

PUBLIC DISCLOSURE

November 8, 2022

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First State Bank
Certificate Number: 5835

105 West Main Street
Norton, Kansas 67654

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Kansas City Regional Office

1100 Walnut Street, Suite 2100
Kansas City, Missouri 64106

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 RATING

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

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The Lending Test is rated Satisfactory.

- The loan-to-deposit ratio is reasonable given the institution's size and financial condition, as well as assessment area credit needs.
- A majority of small farm, small business, and home mortgage loans are located within the bank's assessment areas.
- The assessment areas do not include any low- or moderate-income geographies, and a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.
- The distribution of borrowers reflects a reasonable penetration among individuals of different income levels and farms and businesses of different sizes.
- The institution has not received any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

The Community Development Test is rated Satisfactory.

- The institution demonstrates adequate responsiveness to the community development needs of its assessment areas through community development loans, qualified investments, and community development services. Examiners considered the institution's capacity and the need and availability of opportunities for community development in the assessment areas.

DESCRIPTION OF INSTITUTION

The First State Bank is a full-service community bank headquartered in Norton, Kansas. Norton Bankshares, Inc., a one-bank holding company, owns the institution and has no other lending affiliates. The bank received a “Satisfactory” rating at the previous FDIC performance evaluation dated November 4, 2019, using Interagency Intermediate Small Institution Examination Procedures.

The First State Bank predominantly serves a rural area and operates five office locations – four in northwestern Kansas and one in southcentral Nebraska. The bank has not opened or closed any offices since the prior evaluation.

The bank offers conventional and select government guaranteed loan products (Small Business Association (SBA), Farm Service Agency, and Rural Development) for agricultural, commercial, home mortgage, and consumer loan purposes. Agricultural lending continues to be the primary focus of the bank; however, the bank has seen a rise in commercial lending since the previous evaluation. In addition to its in-house offerings, the bank offers long-term, fixed-rate home mortgage loans through the secondary market, which saw significant increase in activity since the previous evaluation. The bank also originated a large number of loans under the SBA’s Paycheck Protection Program (PPP), which was established in 2020 to provide relief to small businesses during the COVID-19 pandemic. In 2020 and 2021, the bank originated 344 loans for \$15.3 million and 636 loans for \$12.7 million, respectively.

The bank offers a variety of deposit services, including checking, savings, money market accounts, and certificates of deposit. Trust and investment services are also available. Alternative banking services include internet and mobile banking, electronic bill pay, person-to-person transfers, and seven bank-owned ATMs.

According to the June 30, 2022, Reports of Condition and Income (Call Report), the bank’s total assets were \$484 million, including \$221 million in loans and \$239 in securities. The following table illustrates the loan portfolio.

Loan Portfolio Distribution as of 06/30/2022		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	3,290	1.5
Secured by Farmland	62,954	28.5
Secured by 1-4 Family Residential Properties	11,051	5.0
Secured by Multifamily (5 or more) Residential Properties	67	0.0
Secured by Nonfarm Nonresidential Properties	17,116	7.7
Total Real Estate Loans	94,478	42.7
Commercial and Industrial Loans	37,946	17.2
Agricultural Production and Other Loans to Farmers	75,210	34.0
Consumer Loans	12,349	5.6
Obligations of State and Political Subdivisions in the U.S.	-	-
Other Loans	427	0.2
Lease Financing Receivable (net of unearned income)	647	0.3
Less: Unearned Income	-	-
Total Loans	221,057	100.0
<i>Source: Reports of Condition and Income</i>		

In addition to portfolio loans, the bank originates a sizable volume of residential loans that are subsequently sold into the secondary market, and these loans are not reflected in the Call Report. The bank retains servicing rights. Since 2020, the bank originated and sold 147 loans totaling \$21.4 million.

Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet assessment area credit needs.

DESCRIPTION OF ASSESSMENT AREAS

The First State Bank continues to have two assessment areas, one in Kansas and one in Nebraska. Since these assessment areas are in different states, each area received a separate state rating. There are no changes in the assessment areas since the previous evaluation. Refer to the related sections of this evaluation.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior examination dated November 4, 2019 to the current evaluation dated November 8, 2022. Examiners used the Interagency Intermediate Small Institution Examination Procedures to evaluate the bank's CRA performance. Because a full-scope review must be performed on at least one assessment area in each state, examiners conducted full-scope reviews on both of the bank's assessment areas. Performance in the Kansas assessment area received more weight since this area accounts for the majority of the bank's operations and activity.

