



PUBLIC DISCLOSURE

OCTOBER 22, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**SWEDISH-AMERICAN STATE BANK
RSSD# 973252**

**324 LIBERTY STREET
COURTLAND, KANSAS 66939**

**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.

TABLE OF CONTENTS

Institution’s CRA Rating	2
Scope of Examination	2
Description of Institution	3
Description of the Bank’s Assessment Area.....	3
Performance Context	4
Conclusions with Respect to Performance Criteria	6
Appendix A – Map of the Assessment Area	9
Appendix B – Demographic Information.....	10
Appendix C – Glossary	11

INSTITUTION'S COMMUNITY REINVESTMENT ACT RATING

This institution is rated: Satisfactory.

Swedish-American State Bank (the bank) has a satisfactory record of meeting the credit needs of its assessment area (AA) in a manner consistent with its resources and operating philosophy. The bank also received a Satisfactory rating at its previous Community Reinvestment Act (CRA) evaluation conducted by the Federal Reserve Bank of Kansas City (Reserve Bank) on August 11, 2014.

- The bank is meeting the credit needs of its community based on an analysis of lending activity.
- The bank's net loan-to-deposit ratio (NLTD) is more than reasonable given the bank's size, financial condition, and AA credit needs.
- A majority of the bank's loans are originated inside the AA.
- Lending reflects a reasonable penetration among businesses and farms of different revenue sizes.
- Neither the bank nor this Reserve Bank received any CRA-related complaints since the previous evaluation.

SCOPE OF EXAMINATION

The bank's CRA performance was evaluated using the Federal Financial Institutions Examination Council's *Interagency Examination Procedures for Small Institutions*. The evaluation considered information about the bank and its AA, such as asset size, financial condition, economic and demographic characteristics, and competition. Lending performance was assessed within the bank's North Central Kansas AA. The following criteria were reviewed:

- **NLTD Ratio** – A 16-quarter average NLTD ratio was calculated for the bank and compared to a sample of similarly situated financial institutions.
- **Lending in the Assessment Area and Lending to Businesses and Farms of Different Sizes** – Statistical samples of the bank's small business loans originated from January 1, 2017 through December 31, 2017, and small farm loans originated from July 1, 2017 through December 31, 2017, were reviewed and compared to applicable demographic data to assess:
 - The percentage of loans originated in the AA; and,
 - The distribution among businesses and farms of different revenue sizes.
- **Geographic Distribution of Lending** – Given that the bank's AA consists solely of middle-income census tracts, a geographic distribution analysis was not considered meaningful and was not performed.
- **Response to Substantiated Complaints** – Neither the bank nor the Reserve Bank received any CRA-related complaints since the previous evaluation. Thus, this criterion was not evaluated.

- **Community Contacts** – Two community representatives, one from an economic development organization and one from an organization with knowledge of local agricultural conditions, were contacted to provide insight into the needs of small businesses and farms within the AA.

DESCRIPTION OF INSTITUTION

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

- The bank’s total assets are \$45.1 million as of March 31, 2018.
- The bank has a full-service location in Courtland, Kansas, which is located in the westernmost census tract of Republic County.
- As of March 31, 2018, the bank’s loan portfolio is primarily comprised of agricultural lending, which represents 65.7 percent of the bank’s total loans.

TABLE 1 SWEDISH-AMERICAN STATE BANK LOAN PORTFOLIO AS OF MARCH 31, 2018		
Loan Type	Amount \$(000)	Percent of Total
Agricultural	21,128	65.7
Commercial	4,774	14.8
Residential Real Estate	4,691	14.6
Consumer	1,585	4.9
Other	6	0.0
Gross Loans	32,184	100.0

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

There are no known legal, financial, or other factors impeding the bank’s ability to meet the credit needs of the communities it serves.

DESCRIPTION OF THE BANK’S ASSESSMENT AREA¹

The bank’s AA is comprised of Republic County in its entirety and the northern census tract of Jewell County located in rural Kansas. (See Appendix A for an AA map).

- The AA’s delineation has changed since the prior 2014 evaluation to include all of Republic County and the northern census tract of Jewell County.

¹ The following demographic data is based on 2010 U.S. Census, 2011-2015 American Community Survey (ACS) five-year estimate data, and 2017 D&B data. Additional demographic data was also utilized based on Local Area Unemployment Statistics from the Bureau of Labor Statistics.

