



PUBLIC DISCLOSURE

JUNE 18, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**HEARTLAND TRI-STATE BANK
RSSD# 833758**

**601 MORTON STREET
ELKHART, KANSAS 67950**

**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	4
Performance Context	4
Conclusions with Respect to Performance Criteria	5
Appendix A – Map of the Assessment Area.....	8
Appendix B – Demographic Information	9
Appendix C – Scope of Examination.....	10
Appendix D – Glossary	11

INSTITUTION'S CRA RATING: This institution is rated: ***Satisfactory***

Heartland Tri-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 received an outstanding rating at its previous Community Reinvestment Act (CRA) evaluation conducted by the Office of the Comptroller of the Currency on January 31, 2011.

- 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 reasonable given the bank's size, financial condition, and AA credit needs.
- A majority of the bank's loans are originated in the AA.
- Lending reflects a reasonable penetration among borrowers of different income levels, including low- and moderate-income (LMI) borrowers, and farms of different revenue sizes.
- Neither the bank nor the Federal Reserve Bank of Kansas City (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 (FFIEC's) *Interagency Examination Procedures for Small Institutions*. The evaluation was performed in the context of 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 single, Non-Metropolitan Statistical Area AA comprised of Morton County, which is located in southwestern Kansas. The following criteria were reviewed:

- **Net Loan-to-Deposit Ratio** – A 28-quarter average NLTD ratio was calculated for the bank and compared to a sample of similarly situated local competitors.
- **Lending in the AA and Lending to Borrowers of Different Income Levels and to Farms of Different Revenue Sizes** – Statistically derived samples of the bank's consumer motor vehicle loans and small farm loans, all originated from July 1, 2017 through December 31, 2017, were reviewed to determine:
 - The percentage of loans originated in the AA; and
 - The distribution among borrowers of different income levels, particularly those considered LMI, and to farms of different revenue sizes, particularly those with gross annual revenue of \$1 million (MM) or less.

- **Response to Substantiated Complaints** – Neither the bank nor this Reserve Bank received any CRA-related complaints since the previous evaluation.
- **Community Contacts** – One community member from an economic development agency was contacted to provide insight into the credit needs of LMI individuals and small farms within the AA.

DESCRIPTION OF INSTITUTION

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

- Total assets of \$85.3MM as of December 31, 2017.
- In addition to its main office in Elkhart, the bank has one office located in Rolla, Kansas.
- The main office and branch each have full-service automated teller machines (ATMs) at their locations.
- As of December 31, 2017, the bank’s loan portfolio primarily consists of loans to finance agricultural operations, as these loans represented 79.6 percent of the bank’s total loans.

TABLE 1 HEARTLAND TRI-STATE BANK’S LOAN PORTFOLIO AS OF DECEMBER 31, 2017		
Loan Type	Amount \$(000)	Percent of Total
Agricultural	42,824	79.6
Commercial	4,359	8.1
Residential Real Estate	3,955	7.4
Consumer	2,415	4.5
Other	257	0.5
Gross Loans	53,810	100.0

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

DESCRIPTION OF THE BANK'S AA¹

The bank's AA is comprised of Morton County, Kansas, in its entirety.

- See Appendix A for an AA map.
- The AA is comprised of one middle-income census tract.
- The AA's composition is unchanged since the 2011 performance evaluation.
- As of June 30, 2017, the bank's market share of 73.9 percent, ranked first of two Federal Deposit Insurance Corporation (FDIC)-insured institutions in Morton County.

PERFORMANCE CONTEXT

- See Appendix B for demographic information.
- The AA has a small population of 3,106, based on the 2015 American Community Survey (ACS) five-year estimate.
- The population in the AA declined by 3.9 percent from 2010 to 2015, while the state of Kansas, as a whole, had minimal growth.

Area	2010 Population	2011-2015 Population	Percentage Change (%)
Morton County, Kansas	3,233	3,106	-3.9
State of Kansas	2,853,118	2,892,987	1.4

Based on U.S. Census Bureau Decennial Census.

- Median family income declined slightly in the AA, while the median family income in the state of Kansas increased during the 2011-2015 period as captured in the U.S. Census Bureau's ACS.

¹ The following demographic data is based on 2010 U.S. Census, 2011-2015 ACS five-year estimate data, and 2016 D&B data. Additional demographic data was also utilized based on June 30, 2017 FDIC Market Share Report.