Activities Reviewed

Examiners reviewed small farm, small business, and home mortgage loans to evaluate the bank's performance. Examiners selected these products based on the bank's business strategy and the number and dollar volume of loans originated during the evaluation period. Since agricultural lending is the institution's primary lending focus, the small farm loan category received the most weight when determining overall conclusions for each criterion.

For all three loan categories reviewed, examiners focused on loans originated in 2021. While the volume of small farm and small business loans increased substantially in 2021 because of the PPP loans, bank management stated the bank's 2021 lending patterns for the location and gross annual revenue of its small farm and small business borrowers was still representative of its overall lending patterns since the previous evaluation. Bank management indicated that home mortgage lending in 2021 was atypically high due to the historically low interest rates.

Origination activity for 2021 showed 442 small farm loans totaling \$54.9 million, 887 small business loans totaling \$44.0 million, and 109 home mortgage loans totaling \$16.2 million. Examiners reviewed all of these loans for the Assessment Area Concentration analysis. For the Borrower Profile analyses, examiners analyzed a random sample of loans originated in 2021 that were extended to borrowers within the Kansas and Nebraska assessment areas. These random samples consisted of 100 small farm loans totaling \$14.8 million; 125 small business loans totaling \$4.5 million; and 60 home mortgage loans totaling \$8.2 million. The 2021 D&B data provided a standard of comparison for small farm and small business loans, and the 2015 American Community Survey (ACS) data provided a standard of comparison for home mortgage loans. Additionally, although both the number and dollar volume of loans are analyzed, examiners emphasize performance by number of loans because it is a better indicator of the number of farms, businesses, and individuals served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

The First State Bank demonstrated reasonable performance under the Lending Test. This conclusion is supported by consistent reasonable performance in each rated area. Information on the bank's overall performance is detailed in this section; refer to subsequent sections of this evaluation for information detailed by assessment area.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's performance was evaluated based on the average quarterly loan-to-deposit ratios since the previous evaluation (11 quarters) in relation to the bank's capacity and lending opportunities available within the assessment areas. Although the bank's loan-to-deposit ratio has trended downward since the prior evaluation, the bank's average ratio remains reasonably comparable to other similarly-situated banks. Examiners selected the similarly-situated banks based on asset size, geographic location, and lending focus. See the following table for details.

Loan-to-Deposit (LTD) Ratio Comparison		
Bank	Total Assets as of 6/30/2022 (\$000s)	Average Net LTD Ratio (%)
The First State Bank, Norton, KS	483,850	57.5
Guaranty State Bank and Trust, Beloit, KS	353,825	80.7
Astra Bank, Scandia, KS	401,075	54.0
<i>Source: Reports of Condition and Income 12/31/2019 – 6/30/2022</i>		

Assessment Area Concentration

A majority of loans, both by number and dollar volume, are to borrowers within the assessment areas. See the following table for details.

Lending Inside and Outside of the Assessment Areas										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Farm	318	71.9	124	28.1	442	41,170	75.0	13,703	25.0	54,873
Small Business	691	77.9	196	22.1	887	31,263	71.1	12,713	28.9	43,976
Home Mortgage	85	78.0	24	22.0	109	11,766	72.5	4,465	27.5	16,231
<i>Source: Bank Data</i>										

Geographic Distribution

The assessment areas do not include any low- or moderate-income geographies, and a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.

Borrower Profile

The distribution of borrowers reflects a reasonable penetration among farms and businesses of different sizes and of individuals of different income levels. Reasonable performance in all three reviewed loan categories for both assessment areas supports this conclusion.

Response to Complaints

The institution has not received any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

COMMUNITY DEVELOPMENT TEST

The First State Bank demonstrated adequate responsiveness to the community development needs of its assessment areas through community development loans, qualified investments, and community development services. Examiners considered the institution's capacity and the need and availability of such opportunities in the assessment areas. The bank's overall performance is consistent with each rated area. As part of determining performance, examiners compared the bank's performance to six other similarly-situated banks in Kansas that were recently evaluated for CRA. Although The Citizens

State Bank’s community development activities generally do not entail a leadership role, noted activities are adequately responsive to assessment area needs.

