Loans	34,315	100.0
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>		

The bank was rated Satisfactory under the CRA at its November 6, 2017 performance evaluation. There are no known legal, financial, or other factors impeding the bank’s ability to help meet the credit needs in its communities.

DESCRIPTION OF ASSESSMENT AREA

The bank’s Washington County AA consists of Washington County in its entirety. (See Appendix A for an AA map and Appendix B for additional demographic data.)

- The AA is comprised of two middle-income census tracts.
- The June 30, 2021 Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report shows the bank has a 20.7 percent deposit market share, ranking second of six FDIC-insured institutions operating in the AA.
- One interview with a member of a community within the bank’s AA was conducted to ascertain the credit needs of the AA’s communities, the responsiveness of area banks in meeting those credit needs, and the local economic conditions. The community member represented an agricultural organization that supports farms and farming communities within the AA.

Table 2

Population Change			
Assessment Area: Washington County AA			
Area	2010 Population	2015 Population	Percent Change
Washington County AA	5,799	5,686	(1.9)
NonMSA Kansas	929,981	922,403	(0.8)
Kansas	2,853,118	2,892,987	1.40

*Source: 2010 U.S. Census Bureau: Decennial Census
2011 - 2015 U.S. Census Bureau: American Community Survey*

- Washington, Kansas, is the largest town in the AA with a population of 1,071 residents according to the 2020 U.S. Census Bureau Decennial Census and is also the county seat.
- A community member provided more recent perspective on population decline noted in the AA. The AA does not attract many new, younger residents given a lack of infrastructure and employment opportunities in the area.

Table 3

Median Family Income Change			
Assessment Area: Washington County AA			
Area	2010 Median Family Income	2015 Median Family Income	Percent Change
Washington County AA	56,269	56,228	(0.1)
NonMSA Kansas	57,322	57,229	(0.2)
Kansas	67,977	66,389	(2.3)

*Source: 2006 - 2010 U.S. Census Bureau: American Community Survey
2011 - 2015 U.S. Census Bureau: American Community Survey*

Note: Median family incomes have been inflation-adjusted and are expressed in 2015 dollars.

- The percentage of AA families living below the poverty line, at 7.3 percent, is below both the statewide figure of 9.1 percent and the nonmetropolitan figure of 10.2 percent.
- According to the 2015 American Community Survey, 35.8 percent of AA families are low- and moderate-income, which is below the statewide and nonmetropolitan figures at 36.5 percent and 37.9 percent, respectively.

Table 4

Housing Cost Burden						
Assessment Area: Washington County AA						
Area	Cost Burden - Renters			Cost Burden - Owners		
	Low Income	Moderate Income	All Renters	Low Income	Moderate Income	All Owners
Washington County AA	49.4	3.1	18.0	40.7	13.9	11.1
NonMSA Kansas	67.1	26.2	34.1	56.0	23.2	15.7
Kansas	73.0	33.5	38.8	59.9	28.6	16.3

Cost Burden is housing cost that equals 30 percent or more of household income
Source: U.S. Department of Housing and Urban Development (HUD), 2013-2017 Comprehensive Housing Affordability Strategy

- The median housing value in the AA of \$68,770 is below the statewide figure of \$132,000 and the nonmetropolitan figure of \$88,625.
- The AA’s median gross rent of \$461 is also below both the statewide and nonmetropolitan figures of \$757 and \$623.
- The housing affordability ratio¹ in the AA, at 65.6 percent, is above both the statewide and nonmetropolitan figures at 39.6 percent and 51.0 percent.

Table 5

Unemployment Rates					
Assessment Area: Washington County AA					
Area	2016	2017	2018	2019	2020
Washington County AA	3.3	2.9	2.7	2.6	2.5
NonMSA Kansas	4.0	3.5	3.1	3.1	4.6
Kansas	4.0	3.6	3.3	3.2	5.9

Source: Bureau of Labor Statistics: Local Area Unemployment Statistics

- Major industries in the AA are agriculture, healthcare, social assistance, and manufacturing.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank’s overall performance under the lending test is reasonable. More weight was placed on lending to businesses and farms of different sizes in the analysis given there are no low- and moderate-income census tracts within the AA.

¹ The housing affordability ratio is calculated by dividing the median household income by the median housing value. A lower ratio indicates that housing is generally less affordable.

Net Loan-to-Deposit Ratio

This performance criterion evaluates the bank’s average NLTD ratio to determine the reasonableness of lending considering performance context, such as the bank’s capacity to lend, the availability of lending opportunities, the demographic and economic factors present in the AA, and in comparison to similarly situated FDIC-insured institutions. The similarly situated institutions were selected based on asset size, product offerings, market share, and location. The bank’s 16-quarter average NLTD ratio is reasonable as it is within the range of the NLTD ratios of four similarly situated banks.

