

# **PUBLIC DISCLOSURE**

April 6, 2020

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First Heritage Bank  
Certificate Number: 4636

620 Fourth Street  
Centralia, Kansas 66415

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 areas, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and the assessment areas' credit needs.
- A majority of the small business, small farm, and home mortgage loans reviewed were originated in the assessment areas.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- The distribution of borrowers reflects reasonable penetration among businesses and farms of different revenue sizes and individuals of different income levels in the assessment areas.
- The institution did not receive any Community Reinvestment Act (CRA)-related complaints since the prior evaluation. Therefore, this factor did not affect the Lending Test rating.

## DESCRIPTION OF INSTITUTION

First Heritage Bank is headquartered in Centralia, Kansas and is wholly owned by First Centralia Bancshares, Inc., Centralia, Kansas, a one-bank holding company and the bank's only affiliate. The bank operates five full-service branches in Nemaha, Marshall, and Johnson counties in the State of Kansas. On April 1, 2015, the bank opened a new branch in Overland Park, Kansas and added Johnson County, Kansas and Jackson County, Missouri to their assessment area. The new branch is located in Johnson County, Kansas in an upper-income census tract. There have been no mergers or acquisitions since the prior evaluation. The institution received an Outstanding rating at its previous FDIC Performance Evaluation, dated April 21, 2014, based on Interagency Small Institution Examination Procedures.

First Heritage Bank offers traditional loan products, including commercial, home mortgage, agricultural, and consumer loans, with the primary business focus being commercial loans. The institution provides deposit services, including checking, savings, money market deposit accounts, certificates of deposit, and individual retirement accounts. Alternative banking services include internet and mobile banking, and bank-owned ATMs. The ATMs are located at the Centralia, Corning, and Seneca branches, which are all located in middle-income census tracts.

According to the December 31, 2019, Reports of Condition and Income, the institution reported total assets of \$175 million, total loans of \$115 million, and total deposits of \$152 million. The following table shows the distribution for each loan category by dollar volume.

<b>Loan Portfolio Distribution as of December 31, 2019</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	5,202	4.5
Secured by Farmland	12,521	10.9
Secured by 1-4 Family Residential Properties	16,297	14.1
Secured by Multi-family (5 or more) Residential Properties	0	0.0
Secured by Non-farm Non-Residential Properties	14,688	12.7
<b>Total Real Estate Loans</b>	<b>48,708</b>	<b>42.2</b>
Commercial and Industrial Loans	36,654	31.8
Agricultural Production and Other Loans to Farmers	27,964	24.3
Consumer	1,519	1.3
Obligations of States and Political Subdivisions in the United States	283	0.2
Other Loans	105	0.1
Lease Financing Receivables (net of unearned income)	50	0.0
Less: Unearned Income	0	0.0
<b>Total Loans</b>	<b>115,283</b>	<b>100.0</b>
<i>Source: Reports of Condition and Income. Due to rounding, totals may not equal 100.0.</i>		

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

## **DESCRIPTION OF ASSESSMENT AREAS**

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. As stated previously, the assessment area has changed since the prior evaluation. First Heritage Bank delineated two noncontiguous assessment areas to serve. The Nonmetropolitan Assessment Area consists of Nemaha County and one census tract in Marshall County in the State of Kansas. The Kansas City Assessment Area is comprised of Johnson County, Kansas and Jackson County, Missouri in the Kansas City, MO-KS Metropolitan Statistical Area (Kansas City MSA). Refer to the individual discussions of the assessment areas for more details including demographic and economic information.

## **SCOPE OF EVALUATION**

### **General Information**

This evaluation covers the period from the prior evaluation dated April 21, 2014, to the current evaluation dated April 6, 2020. Examiners used the Interagency Small Institution Examination Procedures to evaluate First Heritage Bank's CRA performance. These procedures evaluate an institution's performance according to the Lending Test criteria as detailed in the appendices. This evaluation does not include any lending activity performed by affiliates.