- The AA is comprised of four middle-income census tracts: three located in Republic County and one located in Jewell County. (See Appendix B for additional demographic information).
- As of June 30, 2017, the bank’s deposit market share was 17.2 percent in the counties of Jewell and Republic, ranking second of nine Federal Deposit Insurance Corporation (FDIC)-insured institutions in the counties.

PERFORMANCE CONTEXT

TABLE 2 NORTH CENTRAL KANSAS AA POPULATION CHANGE			
Area	2010 Population	2011-2015 Population	Percentage Change (%)
Republic County, Kansas	4,980	4,806	(3.5)
Jewell County, Kansas	3,077	3,038	(1.3)
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: ACS*

- The AA’s population was 5,904 as of the 2015 U.S. Census, with 84.3 percent of the population residing in Republic County.
- While the state of Kansas as a whole has seen slight population growth from 2010 to 2015, the counties of Republic and Jewell have seen populations decline during the same period. A community contact noted that citizens of retirement age are moving to surrounding counties due to the lack of retirement communities in Jewell County.

TABLE 3 NORTH CENTRAL KANSAS AA MEDIAN FAMILY INCOME CHANGE 2006 TO 2015			
Area	2006-2010 Median Family Income (\$)	2011-2015 Median Family Income (\$)	Percentage Change (%)
Republic County, Kansas	50,028	54,508	9.0
Jewell County, Kansas	47,431	49,597	4.6
State of Kansas	62,424	66,389	6.4

*Source: 2006-2010 U.S. Census Bureau: ACS
2011-2015 U.S. Census Bureau: ACS*

- According to the U.S. Census Bureau’s American Community Survey 2010 and 2015 data, median family income grew almost double the rate in Republic County when compared to Jewell County.

**TABLE 4
NORTH CENTRAL KANSAS AA HOUSING COSTS CHANGE**

Area	Median Housing Value		Percentage Change (%)	Median Gross Rent		Percentage Change (%)
	2006-2010	2011-2015		2006-2010	2011-2015	
Republic County, Kansas	47,800	48,900	2.3	385	474	23.1
Jewell County, Kansas	45,500	53,100	16.7	423	516	22.0
State of Kansas	122,600	132,000	7.7	671	757	12.8

Source: 2006-2010 U.S. Census Bureau: ACS
2011-2015 U.S. Census Bureau: ACS

- Both Republic County and Jewell County experienced significant growth in median gross rents compared to the state of Kansas figure.
- Jewell County saw a large increase in median housing values, at 16.7 percent. Jewell County's figure reflects a substantial increase when compared to only a 2.3 percent increase in Republic County and a 7.7 percent increase for the state of Kansas.
- The median housing values in Republic and Jewell counties, at \$48,900 and \$53,100, respectively, are significantly lower than the median housing value for the state of Kansas, at \$132,000.

**TABLE 5
NORTH CENTRAL KANSAS AA UNEMPLOYMENT RATES (%)**

Area	2013	2014	2015	2016	2017
Republic County, Kansas	3.3	3.0	2.7	2.9	2.8
Jewell County, Kansas	2.9	4.0	4.4	4.7	3.4
State of Kansas	5.4	4.5	4.2	4.2	3.6

Based on Bureau of Labor Statistics: Local Area Unemployment Statistics.

- The unemployment rate in Jewell County has decreased for the first time since 2013, while the unemployment rate in Republic County has remained relatively stable.
- The predominant businesses throughout the AA are agricultural operations. The AA has experienced a price decline in agricultural products and livestock, which has limited the ability for farmers to fully fund regular operations.
- A community contact noted there has been an increase in the amount of small businesses in the AA, largely due to the Republic County Revolving Loan Fund Program.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Net Loan-to-Deposit Ratio

The bank's NLTD ratio is more than reasonable given its capacity to lend, the availability of lending opportunities, the demographic and economic factors present in the AA, and in comparison to several similarly-situated FDIC-insured institutions in the AA.

TABLE 6 COMPARATIVE NET LOAN-TO-DEPOSIT RATIOS	
Institution	NLTD Ratio (%)
	16-Quarter Average
Swedish-American State Bank	88.1
Competitors	
Elk State Bank	67.1
First National Bank of Beloit	61.6
Jamestown State Bank	32.5
State Exchange Bank	47.6

Assessment Area Concentration

A majority of the bank's small business and small farm loans, by number and dollar volume, are originated inside the delineated AA.