Community Development Loans

The First State Bank originated 55 community development loans totaling \$79.1 million during the evaluation period. This level of community development lending represents 16.4 percent of total assets and 36.6 percent of net loans as of June 30, 2022. This volume is on the higher end compared to that of several other similar-sized institutions in Kansas and Nebraska, whose ratios of community development loans to total assets range from 4.5 percent to 72.3 percent.

The bank’s community development lending activity reflects adequate responsiveness to the community development needs of its assessment areas. The following two tables show the breakdown of the bank’s community development loans by qualifying category, year, and assessment area.

Community Development Lending by Year										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2020	0	0	1	40	10	14,663	10	11,101	21	25,804
2021	0	0	0	0	9	14,483	10	12,100	19	26,583
YTD 2022	0	0	0	0	7	15,852	8	10,900	15	26,752
Total	0	0	1	40	26	44,998	28	34,101	55	79,139

Source: Bank Data

Community Development Lending by Assessment Area										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Kansas	0	0	1	40	11	14,260	28	34,101	40	48,402
Nebraska	0	0	0	0	15	30,738	0	0	15	30,738
Total	0	0	1	40	26	44,998	28	34,101	55	79,139

Source: Bank Data

The majority of the bank’s community development lending activity stabilizes underserved and distressed census tracts and supports job retention for low- and moderate-income (LMI) individuals by financing local small businesses. Refer to the related sections of this evaluation for details on notable examples of the bank’s community development lending in each assessment area.

Qualified Investments

The First State Bank had 22 investments totaling nearly \$1.6 million. This total includes over \$1.4 million in debt investments and approximately \$173,000 in donations. This overall qualifying investment volume equates to 0.3 percent of total assets and 0.7 percent of total securities as of June 30, 2022. The bank’s volume of qualified investments is in the mid-range among several other

similar-size institutions in Kansas and Nebraska, whose ratios of qualified investments to total assets range from 0.02 percent to 1.9 percent.

The tables that follow show the breakdown of the bank’s qualified investments by category, year, and assessment area.

Qualified Investments by Year										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	0	0	0	0	0	0	8	581	8	581
2020	0	0	0	0	0	0	0	0	0	0
2021	0	0	0	0	0	0	0	0	0	0
YTD 2022	0	0	0	0	0	0	1	830	1	830
Subtotal	0	0	0	0	0	0	9	1,411	9	1,411
Qualified Grants & Donations	0	0	5	2	1	3	7	168	13	173
Total	0	0	5	2	1	3	16	1,579	22	1,584

Source: Bank Data

Qualified Investments by Assessment Area										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Kansas	0	0	5	2	0	0	16	1,579	21	1,581
Nebraska	0	0	0	0	1	3	0	0	1	3
Total	0	0	5	2	1	3	16	1,579	22	1,584

Source: Bank Data

A large number of prior period investments matured since the previous evaluation, resulting in a decline from the \$2.6 million in qualified investments at the previous evaluation. Despite this, The First State Bank’s qualified investment activity reflects adequate responsiveness to the community development needs of its assessment areas. The substantial majority of the bank’s qualified investments are bonds issued to help serve the essential needs of underserved areas. Refer to the related sections of this evaluation for details on notable examples of the bank’s qualified investments in each assessment area.

Community Development Services

Records provided by the bank showed 35 qualifying community development services. These activities are primarily efforts of bank representatives providing their financial expertise serving in key roles for qualifying community organizations. The bank’s level of qualified services is in the lower-range among similarly-situated banks, whose services ranged from 7 to 103. The tables below show the breakdown of the bank’s community development services by category, year, and assessment area.