Both assessment areas were reviewed using full-scope review procedures. The factors considered when deciding to conduct full-scope reviews included the following: branching structure, deposit volume, loan volume, presence of other financial institutions, scope of review performed at the

previous CRA evaluations, and the bank’s prior CRA performance. The following table illustrates the assessment area breakdown of loans, deposits, and branches.

Assessment Area Breakdown of Loans, Deposits, and Branches						
Assessment Area	Loans		Deposits		Branches	
	\$(000s)	%	\$(000s)	%	#	%
Nonmetropolitan	26,774	60.7	119,065	87.4	4	80.0
Kansas City	17,300	39.3	17,195	12.6	1	20.0
<b>Total</b>	<b>44,074</b>	<b>100.0</b>	<b>136,260</b>	<b>100.0</b>	<b>5</b>	<b>100.0</b>

*Source: Bank Data (2019); FDIC Summary of Deposits (06/30/2019)*

The Nonmetropolitan Assessment Area will receive greater weight in this evaluation, as the bank has a majority of its loans (60.7 percent), deposits (87.4 percent), and branches (80.0 percent) in the assessment area.

**Activities Reviewed**

First Heritage Bank’s major product lines are commercial, agricultural, and home mortgage loans. This conclusion considered the bank’s business strategy and the number and dollar volume of loans originated during the evaluation period. First Heritage Bank’s lending focus and product mix remained consistent throughout the evaluation period. The Reports of Condition and Income as of December 31, 2019, supports this conclusion with the composition of commercial (44.5 percent), agricultural (35.2 percent), and residential real estate (14.1 percent) lending. Additionally, the bank offers guaranteed loans through the Small Business Administration, Farm Service Agency, and Farmer Mac programs. In 2019, the bank sold 19 loans totaling \$9.3 million to the Farmer Mac program.

Examiners reviewed small business, small farm, and home mortgage loan products in the Nonmetropolitan Assessment Area. Due to the primary focus of the Johnson County branch, examiners reviewed small business loans in the Kansas City Assessment Area. Small business lending received greater weight in this evaluation, as commercial lending represents the largest portion of the loan portfolio for both assessment areas.

For the Nonmetropolitan Assessment Area, examiners conducted the small business and small farm loan analysis using the full calendar year of 2019, as bank management indicated this was representative of the lending in the evaluation period. In 2019, the bank originated 24 small business loans totaling \$1.4 million and 106 small farm loans totaling \$14.6 million within the assessment area. Examiners reviewed the entire universe of small business loans and a sample of 41 small farm loans totaling \$6.0 million for the Borrower Profile criterion. The Geographic Distribution criterion was not evaluated for this assessment area, as there were no low- or moderate-income tracts. The 2019 D&B data provided a standard of comparison for the small business and small farm loans reviewed.

For the Kansas City Assessment Area, examiners conducted the small business loan analysis using the full calendar years of 2017, 2018, and 2019. Examiners expanded the review to 2017 and 2018 because the bank’s opening of a new branch and lending in a new assessment area resulted in limited lending volume and inconsistent lending during the evaluation period. The entire universe

of small business loans for 2017, 2018, and 2019 years were reviewed for the Geographic Distribution and Borrower Profile criteria. In 2017, the bank originated 11 small business loans totaling \$4.4 million. In 2018, the bank originated 14 small business loans totaling \$3.7 million. In 2019, the bank originated 12 small business loans totaling \$2.7 million. The 2017, 2018, and 2019 D&B data provided a standard of comparison for the small business loans reviewed.

This evaluation considered all home mortgage loans reported on the bank’s 2017, 2018 and 2019 Home Mortgage Disclosure Act (HMDA) Loan Application Registers (LARs). In 2017, the bank reported 55 loans totaling \$3.5 million. In 2018, the bank reported 53 loans totaling \$8.0 million. For 2019, the bank reported 61 loans totaling \$7.7 million. The 2017 and 2018 HMDA aggregate and 2015 American Community Survey (ACS) data provided a standard of comparison for the home mortgage loans reviewed.