TABLE 7 LENDING INSIDE AND OUTSIDE THE BANK'S AA								
Bank Loans	Inside				Outside			
	#	\$(000)	#%	\$%	#	\$(000)	#%	\$%
Small Business Loans	36	1,151	73.5	37.7	13	1,901	26.5	62.3
Small Farm Loans	46	6,535	82.1	92.1	10	559	17.9	7.9

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

The remaining conclusions of the bank's lending performance are based only on the loans originated inside the bank's AA. More weight was placed on small farm lending in the remaining analyses due to the bank's focus on agricultural lending.

Distribution by Revenue Size of Businesses and Farms

Overall, the bank's lending demonstrates reasonable penetration to business and farms of different revenue sizes.

Small Business Loans

The borrower distribution of small business lending is reasonable.

- All small business loans were originated to businesses with gross annual revenues of \$1 million or less, which is above the demographic figure.
- Approximately 94.4 percent of small business loans were originated in loan amounts of \$100,000 or less, indicating the bank’s willingness to meet the credit needs of small businesses. Typically, smaller businesses do not have the need or the capacity to borrow large amounts; as such, smaller loan amounts are used as a proxy to estimate the support of small entities.
- According to a community representative, the bank has also been an active participant in the Republic County Revolving Loan Fund, a fund administered to enhance access to small business loans for qualified applicants.

**TABLE 8
DISTRIBUTION OF 2017 SMALL BUSINESS LOANS
BY REVENUE SIZE OF BUSINESSES**

Business Revenue	Small Business Loans				% of Businesses by Revenue ¹
	#	\$(000)	#%	\$%	
\$1MM or less	36	1,151	100.0	100.0	88.7
Over \$1MM	0	0	0.0	0.0	7.1
Unknown	0	0	0.0	0.0	4.2

¹ 2017 FFIEC Census Data & 2017 D&B information according to 2015 ACS.
NOTE: Percentages may not add up to 100.0 due to rounding.

Small Farm Loans

The borrower distribution of small farm lending is reasonable.

- All small farm loans were originated to farms with gross annual revenues of \$1 million or less, which is slightly above the demographic figure.
- The majority of small farm loans (52.2 percent) were also made in dollar amounts of \$100,000 or less, which demonstrates the bank’s efforts to meet the credit needs of small farms.

**TABLE 9
 DISTRIBUTION OF 2017 SMALL FARM LOANS BY REVENUE SIZE OF FARMS
 NORTH CENTRAL KANSAS AA**

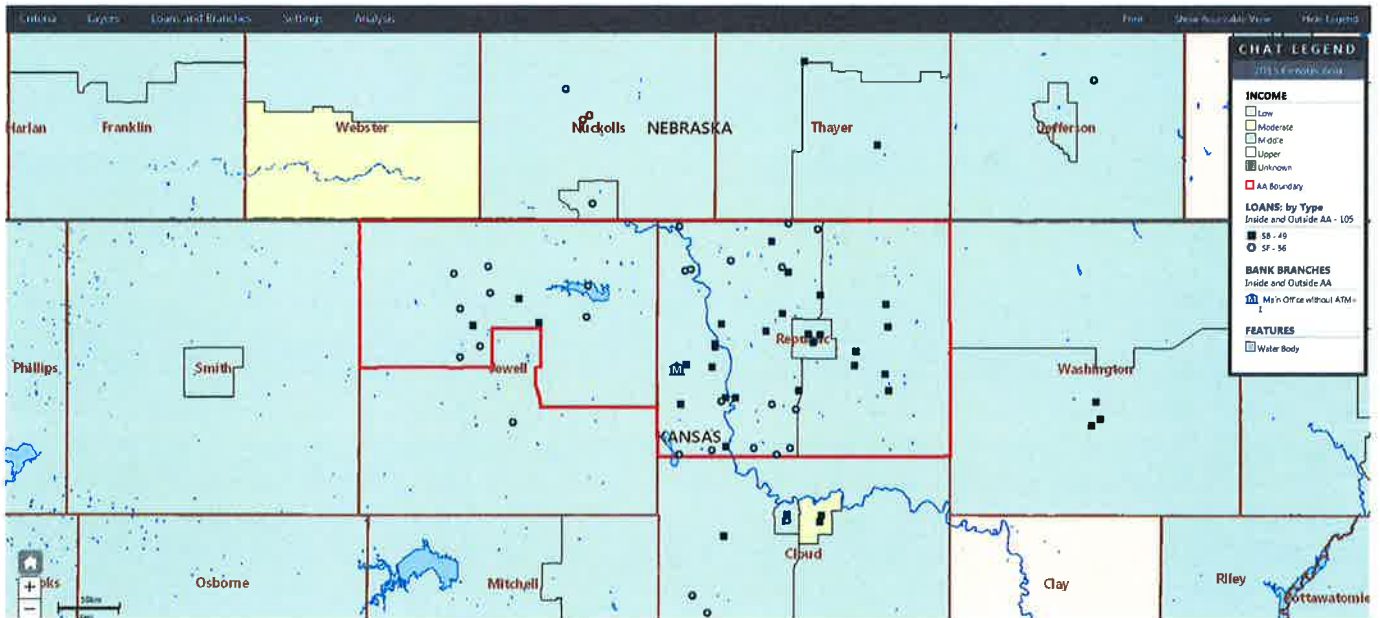
Farm Revenue	Small Farm Loans				% of Farms by Revenue ¹
	#	\$(000)	#%	\$%	
\$1MM or less	46	6,534	100.0	100.0	98.2
Over \$1MM	0	0	0.0	0.0	1.8
Unknown	0	0	0.0	0.0	0.0

