



PUBLIC DISCLOSURE

November 13, 2023

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First State Bank
RSSD# 275657

206 North Pennsylvania Avenue
Ness City, Kansas 67560

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

The First State Bank (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.
- Geographic distribution analysis was not conducted or considered meaningful, as the AA consists of only one middle-income census tract.
- 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 17-quarter average NLTD ratio;
- A statistical sample of 85 small farm loans from a universe of 145 loans originated between January 1, 2022 and December 31, 2022; and
- A statistical sample of 62 small business loans from a universe of 89 loans originated between January 1, 2022 and December 31, 2022.

For this evaluation, greater weight was placed on small farm lending based on the higher number of small farm loans originated during the evaluation period. Furthermore, greater consideration was given to the volume of loan originations rather than the dollar amount, as it is more representative of the number of entities served.

DESCRIPTION OF INSTITUTION

The bank is a community bank headquartered in Ness City, Kansas. The bank’s characteristics include:

- The bank is a wholly owned subsidiary of Beutler, Inc.
- The bank has total assets of \$75.5 million as of June 30, 2023.
- The bank has one location in Ness City, Kansas.
- The bank maintains one cash-only automated teller machine at its Ness City headquarters.
- As shown in the table below, the bank’s primary business focus is agricultural lending, followed by commercial and industrial lending.

Table 1

Composition of Loan Portfolio as of June 30, 2023		
Loan Type	\$(000)	%
Construction and Land Development	0	0.0
Farmland	9,579	38.5
1- to 4- Family Residential Real Estate	0	0.0
Multifamily Residential Real Estate	0	0.0
Nonfarm Nonresidential Real Estate	903	3.6
Agricultural	7,982	32.0
Commercial and Industrial	4,551	18.3
Consumer	1,688	6.8
Other	203	0.8
Gross Loans	24,906	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 September 16, 2019 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 Ness County AA consists of the entirety of Ness County. (See Appendix A for an AA map and Appendix B for additional demographic data.)

- The AA delineation remains unchanged since the prior CRA evaluation.
- The AA is comprised of 1 middle-income census tract. This represents a change from the previous evaluation when the AA included two middle-income census tracts.

- According to the June 30, 2022 Federal Deposit Insurance Corporation (FDIC) Summary of Deposit Market Share Report, the bank ranked first of four FDIC-insured depository institutions, with a total deposit market share of 41.7 percent.
- A member of the local community was interviewed to ascertain relevant area credit needs, local economic conditions, the responsiveness of the area banks in meeting those credit needs, and current demographic characteristics. The community member represented an economic development organization with knowledge of the area’s economic and agricultural conditions.

Table 2

Population Change			
Assessment Area: Ness County			
Area	2015 Population	2020 Population	Percent Change
Ness County	3,077	2,687	(12.7)
NonMSA Kansas	922,403	892,006	(3.3)
Kansas	2,892,987	2,937,880	1.6

*Source: 2020 U.S. Census Bureau: Decennial Census
2011-2015 U.S. Census Bureau: American Community Survey*

- As illustrated in Table 2, Ness County experienced a larger decrease in population than other rural areas. There was an overall increase in population statewide during the same time period.
- The population of residents ages 65 and older is higher relative to other rural areas and relative to the statewide figure.
- The community member noted that Ness County has experienced a recent increase of local residents returning to the community following their completion of higher education. The community member stated that this trend is expected to continue due to recent investments in technology projects intended to expand access to high-speed internet in the area.

Table 3

Median Family Income Change			
Assessment Area: Ness County			
Area	2015 Median Family Income	2020 Median Family Income	Percent Change
Ness County	65,740	66,964	1.9
NonMSA Kansas	62,527	65,467	4.7
Kansas	72,535	77,620	7.0

*Source: 2011-2015 U.S. Census Bureau: American Community Survey
2016-2020 U.S. Census Bureau: American Community Survey*

Note: Median family incomes have been inflation-adjusted and are expressed in 2020 dollars.

- As illustrated in Table 3, the median family income in the AA experienced slower growth than other nonmetropolitan statewide areas and the overall statewide figure from 2015 to 2020.

Table 4

Housing Cost Burden						
Assessment Area: Ness County						
Area	Cost Burden - Renters			Cost Burden - Owners		
	Low Income	Moderate Income	All Renters	Low Income	Moderate Income	All Owners
Ness County	38.3	10.0	12.6	56.5	15.6	16.5
NonMSA Kansas	66.6	19.8	34.1	51.6	19.9	14.9
Kansas	73.0	26.6	38.4	57.7	24.8	15.6

Cost Burden is housing cost that equals 30 percent or more of household income.
Source: U.S. Department of Housing and Urban Development (HUD), 2015-2019 Comprehensive Housing Affordability Strategy

- There are 1,687 housing units in the Ness County AA of which 63.7 percent are owner-occupied, 11.0 percent are rentals, and 25.3 percent are vacant.
- Ness County demonstrates favorable affordability for renters, as reflected in Table 4. However, affordability for homeowners in Ness County is generally comparable to other rural areas statewide and overall statewide figures.