Examiners evaluated lending activity based on both the number and dollar volume of loans for the Assessment Area Concentration analysis. The Geographic Distribution and Borrower Profile analysis was evaluated primarily based on the number of loans, as the number of loans is a better indicator of the number of businesses, farms, and individuals served. Additionally, as requested by bank management, examiners reviewed the bank’s performance in providing qualified investments and services that meet the definition of community development since the previous evaluation.

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

### **LENDING TEST**

Overall, First Heritage Bank demonstrated satisfactory performance under the Lending Test. Performance under the Loan-to-Deposit Ratio, Assessment Area Concentration, Geographic Distribution, and Borrower Profile criteria supports this conclusion. Refer to subsequent sections of this evaluation for detailed information by assessment area.

#### **Loan-to-Deposit Ratio**

The average net loan-to-deposit ratio is reasonable given the institution’s size, financial condition, and credit needs of its assessment areas. The bank’s loan-to-deposit ratio, calculated from Reports of Condition and Income data, averaged 71.1 percent over the past 23 calendar quarters from June 30, 2014, to December 31, 2019. The ratio consistently increased throughout the evaluation period and does not include the loans sold to the secondary market. Examiners selected the similarly situated banks, used for comparison in the following table, based on asset size, geographic location, and lending focus.

<b>Loan-to-Deposit Ratio Comparison</b>		
<b>Bank</b>	<b>Total Assets as of 12/31/2019 (\$000s)</b>	<b>Average Net LTD Ratio (%)</b>
<i>First Heritage Bank, Centralia, Kansas</i>	<i>175,002</i>	<i>71.1</i>
First National Bank in Frankfort, Frankfort, Kansas	48,325	53.2
Stanley Bank, Overland Park, Kansas	120,893	81.9
<i>Source: Reports of Condition and Income 06/30/14 through 12/31/19.</i>		

### Assessment Area Concentration

Overall, the bank made a majority of small business, small farm, and home mortgage loans, by number and dollar volume, within its assessment areas.

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		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2017	44	80.0	11	20.0	55	2,895	82.3	623	17.7	3,518
2018	40	75.5	13	24.5	53	5,805	72.5	2,203	27.5	8,008
2019	39	63.9	22	36.1	61	4,053	53.0	3,597	47.0	7,650
<b>Subtotal</b>	<b>123</b>	<b>72.8</b>	<b>46</b>	<b>27.2</b>	<b>169</b>	<b>12,753</b>	<b>66.5</b>	<b>6,423</b>	<b>33.5</b>	<b>19,176</b>
Small Business										
2017	30	56.6	23	43.4	53	5,505	50.6	5,372	49.4	10,877
2018	34	66.7	17	33.3	51	5,660	67.1	2,779	32.9	8,439
2019	36	69.2	16	30.8	52	4,128	68.7	1,880	31.3	6,008
<b>Subtotal</b>	<b>100</b>	<b>64.1</b>	<b>56</b>	<b>35.9</b>	<b>156</b>	<b>15,293</b>	<b>60.4</b>	<b>10,031</b>	<b>39.6</b>	<b>25,324</b>
Small Farm										
2019	84	79.2	22	20.8	106	10,086	69.0	4,540	31.0	14,626

*Source: Bank Data (2017-2019), HMDA Data (2017-2019).*

### Geographic Distribution

Overall, the geographic distribution of loans reflects reasonable dispersion throughout the assessment areas. The bank's performance in the Kansas City Assessment Area supported this conclusion. Examiners did not evaluate the Nonmetropolitan Assessment Area under this criterion because the assessment area does not include any low- and moderate-income geographies and a review would not have resulted in meaningful conclusions.

### Borrower Profile

Overall, the distribution of borrowers reflects reasonable penetration among businesses and farms of different revenue sizes and individuals of different income levels in the assessment areas. The bank's performance in the Nonmetropolitan Assessment Area supported this rating. While the bank exhibited poor performance with regard to small business lending in the Kansas City Assessment Area, this area received less weight in the overall analysis.