Community Development Services by Year					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
Partial Year 2019	0	0	1	2	3
2020	1	0	4	6	11
2021	1	0	4	5	10
YTD 2022	1	1	4	5	11
Total	3	1	13	18	35
<i>Source: Bank Data</i>					

Community Development Services by Assessment Area					
Assessment Area	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
Kansas	0	1	6	18	25
Nebraska	3	0	7	0	10
Total	3	1	13	18	35
<i>Source: Bank Data</i>					

Refer to the related sections of this evaluation for details on notable examples of the bank’s community development services in each assessment area.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank’s compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

KANSAS – Full-Scope Review

CRA RATING FOR KANSAS: SATISFACTORY

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

DESCRIPTION OF INSTITUTION’S OPERATIONS IN KANSAS

The Kansas Assessment Area contains four of the bank’s offices - the main office in Norton and branch offices in Plainville, Hill City, and Hoxie. The Kansas Assessment Area is categorized as nonmetropolitan and consists of the contiguous counties of Graham, Norton, Rooks, and Sheridan. There has been no change in the assessment area since the previous evaluation. The following shows demographic and economic information from the 2015 ACS and 2021 D&B data for this assessment area.

Economic and Demographic Data

The Kansas Assessment Area is comprised of seven census tracts (CTs), all of which are middle-income. The area is sparsely populated and consists largely of rural countryside and farmland. All seven census tracts in this area are categorized as underserved, and two of these tracts are designated as distressed due to population loss (both in Graham County). The following table shows select demographic characteristics for the assessment area.

Demographic Information of the Assessment Area						
Assessment Area: Kansas AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	7	0.0	0.0	100.0	0.0	0.0
Population by Geography	15,900	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	8,034	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	5,137	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	1,522	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	1,375	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	1,435	0.0	0.0	100.0	0.0	0.0
Farms by Geography	354	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	4,367	17.6	17.5	23.0	41.9	0.0
Household Distribution by Income Level	6,659	21.5	19.3	17.8	41.4	0.0
Median Family Income Non-MSAs - KS		\$57,229	Median Housing Value			\$72,360
			Median Gross Rent			\$554
			Families Below Poverty Level			7.2%

Source: 2015 ACS and 2021 D&B Data

() The NA category consists of geographies that have not been assigned an income classification.*

According to 2021 D&B data, the service industry represents the largest portion of businesses in the assessment area at 28.7 percent, followed by agriculture at 19.8 percent, and retail trade at 11.6 percent. The data also indicates a notable number of these operations are relatively small, with 73.3 percent of the businesses having four or fewer employees and 85.8 percent operating from one location.

Examiners used Federal Financial Institutions Examination Council (FFIEC) median family income data to analyze home mortgage loans under the Borrower Profile criterion. The following table details the FFIEC’s estimated median family income and respective income categories for nonmetropolitan Kansas in 2021.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2021 (\$64,800)	<\$32,400	\$32,400 to <\$51,840	\$51,840 to <\$77,760	≥\$77,760
<i>Source: FFIEC</i>				

Competition

Competition for financial services is notable for a rural area. According to FDIC Deposit Market Share data as of June 30, 2022, there are 7 banks operating 19 offices in the assessment area. Of these institutions, The First State Bank ranked first with a deposit market share of 33.5 percent.

Community Contact

Examiners typically contact community members or other third parties in the assessment area to help gain insight into the area economy, demographic trends, and business environment. This information not only helps in identifying credit and community development needs and opportunities, but also in determining whether local financial institutions are responsive to those needs.

Discussions with a member of an area community organization indicated the local economy is stable. Agriculture is the primary economic driver followed by manufacturing. The area currently has a number of ongoing community development initiatives, including several programs and funding partners that can provide gap financing and other funds for small business start-ups and expansions. The contact indicated that area financial institutions are generally active in community initiatives and responsive to identified needs.

Credit and Community Development Needs and Opportunities

Examiners identify the credit needs of the assessment area based on information from the community contact, bank management, and demographic and economic data. Based on this information, examiners determined small farm, small business, and home mortgage loans are all primary credit needs. Community development needs include economic development and revitalize and stabilize, as evidenced by the number of small businesses in the assessment area as well as the presence of underserved and distressed geographies.

SCOPE OF EVALUATION - KANSAS

Examiners evaluated the bank’s CRA performance for the State of Kansas through a full-scope review of the Kansas Assessment Area. Refer to the overall Scope of Evaluation for weighting and description of products reviewed.

CONCLUSIONS ON PERFORMANCE CRITERIA IN KANSAS

LENDING TEST

The First State Bank demonstrated reasonable performance under the Lending Test in the Kansas Assessment Area. Borrower Profile performance, detailed below, primarily supports this conclusion.