Table 8

Comparative NLTD Ratios September 30, 2017 – June 30, 2021			
Institution	Location	Asset Size \$(000)	NLTD Ratio (%)
			16 Quarter Average
FNB Washington	Washington, KS	80,536	67.9
Similarly Situated Institutions			
The Riley State Bank of Riley Kansas	Riley, KS	116,328	75.0
State Bank of Bern	Bern, KS	110,710	59.1
Elk State Bank	Clyde, KS	109,220	75.4
First National Bank in Frankfort	Frankfort, KS	57,357	55.2

Assessment Area Concentration

This performance criterion evaluates the percentage of lending extended inside and outside of the AA. The bank originated a majority of loans, by number and dollar, inside the AA.

Table 9

Lending Inside and Outside the Assessment Area								
Loan Type	Inside				Outside			
	#	#%	\$(000)	%	#	#%	\$(000)	%
Small Business	52	88.1	1,811	81.0	7	11.9	424	19.0
Total Small Business related	52	88.1	1,811	81.0	7	11.9	424	19.0
Small Farm	85	87.6	4,840	91.3	12	12.4	460	8.7
Total Small Farm related	85	87.6	4,840	91.3	12	12.4	460	8.7
Total Loans	137	87.8	6,652	88.3	19	12.2	884	11.7

Note: Percentages may not total 100.0 percent due to rounding.

Geographic Distribution of Loans

This performance criterion evaluates the bank's distribution of lending within its AA by income level of census tracts with consideration given to the dispersion of loans throughout the AA. However, the bank's geographic distribution of loans was not evaluated as the Washington County AA is comprised entirely of middle-income census tracts; as such, a meaningful analysis could not be conducted.

Lending to Businesses and Farms of Different Sizes

This performance criterion evaluates the bank's lending to businesses and farms of different revenue sizes. The bank's lending has a reasonable distribution among businesses and farms of different sizes.

Small Business Lending

The borrower distribution of small business lending is reasonable. The bank's lending to businesses with revenues of \$1.0MM or less is comparable to the percentage of total businesses operating in the AA with revenues of \$1.0MM or less.

Table 12

Distribution of 2020 Small Business Lending By Revenue Size of Businesses					
Assessment Area: Washington County AA					
	Bank Loans				Total Businesses %
	#	#%	\$(000)	%	
By Revenue					
\$1 Million or Less	48	92.3	1,168	64.5	82.8
Over \$1 Million	2	3.8	598	33.0	10.1
Revenue Unknown	2	3.8	45	2.5	7.1
Total	52	100.0	1,811	100.0	100.0
By Loan Size					
\$100,000 or Less	49	94.2	964	53.2	
\$100,001 - \$250,000	2	3.8	327	18.1	
\$250,001 - \$1 Million	1	1.9	520	28.7	
Total	52	100.0	1,811	100.0	
By Loan Size and Revenues \$1 Million or Less					
\$100,000 or Less	46	95.8	841	72.0	
\$100,001 - \$250,000	2	4.2	327	28.0	
\$250,001 - \$1 Million	0	0.0	0	0.0	
Total	48	100.0	1,168	100.0	
<i>Source: 2020 FFIEC Census Data 2020 Dun & Bradstreet Data 2011-2015 U.S. Census Bureau: American Community Survey</i>					
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>					

Small Farm Lending

The borrower distribution of small farm lending is reasonable. The bank’s lending to farms with revenues of \$1.0MM or less is comparable to the percentage of total farms operating in the AA with revenues of \$1.0MM or less.