### Response to Complaints

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

## **QUALIFIED INVESTMENTS AND SERVICES**

Examiners reviewed the bank's performance in providing qualified investments and services that meet the definition of community development. First Heritage Bank made four qualified investments totaling \$350,825. Additionally, bank employees provided four community development services to various community development-related organizations within the assessment area during the evaluation period. The following are notable examples of the bank's qualified investment activities and community development services within the Nonmetropolitan Assessment Area.

- **Qualified Investments:**
  - The bank invested \$115,000 into a downtown three-bedroom apartment that is rented to a low- and moderate-income family with monthly rents below fair market rents.
  - The bank made \$625 in donations to a local organization that targets low- and moderate-income disabled individuals within the community.
- **Community Development Services:**
  - Two bank employees served as Board members for an organization that provides affordable housing for low- and moderate-income individuals aged over 62 and/or disabled.
  - A bank employee met with a local teacher and low- and moderate-income students to discuss and provide financial education on checking accounts, savings accounts, and other banking related activities.

## **DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution's overall CRA rating.

## NONMETROPOLITAN ASSESSMENT AREA

### DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE NONMETROPOLITAN ASSESSMENT AREA

The Nonmetropolitan Assessment Area includes the entirety of Nemaha County and one census tract of Marshall County in Kansas. Based on the 2015 ACS census data, the four census tracts consist of three middle- and one upper-income census tracts. The bank operates four locations in this assessment area; the main office located in Centralia and three other branches in Corning, Seneca, and Vermillion all operating in middle-income census tracts.

#### **Economic and Demographic Data**

The following table illustrates the demographics for the assessment area.

<b>Demographic Information for the Nonmetropolitan Assessment Area</b>					
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>
Geographies (Census Tracts)	4	0.0	0.0	75.0	25.0
Population by Geography	11,957	0.0	0.0	70.6	29.4
Housing Units by Geography	5,496	0.0	0.0	71.6	28.4
Owner-Occupied Units by Geography	3,907	0.0	0.0	74.1	25.9
Occupied Rental Units by Geography	1,123	0.0	0.0	63.1	36.9
Vacant Units by Geography	466	0.0	0.0	70.8	29.2
Businesses by Geography	936	0.0	0.0	75.3	24.7
Farms by Geography	324	0.0	0.0	84.6	15.4
Family Distribution by Income Level	3,338	17.2	16.2	20.5	46.1
Household Distribution by Income Level	5,030	20.7	16.7	18.1	44.6
Median Family Income for Nonmetropolitan KS	\$57,229	Median Housing Value			\$104,784
Families Below Poverty Level	8.9%	Median Gross Rent			\$522
<i>Source: 2015 ACS Census; 2019 D&amp;B Data. Due to rounding, totals may not equal 100.0.</i>					

Service industries represent the largest portion of businesses at 30.6 percent; followed by agriculture, forestry & fishing (26.6 percent); and retail trade (11.2 percent). The major employers for the assessment area include Koch & Company, Mac Process, and The Nemaha County Cooperative Association.

The FFIEC-updated median family income levels are used to analyze home mortgage loans under the Borrower Profile criterion. The low-, moderate-, middle- and upper-income categories are presented in the following table. These categories are based on the FFIEC-updated median family income of \$60,300 for 2017, \$61,100 for 2018, and \$62,400 for 2019.

<b>Median Family Income Ranges for Nonmetropolitan Kansas</b>				
<b>Median Family Incomes</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
2017 (\$60,300)	<\$30,150	\$30,150 to <\$48,240	\$48,240 to <\$72,360	≥\$72,360
2018 (\$61,100)	<\$30,550	\$30,550 to <\$48,880	\$48,880 to <\$73,320	≥\$73,320
2019 (\$62,400)	<\$31,200	\$31,200 to <\$49,920	\$49,920 to <\$74,880	≥\$74,880
<i>Source: FFIEC</i>				

### **Competition**

According to the FDIC Deposit Market Share data, as of June 30, 2019, there are 13 financial institutions operating 119 locations in the assessment area. First Heritage Bank ranked fourth with 8.9 percent of the deposit market share.