¹ The percentage of farms by revenue size is based on 2017 D&B data.
 (NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

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 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 NORTH CENTRAL 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	301	18.4
Moderate	0	0.0	0	0.0	0	0.0	334	20.4
Middle	4	100.0	1,639	100.0	120	7.3	421	25.7
Upper	0	0.0	0	0.0	0	0.0	583	35.6
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	4	100.0	1,639	100.0	120	7.3	1,639	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	3,734	2,237	100.0	59.9	557	14.9	940	25.2
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	3,734	2,237	100.0	59.9	557	14.9	940	25.2
	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	309	100.0	274	100.0	22	100.0	13	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	309	100.0	274	100.0	22	100.0	13	100.0
Percentage of Total Businesses:			88.7		7.1		4.2	
	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	169	100.0	166	100.0	3	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	169	100.0	166	100.0	3	100.0	0	0.0
Percentage of Total Farms:			98.2		1.8		0.0	
Based on 2017 FFIEC Census tract definitions, 2015 ACS five-year estimate data, and 2017 D&B data. (NOTE: Total percentages may vary by 0.1 percent due to automated rounding differences.)								

APPENDIX C – GLOSSARY

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Affordability ratio: To determine housing affordability, the affordability ratio is calculated by dividing median household income by median housing value. This ratio allows the comparison of housing affordability across assessment areas and/or communities. An area with a high ratio generally has more affordable housing than an area with a low ratio.

Aggregate lending: The number of loans originated and purchased by all lenders subject to reporting requirements as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

Census tract: Small subdivisions 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. They 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.

Consumer loan: A loan 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 of loans: motor vehicle, credit card, home equity, other secured loan, and other unsecured loan.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married couple family or other family, 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).

Fair market rent: Fair market rents (FMRs) are gross rent estimates. They include the shelter rent plus the cost of all tenant-paid utilities, except telephones, cable or satellite television service, and internet service. HUD sets FMRs to assure that a sufficient supply of rental housing is available to their program participants. To accomplish this objective, FMRs must be both high enough to permit a selection of units and neighborhoods and low enough to serve as many low-income families as possible. The level at which FMRs are set is expressed as a percentile point within the rent distribution of standard-quality rental housing units. The current definition used is the 40th percentile rent, the dollar amount below which 40 percent of the standard-quality rental housing units are rented. The 40th percentile rent is drawn from the distribution of rents of all

units occupied by recent movers (renter households who moved to their present residence within the past 15 months). HUD is required to ensure that FMRs exclude non-market rental housing in their computation. Therefore, HUD excludes all units falling below a specified rent level determined from public housing rents in HUD's program databases as likely to be either assisted housing or otherwise at a below-market rent, and units less than two years old.

Geography: A census tract or a block numbering area delineated by the U.S. Bureau of the Census in the most recent decennial census.

Home mortgage loans: Include 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.

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 lenders in the MSA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development (HUD) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area: 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. A metropolitan statistical area that crosses into two or more bordering states is called a multistate metropolitan statistical area (**MMSA**). Performance within each MMSA is analyzed separately as a full-scope review and receives its own ratings under the Lending, Investment and Service Tests provided the financial institution has its main office, branch, or deposit-taking ATM located in each applicable state making up the MMSA.

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.

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.

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

Small loans to farms: 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 thousand or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is 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.