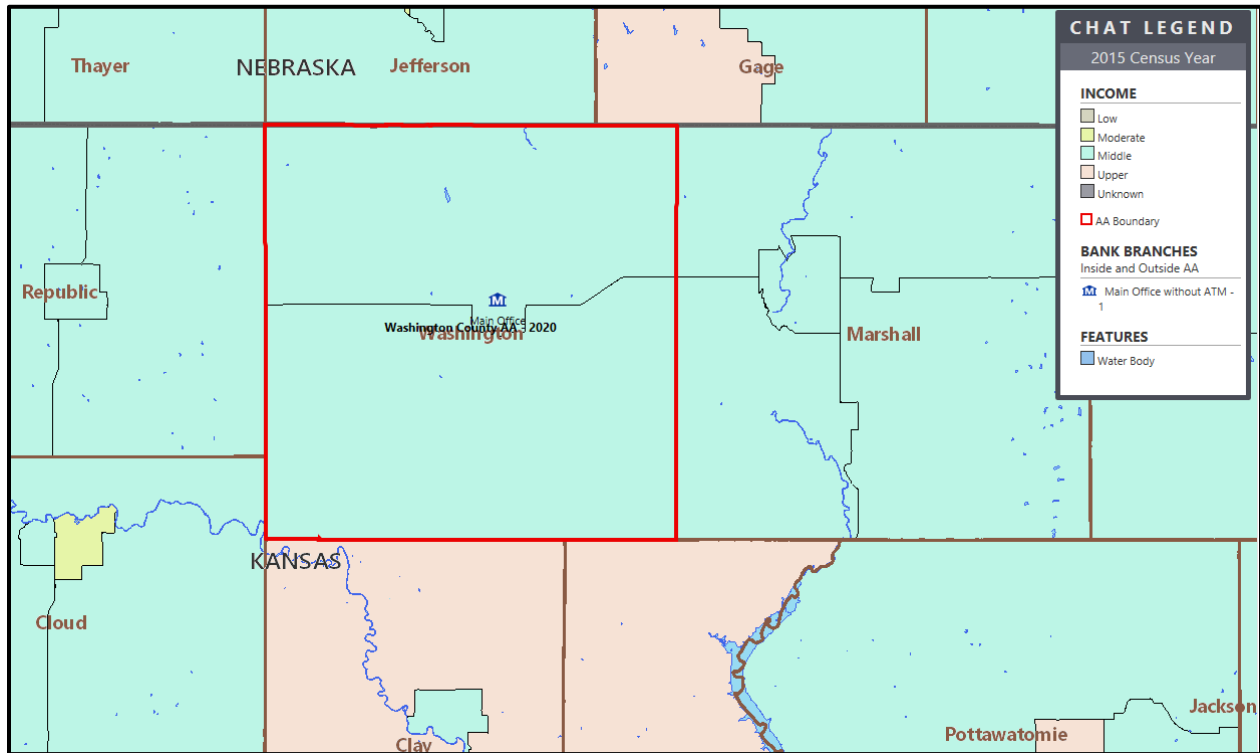
Table 13

Distribution of 2020 Small Farm Lending By Revenue Size of Farms					
Assessment Area: Washington County AA					
	Bank Loans				Total Farms
	#	#%	\$(000)	\$%	%
By Revenue					
\$1 Million or Less	82	96.5	4,796	99.1	96.8
Over \$1 Million	1	1.2	29	0.6	3.2
Revenue Unknown	2	2.4	16	0.3	0.0
Total	85	100.0	4,840	100.0	100.0
By Loan Size					
\$100,000 or Less	75	88.2	2,714	56.1	
\$100,001 - \$250,000	8	9.4	1,371	28.3	
\$250,001 - \$500,000	2	2.4	756	15.6	
Total	85	100.0	4,840	100.0	
By Loan Size and Revenues \$1 Million or Less					
\$100,000 or Less	72	87.8	2,669	55.7	
\$100,001 - \$250,000	8	9.8	1,371	28.6	
\$250,001 - \$500,000	2	2.4	756	15.8	
Total	82	100.0	4,796	100.0	
<i>Source: 2020 FFIEC Census Data 2020 Dun & Bradstreet Data 2011-2015 U.S. Census Bureau: American Community Survey</i>					
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>					

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Compliance with the substantive provisions of antidiscrimination and other consumer protection laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act, was considered as part of this CRA evaluation. No evidence of a pattern or practice of discrimination on a prohibited basis or of other illegal credit practices inconsistent with helping to meet community credit needs was identified.

APPENDIX A – MAP OF THE ASSESSMENT AREA



APPENDIX B – DEMOGRAPHIC INFORMATION
Table B-1

2020 Washington County AA Demographics								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	246	14.9
Moderate	0	0.0	0	0.0	0	0.0	347	21.0
Middle	2	100.0	1,656	100.0	121	7.3	448	27.1
Upper	0	0.0	0	0.0	0	0.0	615	37.1
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	2	100.0	1,656	100.0	121	7.3	1,656	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	0	0	0.0	0.0	0	0.0	0	0.0
Middle	2,956	1,961	100.0	66.3	481	16.3	514	17.4
Upper	0	0	0.0	0.0	0	0.0	0	0.0
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	2,956	1,961	100.0	66.3	481	16.3	514	17.4
	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
			#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	308	100.0	255	100.0	31	100.0	22	100.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	308	100.0	255	100.0	31	100.0	22	100.0
Percentage of Total Businesses:				82.8		10.1		7.1
	Total Farms by Tract		Farms by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
			#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	157	100.0	152	100.0	5	100.0	0	0.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	157	100.0	152	100.0	5	100.0	0	0.0
Percentage of Total Farms:				96.8		3.2		0.0
<p>Source: 2020 FFIEC Census Data 2020 Dun & Bradstreet Data 2011-2015 U.S. Census Bureau: American Community Survey</p> <p>Note: Percentages may not total 100.0 percent due to rounding.</p>								

APPENDIX C – GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies, designated disaster areas; or designated distressed or underserved nonmetropolitan middle-income geographies.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full-scope review: Performance is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

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

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

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

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

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

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

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

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

Multifamily: Refers to a residential structure that contains five or more units.

Nonmetropolitan area (NonMSA): Any area that is not located within an MSA.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

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

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area. For these institutions, no state ratings will be received unless the bank also maintains deposit facilities outside of the multistate metropolitan area. CRA activity is captured in either a state rating or a multistate metropolitan area rating, but not both.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as 'small business loans' if the loans are reported on the TFR as nonmortgage, commercial loans.

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

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