There is competition for small farm and small business loans among banks, credit unions, and non-depository mortgage lenders in the assessment area. In 2018, peer data indicates 27 lenders reported a total of 274 small business loans and 13 lenders reported a total of 131 small farm loans. Although the bank does not report small business or small farm data, this information provides insight regarding competition in the assessment area.

There is also competition for home mortgage loans among banks, credit unions, and non-depository mortgage lenders in the assessment area. In 2018, the aggregate peer mortgage data indicates 52 lenders reported a total of 267 home mortgage loan originations and purchases in the assessment area. First Heritage Bank ranked third with a market share of 15.0 percent.

### **Credit Needs**

Based on discussions with bank management and demographic information, the assessment area's primary credit needs are small business and small farm related credit.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN NONMETROPOLITAN ASSESSMENT AREA**

### **LENDING TEST**

First Heritage Bank demonstrated satisfactory performance under the Lending Test in the Nonmetropolitan Assessment Area. The bank's performance under the Borrower Profile criterion supports this conclusion.

### **Geographic Distribution**

The Nonmetropolitan Assessment Area does not include any low- and 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 reasonable penetration among businesses and farms of different revenue sizes and individuals of different income levels in the Nonmetropolitan Assessment Area.

### ***Small Business Loans***

The distribution of borrowers reflects a reasonable penetration among businesses with gross annual revenues of \$1 million or less. The following table indicates that the bank's performance is comparable to 2019 D&B data.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<=\$1,000,000	77.0	19	79.2	1,109	79.8
>1,000,000	7.3	5	20.8	280	20.2
Revenue Not Available	15.7	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>24</b>	<b>100.0</b>	<b>1,389</b>	<b>100.0</b>

*Source: D&B Data (2019); Bank Data (2019)*

### ***Small Farm Loans***

The distribution of borrowers reflects a reasonable penetration among small farms with gross annual revenues of \$1 million or less. The following table indicates the bank's performance is comparable to demographic data.

<b>Distribution of Small Farm Loans by Gross Annual Revenue Category</b>					
<b>Gross Revenue Level</b>	<b>% of Farms</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<=\$1,000,000	98.5	38	92.7	4,572	76.3
>1,000,000	1.5	3	7.3	1,420	23.7
<b>Total</b>	<b>100.0</b>	<b>41</b>	<b>100.0</b>	<b>5,992</b>	<b>100.0</b>

*Source: D&B Data (2019); Bank Data (2019)*

### ***Home Mortgage Loans***

The distribution of borrowers reflects reasonable penetration among individuals of different income levels, including low- and moderate-income borrowers. The following table indicates that while the bank's performance is below 2015 ACS data, it exceeds HMDA aggregate data with regards to low-income borrowers, and exceeds both 2015 ACS and HMDA aggregate data with regards to moderate-income borrowers. The presentation of multiple years demonstrates the bank's consistent lending to low- and moderate-income borrowers.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2017	17.2	4.4	2	5.0	31	1.3
2018	17.2	4.6	2	5.6	138	4.3
2019	17.2	--	3	7.7	102	2.5
Moderate						
2017	16.2	17.9	9	22.5	467	19.3
2018	16.2	23.7	9	25.0	531	16.7
2019	16.2	--	7	17.9	509	12.6
Middle						
2017	20.5	23.5	7	17.5	426	17.6
2018	20.5	21.1	5	13.9	221	7.0
2019	20.5	--	7	17.9	342	8.4
Upper						
2017	46.1	43.4	22	55.0	1,499	61.8
2018	46.1	41.2	15	41.7	1,985	62.4
2019	46.1	--	22	56.4	3,100	76.5
Not Available						
2017	0.0	10.8	0	0.0	0	0.0
2018	0.0	9.3	5	13.9	304	9.6
2019	0.0	--	0	0.0	0	0.0
<b>Totals</b>						
<b>2017</b>	<b>100.0</b>	<b>100.0</b>	<b>40</b>	<b>100.0</b>	<b>2,423</b>	<b>100.0</b>
<b>2018</b>	<b>100.0</b>	<b>100.0</b>	<b>36</b>	<b>100.0</b>	<b>3,179</b>	<b>100.0</b>
<b>2019</b>	<b>100.0</b>	<b>--</b>	<b>39</b>	<b>100.0</b>	<b>4,053</b>	<b>100.0</b>
Source: 2015 ACS Census; Bank Data (2017-2019); HMDA Data (2017-2019); Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0.						

