



PUBLIC DISCLOSURE

December 14, 2020

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Farmers State Bank
RSSD #603559**

**110 West State Street
Phillipsburg, Kansas 67661**

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

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

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INSTITUTION'S COMMUNITY REINVESTMENT ACT RATING

Farmers 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.
- The geographic distribution of loans throughout the AA was not evaluated as the AA consists entirely of middle-income census tracts and the analysis would not be meaningful.
- Lending reflects a reasonable penetration among individuals of different income levels, including low- and moderate-income, and farms of different sizes.
- Neither the bank nor the Federal Reserve Bank of Kansas City received any Community Reinvestment Act (CRA)-related complaints since the previous evaluation.

SCOPE OF EXAMINATION

The Federal Financial Institutions Examination Council's *Interagency Examination Procedures for Small Institutions* were utilized 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 Northwest Kansas AA. The following data was reviewed:

- The bank's 16-quarter average NLTD ratio, and
- A statistical sample of 54 small farm loans from a universe of 74 loans, and a statistical sample of 55 motor vehicle loans from a universe of 75 loans. All loan originations were between January 1, 2019, and December 31, 2019.

Small farm loans were given greater weight in the evaluation as agricultural lending is the bank's primary business focus and comprises the largest portion of the loan portfolio.

DESCRIPTION OF INSTITUTION

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

- The bank is a wholly owned subsidiary of the one-bank holding company Phillips Holdings, Inc.
- The bank has total assets of \$36.2 million (MM) as of June 30, 2020.
- The bank has one location in Phillipsburg, Kansas and operates one cash-only automated teller machine on-site.
- The bank operates in a rural, agricultural community, with a primary business focus of agricultural lending.
- The bank also makes a significant number of consumer loans.

TABLE 1 COMPOSITION OF LOAN PORTFOLIO AS OF JUNE 30, 2020		
Loan Type	\$(000)	%
Agricultural	10,791	43.1
Commercial	5,442	21.7
Residential Real Estate	3,935	15.7
Consumer	3,360	13.4
Other	1,531	6.1
Gross Loans	25,059	100.0

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

The bank was rated Satisfactory under the CRA at its August 29, 2016 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 Northwest Kansas AA is comprised of Phillips and Norton Counties in their entireties, and one census tract in northern Rooks County. (see Appendix A for an AA map).

- The Northwest Kansas AA consists of five middle-income census tracts. Since the previous evaluation, the AA delineation had no changes.
- Based on the June 30, 2020 Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, the bank's deposit market share of 3.8 percent ranked seventh out of eight FDIC-insured institutions operating in the AA counties.
- Two interviews with members of the communities within the bank's AA were conducted to help ascertain the credit needs of the communities, the responsiveness of area banks in meeting those credit needs, and the local economic conditions. These community members represented a local agricultural organization and a local economic development organization.

**TABLE 2
POPULATION CHANGE**

Area	2010 Population	2015 Population	Percent Change
Norton County	5,671	5,590	(1.4)
Phillips County	5,642	5,501	(2.5)
Rooks County	5,181	5,186	0.1
State of Kansas	2,853,118	2,892,987	1.4

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

- Main population centers in the AA include the cities of Phillipsburg (2,445 residents), Norton (2,722 residents), and Stockton (1,257 residents).
- According to the 2015 American Community Survey data, the AA has a higher concentration of residents age 65 and over at 20.2 percent, compared to the statewide figure of 14.0 percent.

**TABLE 3
MEDIAN FAMILY INCOME CHANGE**

Area	2010 Median Family Income	2015 Median Family Income	Percent Change
Norton County	56,773	62,105	9.4
Phillips County	54,193	56,208	3.7
Rooks County	47,628	55,600	16.7
State of Kansas	62,424	66,389	6.4

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

- The percentage of AA families living below the poverty line, at 7.0 percent, was lower than the figure for other nonmetropolitan areas of the state at 10.2 percent.
- A community member noted a major employer in Norton County has increased wages in recent years to help retain employees, leading other businesses to increase wages to remain competitive. The community contact indicated this likely contributed to the rise in median family income in Norton County.

**TABLE 4
HOUSING COSTS CHANGE**

Area	Median Housing Value		Percent Change	Median Gross Rent		Percent Change
	2010	2015		2010	2015	
Norton County	51,200	72,900	42.4	465	647	39.1
Phillips County	57,400	72,700	26.7	436	510	17.0
Rooks County	62,900	67,900	7.9	454	525	15.6
State of Kansas	122,600	132,000	7.7	671	757	12.8

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

- The AA had a higher affordability ratio¹ at 63.4 percent compared to the statewide nonmetropolitan figure at 51.0 percent, suggesting that housing is more affordable in the AA than in other nonmetropolitan areas in the state.
- A community member stated that increased employment opportunities in Norton County have increased the demand for housing, resulting in rising housing values.