Geographic Distribution

The assessment area does not include any low- or moderate-income geographies, and a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.

Borrower Profile

The distribution of borrowers within the Kansas Assessment Area reflects a reasonable penetration among farms and businesses of different sizes and individuals with different income levels. This conclusion is supported by reasonable performance in all three loan categories reviewed. For this criterion, examiners focused on the percentage of small farm and small business loans to operations with gross annual revenues of \$1 million or less, and the percentage of home mortgage loans to low- and moderate-income borrowers.

Small Farm Loans

The distribution of small farm loans in the assessment area is reasonable among farms with gross annual revenues of \$1 million or less. The below table shows that lending to operations with annual revenues of \$1 million or less lags comparable data. However, the 2017 Agricultural Census revealed 53.3 percent of farms had no interest expenses, and 28.0 percent of farms had gross annual revenues of \$2,500 or less. This information indicates a sizeable percentage of farms in the assessment area had little or no need for credit. See the following table for details.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	98.9	49	81.7	4,051	61.0
>\$1,000,000	0.3	11	18.3	2,591	39.0
Revenue Not Available	0.8	0	0.0	0	0.0
Total	100.0	60	100.0	6,642	100.0

Source: 2021 D&B Data, Bank Data.

Small Business Loans

The borrower distribution for small farm loans is reasonable since the bank's level of lending to businesses with gross annual revenues of \$1 million or less is proportionate to the percentage of assessment area farms in this revenue category. The following table shows details supporting this analysis.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	77.2	57	87.7	928	66.2
>\$1,000,000	5.2	8	12.3	473	33.8
Revenue Not Available	17.6	0	0.0	0	0.0
Total	100.0	65	100.0	1,401	100.0

Source: 2021 D&B Data, Bank Data.

Home Mortgage Loans

The borrower distribution for home mortgage loans is reasonable. The bank's lending to low-income borrowers is somewhat lower than the corresponding demographic data; however, a considerable number of these low-income families may be unlikely to qualify for a home loan in the area, particularly since 7.2 percent of the population is living below the poverty level. The bank's lending to moderate-income families is comparable to the corresponding demographic data. See the following table for details.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	17.6	2	6.7	53	1.5
Moderate	17.5	4	13.3	185	5.3
Middle	23.0	8	26.7	797	22.8
Upper	41.9	16	53.3	2,464	70.4
Total	100.0	30	100.0	3,499	100.0

Source: 2015 ACS; Bank Data

COMMUNITY DEVELOPMENT TEST

The First State Bank demonstrated adequate responsiveness to the community development needs of the Kansas Assessment Area through community development loans, qualified investments, and community development services.

Community Development Loans

The bank originated 40 community development loans totaling \$48.4 million in its Kansas Assessment Area. The following are notable examples. Over \$33 million were agricultural

operating loans that helped stabilize the assessment area's distressed census tracts by helping to retain businesses and residents in those areas. Other notable activities include a \$2 million PPP loan to a utility company in an underserved census tract, which helped maintain business operations during the COVID-19 pandemic.

Qualified Investments

The bank had 21 qualifying investments totaling nearly \$1.6 million in its Kansas assessment area, almost all of which supports the revitalization/stabilization of the area's underserved and distressed census tracts. The following are notable examples.

- The bank holds over \$1.4 million in debt securities that were issued by entities in underserved areas to support local schools, hospitals, housing projects, and infrastructural roads and water projects, all of which help to serve essential needs.
- The institution provided over \$160,000 in donations to organizations that provide essential health care services in underserved areas.

Community Development Services

The bank provided 25 community development services in its Kansas assessment area. The following are notable examples.

- Several bank representatives have provided their financial expertise serving on loan committees of area economic development programs that provide financing for local business start-ups and other small businesses.
- One bank representative serves on the loan review committee for a regional organization that exclusively packages, closes, and services Small Business Administration 504 loans in a broader regional area that includes the bank's assessment area.