## KANSAS CITY ASSESSMENT AREA

### DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE KANSAS CITY ASSESSMENT AREA

The Kansas City Assessment Area includes the entirety of Johnson and Jackson counties, all of which are part of the Kansas City MSA. Johnson County is located in the State of Kansas and Jackson County is located in the State of Missouri. Based on 2015 ACS data, census tract designations include 51 low-, 66 moderate-, 96 middle-, 106 upper-income, and 10 without income designations. The bank operates one branch in Johnson County, located in an upper-income census tract. As stated previously, this assessment area is new since the prior evaluation.

#### **Economic and Demographic Data**

The following table illustrates the demographics for the assessment area.

<b>Demographic Information of the Kansas City Assessment Area</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	329	15.5	20.1	29.2	32.2	3.0
Population by Geography	1,247,719	9.9	19.9	32.1	37.8	0.3
Housing Units by Geography	545,031	12.0	21.1	32.7	33.6	0.6
Owner-Occupied Units by Geography	315,517	6.2	16.1	33.3	44.2	0.2
Occupied Rental Units by Geography	178,703	17.3	28.2	33.6	20.0	0.9
Vacant Units by Geography	50,811	30.0	27.3	25.2	15.3	2.1
Businesses by Geography	105,156	7.5	16.4	30.9	43.2	2.0
Farms by Geography	2,434	6.2	15.3	34.2	44.0	0.3
Family Distribution by Income Level	312,268	20.4	16.6	19.5	43.4	0.0
Household Distribution by Income Level	494,220	23.5	16.2	17.1	43.1	0.0
Median Family Income Kansas City MSA	\$72,623	Median Housing Value				\$172,565
Families Below Poverty Level	8.9%	Median Gross Rent				\$873

*Source: 2015 ACS Census; 2019 D&B Data. Due to rounding, totals may not equal 100.0. (\*) The NA category consists of geographies that have not been assigned an income classification.*

Service industries represent the largest portion of businesses at 44.5 percent, followed by non-classifiable establishments (14.0 percent), and retail trade (11.4 percent). The major employers in Johnson and Jackson counties include Sprint, Garmin, and Black and Veatch.

#### **Competition**

According to the FDIC Deposit Market Share data as of June 30, 2019, there are 123 financial institutions operating 18,891 locations in the Kansas City MSA. First Heritage Bank ranked 109<sup>th</sup> with 0.03 percent of the deposit market share.

There is competition for small business loans among banks, credit unions, and non-depository mortgage lenders in the assessment area. The 2018 peer small business data reports 165 lenders reported a total of 26,919 small business loan originations and purchases in the assessment area. Although the bank does not report small business data, this information provides insight regarding competition in the assessment area.

### **Community Contact**

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit opportunities are available.

### ***Johnson County***

Examiners reviewed a recent interview with an Economic Development Specialist that serves the assessment area. The community member indicated that economic conditions are doing well with a lot of building and redevelopment happening, both commercial and residential. The contact stated credit needs for the area include small business loans toward start-up companies. These types of businesses struggle obtaining local funding, as it tends to be higher risk. Further, the contact indicated that there is a high level of competition among financial institutions in the area and the amount of financing options can be overwhelming for a small business.