TABLE 3 MORTON COUNTY MEDIAN FAMILY INCOME CHANGE 2006 – 2015			
Area	2006-2010 Median Family Income (\$)	2011-2015 Median Family Income (\$)	Percentage Change (%)
Morton County, Kansas	55,145	54,732	-0.7
State of Kansas	62,424	66,389	6.4

Based on U.S. Census Bureau Decennial Census and ACS.

- The unemployment rate within the AA is low and in line with the state of Kansas as a whole.
- The AA’s primary industries include agriculture, healthcare and social assistance, and educational services.

TABLE 4 MORTON COUNTY UNEMPLOYMENT RATES (%)					
Area	2013	2014	2015	2016	2017
Morton County, Kansas	3.9	4.0	4.2	3.9	3.7
State of Kansas	5.3	4.5	4.2	4.0	3.6

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

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Net Loan-to-Deposit Ratio

The bank’s NLTD ratio, at 70.7 percent, is reasonable given its size, financial condition, AA credit needs, and comparison to its local competitor FDIC-insured institutions.

TABLE 5 COMPARATIVE NET LOAN-TO-DEPOSIT RATIOS	
Institution	NLTD Ratio (%) 28-Quarter Average
Heartland Tri-State Bank	70.7
Competitors	
Anchor D Bank	75.1
Citizens State Bank	65.6
Johnson State Bank	47.7

Assessment Area Concentration

Overall, a majority of the bank’s loans, by number, are originated inside the AA (62.4 percent), which is similar to the bank’s previous evaluation when it totaled 65.0 percent. A significant majority of the bank’s motor vehicle loans, by both number and dollar amount, are originated

inside the bank's AA. For small farm loans, a slight majority of loans by number and a modest majority of loans by dollar, are originated outside of the AA. This characteristic is considered reasonable in light of context considered in the performance evaluation, including:

- The bank's close geographic proximity to the Oklahoma State border affects the bank's delineation of its AA. To maintain compliance with Regulation B, *Equal Credit Opportunity Act*, the bank does not include the neighboring Oklahoma counties in its AA. Generally, the bank's small farm loans originated outside the AA were made in these counties.
- As small farm borrowing needs tend to have an element of seasonality, there is a potential that the six month loan sampling period used for this assessment, from July 1, 2017 through December 31, 2017, impacted the results derived by the specific loans contained in the sample derived under the procedures.

TABLE 6 LENDING INSIDE AND OUTSIDE THE BANK'S AA								
Bank Loans	Inside				Outside			
	#	\$(000)	#%	\$%	#	\$(000)	#%	\$%
Motor Vehicle Loans	43	582	76.8	77.4	13	170	23.2	22.6
Small Farm Loans	25	1,087	47.2	34.1	28	2,098	52.8	65.9

Distribution by Borrower Income Level and Revenue Size of Farms:

The bank's lending has a reasonable penetration among borrowers of different income levels and farms of different revenue sizes.

Motor Vehicle Loans

The borrower distribution of motor vehicle lending is excellent. By number volume, the level of lending to LMI borrowers significantly exceeded the percentage of LMI households in the AA. By dollar volume, the bank's lending to low-income borrowers was below the demographic; while lending to moderate-income borrowers was comparable to the demographic.

**TABLE 7
DISTRIBUTION OF MOTOR VEHICLE LOANS
BY BORROWER INCOME LEVELS
MORTON COUNTY AA**

Borrower Income Level	Motor Vehicle Loans				% of Households ¹
	#	\$(000)	#%	\$%	
Low	15	69	34.9	11.9	20.4
Moderate	11	76	25.6	13.1	14.8
Middle	10	135	23.3	23.2	24.5
Upper	7	301	16.3	51.8	40.4
Unknown	0	0	0.0	0.0	0.0

¹ The percentage of households by income levels is based on 2015 ACS five-year estimate data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Small Farm Loans

The borrower distribution of small farm lending is reasonable. All of the bank's lending was to farms with gross revenues of \$1MM or less, which is similar to the percentage of farms in the AA.