Table 5

Unemployment Rates					
Assessment Area: Ness County					
Area	2017	2018	2019	2020	2021
Ness County	2.9	2.6	2.5	3.3	2.2
NonMSA Kansas	3.5	3.1	3.0	4.4	2.7
Kansas	3.6	3.3	3.1	5.7	3.2

Source: Bureau of Labor Statistics: Local Area Unemployment Statistics

- Unemployment rates in the AA trended similarly with other nonmetropolitan statewide areas, although remained low between 2017 and 2021.
- Major industries in the AA include oil and gas extraction and wholesale trade.
- The community member stated that the major area employers were in oil production and agriculture, as well as the Ness County Hospital and Ness City School District.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank’s overall lending test performance is Satisfactory. This conclusion was reached based on a reasonable NLTD ratio, a majority of loans originated within the bank’s AA, and a reasonable borrower distribution of loans.

Net Loan-to-Deposit Ratio

This performance criterion evaluates the bank’s average NLTD ratio to determine the reasonableness of lending in light of 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, portfolio composition, and area of operations in proximity to the bank’s AA.

The bank’s NLTD ratio is considered reasonable. Although it is lower than the other similarly situated institutions, an analysis of the bank’s June 30, 2023 Call Report data revealed that the bank holds a notable volume of pledged securities on its balance sheet in relation to other institutions, which limits the bank’s lending capacity. This strategy is consistent with previous evaluations and does not inhibit the bank from meeting the credit needs of its AA.

Table 6

Comparative NLTD Ratios June 30, 2019 – June 30, 2023			
Institution	Location	Asset Size \$(000)	NLTD Ratio (%)
			17 Quarter Average
The First State Bank	Ness City, KS	75,512	36.7
Similarly Situated Institutions			
First State Bank of Healy	Healy, KS	100,896	71.1
The First State Bank of Ransom	Ransom, KS	47,094	41.2
The First National Bank of Dighton	Dighton, KS	74,385	59.3

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 7

Lending Inside and Outside the Assessment Area								
Loan Type	Inside				Outside			
	#	#%	\$(000)	\$%	#	#%	\$(000)	\$%
Small Business	35	56.5	2592	63.0	27	43.5	1525	37.0
Small Farm	67	78.8	6447	84.2	18	21.2	1214	15.8
Total Loans	102	69.4	9039	76.7	45	30.6	2740	23.3
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>								

The remaining loan distribution analyses discussed in this performance evaluation considered only those loans originated within the bank’s AA.

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. For this evaluation, the bank's geographic distribution of loans was not evaluated as the AA is comprised of only one middle-income census tract and, as such, does not provide the characteristics needed to conduct a meaningful geographic analysis.

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 gross annual revenues of \$1 million (MM) or less (small businesses) was comparable to the demographic comparison figure. Furthermore, approximately 91.4 percent of loans were originated in amounts of \$250,000 or less, which are amounts typically demanded by smaller entities.

Table 8

Distribution of 2022 Small Business Lending By Revenue Size of Businesses					
Assessment Area: Ness County					
	Bank Loans				Total Businesses
	#	#%	\$(000)	%	
By Revenue					
\$1 Million or Less	30	85.7	1,061	40.9	88.3
Over \$1 Million	5	14.3	1,531	59.1	8.3
Revenue Unknown	0	0.0	0	0.0	3.4
Total	35	100.0	2,592	100.0	100.0
By Loan Size					
\$100,000 or Less	30	85.7	750	28.9	
\$100,001 - \$250,000	2	5.7	392	15.1	
\$250,001 - \$1 Million	3	8.6	1,450	55.9	
Total	35	100.0	2,592	100.0	
By Loan Size and Revenues \$1 Million or Less					
\$100,000 or Less	28	93.3	669	63.1	
\$100,001 - \$250,000	2	6.7	392	36.9	
\$250,001 - \$1 Million	0	0.0	0	0.0	
Total	30	100.0	1,061	100.0	
<i>Source: 2022 FFIEC Census Data 2022 Dun & Bradstreet Data 2016-2020 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 \$1MM or less was comparable to the percentage of small farms operating in the AA. Additionally, approximately 89.5 percent of loans were originated in amounts of \$250,000 or less, which are amounts typically demanded by smaller farm entities.