TABLE 5 UNEMPLOYMENT RATES					
Region	2015	2016	2017	2018	2019
Norton County	2.5	2.6	2.2	2.1	2.2
Phillips County	3.2	3.2	3.0	2.5	2.6
Rooks County	4.6	5.2	3.9	3.2	3.5
State of Kansas	4.2	4.2	3.7	3.4	3.2

Source: Bureau of Labor Statistics: Local Area Unemployment Statistics

- Major industries in the AA that contribute to employment include agriculture, manufacturing, health care, and educational services.
- According to the 2017 Census of Agriculture, the number of farms in Norton County has decreased by 11.0 percent, while the number of farms in Phillips and Rooks County has decreased by 6.0 percent each since 2012.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

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 loan portfolio composition and the area where they are located within the AA. The bank’s NLTD ratio is reasonable as it falls within the range of NLTD ratios of the similarly situated banks.

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

**TABLE 6
COMPARATIVE NLTD RATIOS**

Institution	Location	Asset Size (\$000s)	NLTD Ratio (%)
			16 – Quarter Average
Farmers State Bank	Phillipsburg, KS	36,178	82.1
Farmers National Bank	Phillipsburg, KS	150,913	89.6
First National Bank and Trust Company	Phillipsburg, KS	249,141	81.9
Solutions North Bank	Stockton, KS	267,344	83.3
First State Bank	Norton, KS	491,155	68.5

Assessment Area Concentration

This performance criterion evaluates the percentage of lending extended inside and outside of the AA. A majority of the bank’s loans, by number and dollar, are originated inside the AA.

**TABLE 7
LENDING INSIDE AND OUTSIDE THE AA**

Loan Type	Inside				Outside			
	#	\$(000)	#%	\$%	#	\$(000)	#%	\$%
Motor Vehicle Loans	42	445	76.4	68.5	13	206	23.6	31.7
Small Farm Loans	46	1,722	85.2	75.7	8	554	14.8	24.3
Total Loans	88	2,167	80.7	74.0	21	760	19.3	26.0

Note: Percentages may not add to 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. However, the bank’s performance under this criterion was not assessed because the AA is comprised of only middle-income census tracts. Thus, a meaningful analysis could not be conducted.

Lending to Borrowers of Different Income Levels and to Farms of Different Sizes

This performance criterion evaluates the bank’s lending to borrowers of different income levels and farms of different revenue sizes. The bank’s lending has a reasonable penetration among individuals of different income levels and farms of different sizes.

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, by number and dollar, to the percentage of small farms operating in the AA.

**TABLE 8
DISTRIBUTION OF 2019 SMALL FARM LENDING
BY REVENUE SIZE OF FARMS**

	Bank Loans				Total Farms
	#	\$(000)	#%	\$%	%
By Revenue					
\$1 Million or Less	46	1,722	100.0	100.0	97.8
Over \$1 Million	0	0	0.0	0.0	2.2
Not Known	0	0	0.0	0.0	0.0
Total	46	1,722	100.0	100.0	100.0
By Loan Size					
\$100,000 or less	43	953	93.5	55.3	
\$100,001 – \$250,000	2	339	4.3	19.7	
\$250,001 – \$500,000	1	430	2.2	25.0	
Total	46	1,722	100.0	100.0	
By Loan Size and Revenue \$1 Million or Less					
\$100,000 or less	43	953	93.5	55.3	
\$100,001 – \$250,000	2	339	4.3	19.7	
\$250,001 – \$500,000	1	430	2.2	25.0	
Total	46	1,722	100.0	100.0	
<i>Source: 2019 FFIEC Census Data 2019 Dun & Bradstreet Data 2011-2015 U.S. Census Bureau: American Community Survey</i> NOTE: Percentages may not add up to 100.0 due to rounding.					

Motor Vehicle Lending

The borrower distribution of motor vehicle lending is reasonable. The bank’s lending to low-income borrowers is comparable to the demographic figure by number volume, but below the demographic figure by dollar volume. However, more emphasis is placed on a bank’s lending performance by number volume, as low-income borrowers tend to have less residual income to borrow against. The bank’s lending to moderate-income borrowers is comparable to the demographic figure by both by number and dollar.

While performance is reasonable, the analysis was skewed by the inclusion of 12 loans in the sample that had unknown borrower incomes reported.