NEBRASKA – Full Scope Review

CRA RATING FOR NEBRASKA: SATISFACTORY

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

DESCRIPTION OF INSTITUTION’S OPERATIONS IN NEBRASKA

The Nebraska Assessment Area is categorized as nonmetropolitan and consists solely of Phelps County. The bank’s only operations in this assessment area are in the town of Holdrege where the bank maintains a branch office. The following shows demographic and economic information from the 2015 ACS Census and 2021 D&B data for this assessment area.

Economic and Demographic Data

The Nebraska Assessment Area consists of three census tracts, two middle-income and one upper-income tract. The two middle-income tracts are relatively small and encompass the Holdrege vicinity while the much larger upper-income tract covers the rest of Phelps County. The following table shows select demographic characteristics for this assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	3	0.0	0.0	66.7	33.3	0.0
Population by Geography	9,216	0.0	0.0	64.0	36.0	0.0
Housing Units by Geography	4,197	0.0	0.0	67.0	33.0	0.0
Owner-Occupied Units by Geography	2,684	0.0	0.0	64.1	35.9	0.0
Occupied Rental Units by Geography	1,044	0.0	0.0	69.8	30.2	0.0
Vacant Units by Geography	469	0.0	0.0	77.8	22.2	0.0
Businesses by Geography	892	0.0	0.0	71.1	28.9	0.0
Farms by Geography	260	0.0	0.0	26.2	73.8	0.0
Family Distribution by Income Level	2,482	15.1	17.9	23.9	43.1	0.0
Household Distribution by Income Level	3,728	20.9	18.5	18.6	42.0	0.0
Median Family Income Non-MSAs - NE		\$61,457	Median Housing Value			\$111,262
			Median Gross Rent			\$616
			Families Below Poverty Level			3.8%
<i>Source: 2015 ACS and 2021 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

According to 2021 D&B data, the service industry represents the largest portion of businesses in the assessment area at 30.0 percent, followed by agriculture at 22.6 percent, and retail trade at 10.2 percent. The data also indicates a notable number of these operations are relatively small, with 72.1 percent of the businesses having four or fewer employees and 88.3 percent operating from one location.

Examiners used Federal Financial Institutions Examination Council (FFIEC) median family income data to analyze home mortgage loans under the Borrower Profile criterion. The following table details the FFIEC’s estimated median family income and respective income categories for nonmetropolitan Nebraska in 2021.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2021 (\$70,000)	<\$35,000	\$35,000 to <\$56,000	\$56,000 to <\$84,000	≥\$84,000
<i>Source: FFIEC</i>				

Competition

Competition for financial services is moderate. According to FDIC Deposit Market Share data as of June 30, 2022, there are seven banks operating eight offices in the assessment area. Of these institutions, The First State Bank ranked first with a deposit market share of 26.7 percent.

Credit and Community Development Needs and Opportunities

Based on information from bank management and noted D&B demographic data, examiners identified small farm and small business loans as primary credit needs in this assessment area. Community development opportunities are limited, as Phelps County is largely upper income, and there are no census tracts that are LMI, distressed, or underserved. Community development opportunities may include, to a limited extent, economic development and affordable housing.

SCOPE OF EVALUATION – NEBRASKA

Examiners evaluated the bank’s CRA performance for the State of Nebraska through a full-scope review of the Nebraska Assessment Area. Refer to the overall Scope of Evaluation for product weighting and rationale.

CONCLUSIONS ON PERFORMANCE CRITERIA IN NEBRASKA

LENDING TEST

The First State Bank demonstrated reasonable performance under the Lending Test in the Nebraska Assessment Area. Borrower Profile performance, detailed below, primarily supports this conclusion.

Geographic Distribution

The assessment area does not include any low- or moderate-income geographies, and a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.

Borrower Profile

The distribution of borrowers within the Nebraska Assessment Area reflects a reasonable penetration among farms and businesses of different sizes and individuals with different income levels. This conclusion is supported by reasonable performance in all three loan categories reviewed. For this criterion, examiners focused on the percentage of small farm and small business loans to operations with gross annual revenues of \$1 million or less, and the percentage of home mortgage loans to low- and moderate-income borrowers.