**TABLE 8
DISTRIBUTION OF SMALL FARM LOANS
BY REVENUE SIZE
MORTON COUNTY AA**

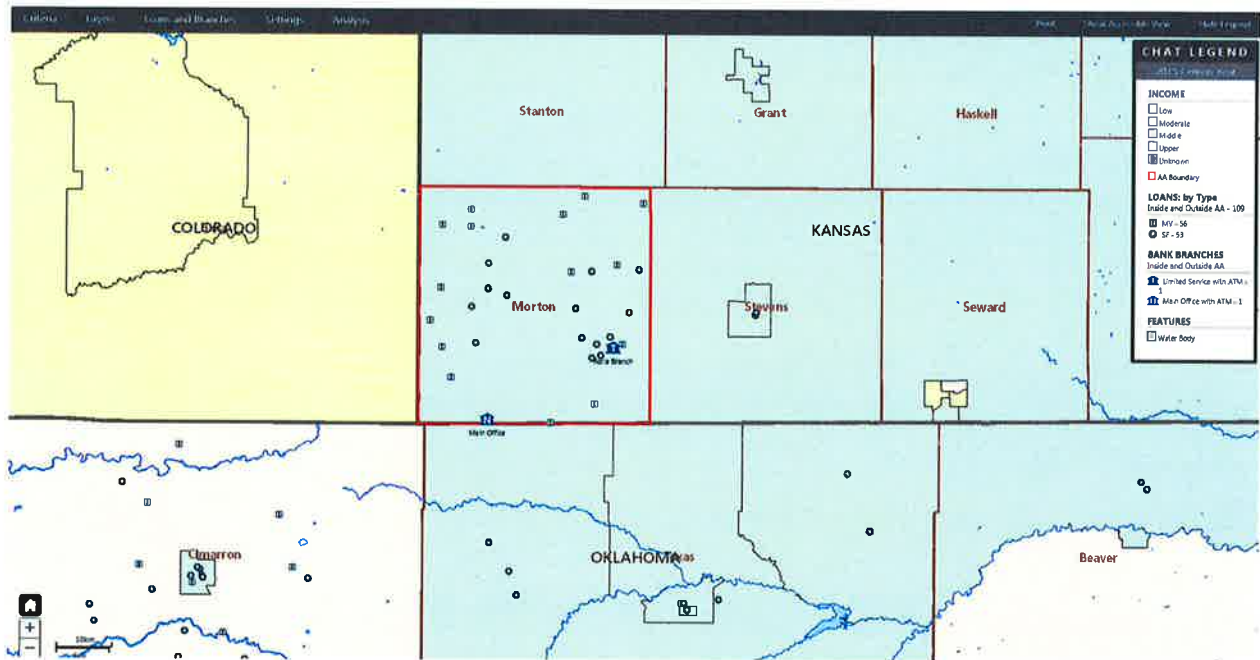
Farm Revenue	Small Farm Loans				% of Farms by Revenue ¹
	#	\$(000)	#%	\$%	
\$1MM or less	25	1,087	100.0	100.0	97.4
Over \$1MM	0	0	0.0	0.0	2.6
Unknown	0	0	0.0	0.0	0.0

¹ The percentage of farms by revenue size is based on 2016 D&B data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

RECORD OF RESPONDING TO COMPLAINTS

Neither the bank nor this Reserve Bank has received any CRA-related complaints since the previous evaluation.

APPENDIX A – MAP OF THE ASSESSMENT AREA



APPENDIX B – DEMOGRAPHIC INFORMATION

TABLE B-1 MORTON 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	155	18.7
Moderate	0	0.0	0	0.0	0	0.0	136	16.4
Middle	1	100.0	828	100.0	67	8.1	253	30.6
Upper	0	0.0	0	0.0	0	0.0	284	34.3
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	1	100.0	828	100.0	67	8.1	828	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	1,458	835	100.0	57.3	354	24.3	269	18.4
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	1,458	835	100.0	57.3	354	24.3	269	18.4
	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	117	100.0	100	100.0	13	100.0	4	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	117	100.0	100	100.0	13	100.0	4	100.0
Percentage of Total Businesses:			85.5		11.1		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	38	100.0	37	100.0	1	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	38	100.0	37	100.0	1	100.0	0	0.0
Percentage of Total Farms:			97.4		2.6		0.0	

Based on 2017 FFIEC's Census tract definitions, 2015 ACS five-year estimate data, and 2016 D&B data.
(NOTE: Total percentages may vary by 0.1 percent due to automated rounding differences.)

APPENDIX C – SCOPE OF EXAMINATION

SCOPE OF EXAMINATION HEARTLAND TRI-STATE BANK			
Products Reviewed	Small farm loans, statistical sample Motor vehicle loans, statistical sample		
Time Period Reviewed	July 1, 2017 through December 31, 2017		
Affiliate(s)	Affiliate Relationship	Products Reviewed	
None	N/A	N/A	
List of Assessment Areas and Type of Examination			
Assessment Area	Type of Examination	Branches Visited	Other Information
Morton County Kansas	Full Scope	None	N/A

APPENDIX D – 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.