**TABLE 9
DISTRIBUTION OF 2019 MOTOR VEHICLE LENDING
BY BORROWER INCOME LEVEL**

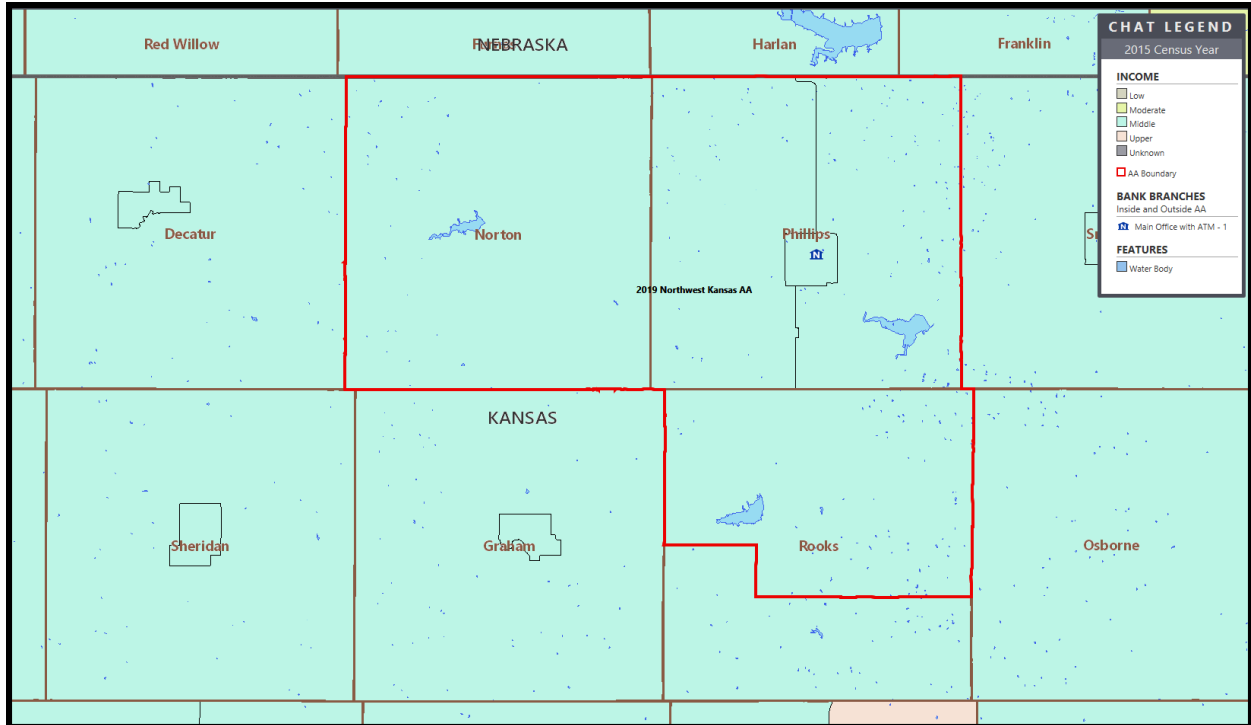
Borrower Income Level	Bank Loans				% of Households
	#	\$(000)	#%	\$%	
Low	10	48	23.8	10.7	20.1
Moderate	7	97	16.7	21.9	20.3
Middle	6	82	14.3	18.5	19.2
Upper	7	97	16.7	21.8	40.4
Unknown	12	121	28.6	27.2	0.0

Source: 2019 FFIEC Census Data
2011-2015 U.S. Census Bureau: American Community Survey
NOTE: Percentages may not add up to 100.0 due to rounding.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

An evaluation of the bank’s fair lending activities was conducted during the examination to determine compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No evidence of discriminatory or 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 NORTHWEST KANSAS 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	586	16.4
Moderate	0	0.0	0	0.0	0	0.0	749	21.0
Middle	5	100.0	3,566	100.0	249	7.0	799	22.4
Upper	0	0.0	0	0.0	0	0.0	1,432	40.2
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	5	100.0	3,566	100.0	249	7.0	3,566	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	6,749	4,139	100.0	61.3	1,183	17.5	1,427	21.1
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	6,749	4,139	100.0	61.3	1,183	17.5	1,427	21.1
	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	726	100.0	632	100.0	71	100.0	23	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	726	100.0	632	100.0	71	100.0	23	100.0
Percentage of Total Businesses:				87.1		9.8		3.2
	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	225	100.0	220	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	225	100.0	220	100.0	5	100.0	0	0.0
Percentage of Total Farms:				97.8		2.2		0.0
<p>Source: 2019 FFIEC Census Data 2019 Dun & Bradstreet Data 2011-2015 U.S. Census Bureau: American Community Survey</p> <p>NOTE: Percentages may not add up to 100.0 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, home equity 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 refinancing 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.

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.

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 instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, 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.