Small Farm Loans

The distribution of small farm loans in the assessment area is reasonable among farms with gross annual revenues of \$1 million or less. The below table shows that lending to operations with annual revenues of \$1 million or less falls below comparable data. However, the sample included several instances of multiple loans to the same borrower, thus somewhat skewing the results. Adjusting the analysis to focus on the number of borrowers rather than the number of loans showed a somewhat more proportionate comparison to the area demographic data, with approximately 77.0 percent of borrowers reporting gross revenues of \$1 million or less. Additionally, the 2017 Agricultural Census revealed 30.2 percent of farms had no interest expenses, and 8.0 percent of farms had gross annual revenues of \$2,500 or less. This information indicates a sizeable percentage of farms in the assessment area had little or no need for credit. See the following table for details.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	94.2	29	72.5	4,732	57.3
>\$1,000,000	5.0	11	27.5	3,532	42.7
Revenue Not Available	0.8	0	0.0	0	0.0
Total	100.0	40	100.0	8,264	100.0
<i>Source: 2021 D&B Data, Bank Data.</i>					

Small Business Loans

The distribution of small business loans in the assessment area is reasonable. The percentage of loans in the smaller revenue category exceeds the percentage of businesses in that revenue category. See the following table for details.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	79.8	52	86.7	1,313	41.7
>\$1,000,000	4.4	8	13.3	1,834	58.3
Revenue Not Available	15.8	0	0.0	0	0.0
Total	100.0	60	100.0	3,147	100.0
<i>Source: 2021 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%</i>					

Home Mortgage Loans

The borrower distribution for home mortgage loans is reasonable since the percentage of loans made to low- and moderate-income individuals is comparable to demographic data. See the following table for details.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	15.1	3	10.0	189	4.0
Moderate	17.9	5	16.7	705	15.0
Middle	23.9	9	30.0	1,639	34.8
Upper	43.1	13	43.3	2,170	46.1
Total	100.0	30	100.0	4,703	100.0
<i>Source: 2015 ACS; Bank Data Due to rounding, totals may not equal 100.0%</i>					

COMMUNITY DEVELOPMENT TEST

The First State Bank demonstrated adequate responsiveness to the community development needs of its Nebraska Assessment Area through community development loans, qualified investments, and community development services.

Community Development Loans

The bank originated 15 community development loans totaling \$30.7 million in its Nebraska Assessment Area. All of these loans promoted economic development by providing needed financing to several small businesses that provide permanent jobs primarily to LMI individuals.

Qualified Investments

The bank had only one qualifying investment in its Nebraska Assessment Area. This investment was a \$3,000 donation to an organization that helps sustain jobs for LMI individuals in the area by providing assistance programs for local small business development.

Community Development Services

The First State Bank provided 10 community development services in its Nebraska Assessment Area. The following are notable examples.

- One bank representative serves as a director for an area housing authority that works to address the affordable housing needs of the area's elderly, disabled, and LMI population. The authority's services include working with the Housing and Urban Development's Section 8 Housing Voucher program.
- Two bank representatives have provided their financial expertise serving as board or committee members of an area organization that helps sustain jobs for LMI individuals in the area by using tax increment financing to support local small business development.

APPENDICES

INTERMEDIATE SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

Community Development Test

The Community Development Test considers the following criteria:

- 1) The number and amount of community development loans;
- 2) The number and amount of qualified investments;
- 3) The extent to which the bank provides community development services; and
- 4) The bank's responsiveness through such activities to community development lending, investment, and service needs.

SUMMARY OF RATINGS FOR RATED AREAS

Rated Area	Lending Test	Community Development Test	Rating
Kansas	Satisfactory	Satisfactory	Satisfactory
Nebraska	Satisfactory	Satisfactory	Satisfactory

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.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Community Development: For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms; or
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Bank CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Community Development Loan: A loan that:

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose bank:
 - (i) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
 - (ii) Benefits the bank's assessment area(s) or a broader statewide or regional area including the bank's assessment area(s).

Community Development Service: A service that:

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the bank's retail banking services under § 345.24(d).

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.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Distressed Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

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. Other family 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).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g., 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 applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited-scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area.

Performance under applicable tests is often analyzed using only quantitative factors (e.g., geographic distribution, borrower profile, 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.

Low Income Housing Tax Credit: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

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.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

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 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 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as **non-MSA**): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

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 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.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Investment Company (SBIC): SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

Small Business Loan: 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 Farm Loan: 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, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Underserved Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area’s population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

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

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.