Table 9

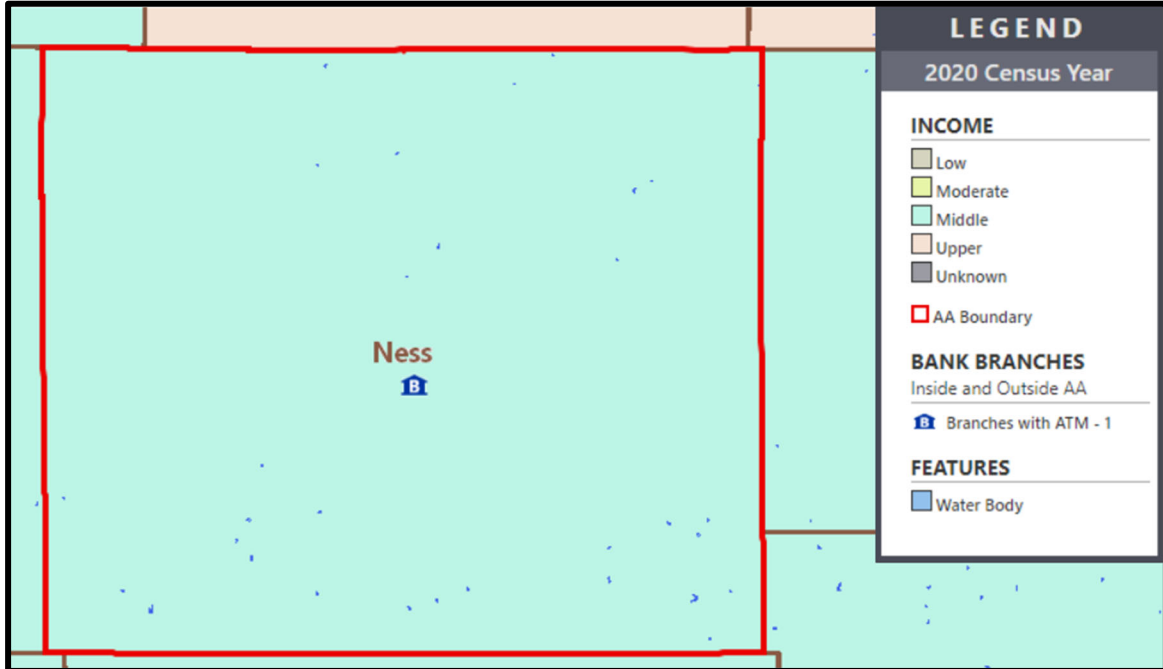
Distribution of 2022 Small Farm Lending By Revenue Size of Farms					
Assessment Area: Ness County					
	Bank Loans				Total Farms
	#	#%	\$(000)	%	%
By Revenue					
\$1 Million or Less	59	88.1	4,795	74.4	100.0
Over \$1 Million	8	11.9	1,652	25.6	0.0
Revenue Unknown	0	0.0	0	0.0	0.0
Total	67	100.0	6,447	100.0	100.0
By Loan Size					
\$100,000 or Less	51	76.1	2,179	33.8	
\$100,001 - \$250,000	9	13.4	1,805	28.0	
\$250,001 - \$500,000	7	10.4	2,463	38.2	
Total	67	100.0	6,447	100.0	
By Loan Size and Revenues \$1 Million or Less					
\$100,000 or Less	48	81.4	1,958	40.8	
\$100,001 - \$250,000	8	13.6	1,643	34.3	
\$250,001 - \$500,000	3	5.1	1,194	24.9	
Total	59	100.0	4,795	100.0	
<i>Source: 2022 FFIEC Census Data 2022 Dun & Bradstreet Data 2016-2020 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

Map A-1



APPENDIX B – DEMOGRAPHIC INFORMATION

Table B-1

2022 Ness 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	107	12.8
Moderate	0	0.0	0	0.0	0	0.0	180	21.5
Middle	1	100.0	836	100.0	60	7.2	179	21.4
Upper	0	0.0	0	0.0	0	0.0	370	44.3
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	1	100.0	836	100.0	60	7.2	836	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	1,687	1,074	100.0	63.7	186	11.0	427	25.3
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	1,687	1,074	100.0	63.7	186	11.0	427	25.3
	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	206	100.0	182	100.0	17	100.0	7	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	206	100.0	182	100.0	17	100.0	7	100.0
Percentage of Total Businesses:				88.3		8.3		3.4
	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	61	100.0	61	100.0	0	0.0	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	61	100.0	61	100.0	0	0.0	0	0.0
Percentage of Total Farms:				100.0		0.0		0.0
Source: 2022 FFIEC Census Data 2022 Dun & Bradstreet Data 2016-2020 U.S. Census Bureau: American Community Survey Note: Percentages may not total 100.0 percent due to rounding.								

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.