### ***Jackson County***

Examiners reviewed a recent interview with a Business Outreach Specialist that serves the assessment area. The community member indicated that economy is doing well. Specifically, the contact stated there are banking needs for small businesses. The comments indicated a need for loan products targeted toward start-up businesses. An additional challenge faced by small businesses is meeting the required banking criteria for a small business loan. Further, the contact indicated that there is a need for traditional banking outreach to communities that do not trust financial institutions.

### **Credit Needs**

Based on community contact comments, examiners determined the primary credit need for the assessment area is small business loans.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN THE KANSAS CITY ASSESSMENT AREA**

### **LENDING TEST**

First Heritage Bank demonstrated satisfactory performance under the Lending Test in the Kansas City Assessment Area. The bank's performance under the Geographic Distribution criterion supports this conclusion.

### **Geographic Distribution**

The geographic distribution of small business loans reflects reasonable dispersion throughout the Kansas City Assessment Area. The bank's performance shows an increasing trend in lending to low-

and moderate-income census tracts. Additionally, the performance exceeds D&B data for years 2018 and 2019.

<b>Geographic Distribution of Small Business Loans</b>					
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>Low</b>					
2017	7.2	0	0.0	0	0.0
2018	7.2	5	35.7	1,047	28.2
2019	7.5	5	41.7	552	20.2
<b>Moderate</b>					
2017	16.1	1	9.1	200	4.6
2018	16.0	4	28.6	1,390	37.4
2019	16.4	3	25.0	1,310	47.8
<b>Middle</b>					
2017	31.1	3	27.3	1,231	28.1
2018	31.1	3	21.4	402	10.8
2019	30.9	1	8.3	30	1.1
<b>Upper</b>					
2017	43.6	7	63.6	2,946	67.3
2018	43.6	2	14.3	876	23.6
2019	43.2	3	25.0	847	30.9
<b>Not Available</b>					
2017	2.0	0	0.0	0	0.0
2018	2.1	0	0.0	0	0.0
2019	2.0	0	0.0	0	0.0
<b>Totals</b>					
<b>2017</b>	<b>100.0</b>	<b>11</b>	<b>100.0</b>	<b>4,377</b>	<b>100.0</b>
<b>2018</b>	<b>100.0</b>	<b>14</b>	<b>100.0</b>	<b>3,715</b>	<b>100.0</b>
<b>2019</b>	<b>100.0</b>	<b>12</b>	<b>100.0</b>	<b>2,739</b>	<b>100.0</b>

*Source: D&B Data (2017-2019); Bank Data (2017-2019). Due to rounding, totals may not equal 100.0.*

### **Borrower Profile**

The distribution of borrowers reflects poor penetration among businesses of different revenue sizes in the Kansas City Assessment Area. The bank's performance lags demographic data and shows a decreasing trend in lending to small businesses from 2017 to 2019.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>&lt;=\$1,000,000</b>					
2017	82.4	6	54.5	2,024	46.2
2018	82.0	4	28.6	1,089	29.3
2019	83.6	2	16.7	800	29.2
<b>&gt;1,000,000</b>					
2017	7.1	5	45.5	2,353	53.8
2018	6.9	10	71.4	2,626	70.7
2019	6.1	10	83.3	1,939	70.8
<b>Revenue Not Available</b>					
2017	10.5	0	0.0	0	0.0
2018	11.1	0	0.0	0	0.0
2019	10.3	0	0.0	0	0.0
<b>Totals</b>					
<b>2017</b>	<b>100.0</b>	<b>11</b>	<b>100.0</b>	<b>4,377</b>	<b>100.0</b>
<b>2018</b>	<b>100.0</b>	<b>14</b>	<b>100.0</b>	<b>3,715</b>	<b>100.0</b>
<b>2019</b>	<b>100.0</b>	<b>12</b>	<b>100.0</b>	<b>2,739</b>	<b>100.0</b>
<i>Source: D&amp;B Data (2017-2019); Bank Data (2017-2019). Due to rounding, totals may not equal 100.0.</i>					

## APPENDICES

### 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 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;
- 4) The geographic distribution of the bank's loans; 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).

## 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.

**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.

**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.

**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.

**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.

**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 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.

**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.