

PUBLIC DISCLOSURE

May 4, 2020

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Kendall State Bank
Certificate Number: 16471

406 Broadway Street
Valley Falls, Kansas 66088

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 loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- The bank made a majority of its loans in the assessment area.
- The assessment area consists entirely of middle-income geographies; therefore, the geographic distribution criterion was not evaluated.
- The distribution of borrowers reflects reasonable penetration of loans among businesses and farms of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the overall rating.

DESCRIPTION OF INSTITUTION

Kendall State Bank is headquartered in Valley Falls, Kansas, and is wholly owned by Northeast Kansas Bancshares, Inc., Valley Falls, Kansas. The institution received a Satisfactory rating at its previous FDIC Performance Evaluation, dated June 16, 2014, based on Interagency Small Institution Examination Procedures. There are no lending subsidiaries or affiliates.

Kendall State Bank operates three locations in northeast Kansas: the main office located in Valley Falls and locations in Nortonville and Winchester. Since the prior evaluation, the bank opened a loan production office in Overland Park, Kansas.

The institution offers traditional loan products including commercial, home mortgage, agricultural and consumer loans. Commercial lending continues to be the institution's primary focus. Deposit services include checking, savings, money market deposit accounts, and certificates of deposit. Alternative banking services include internet and mobile banking, mobile deposit, electronic bill pay, and four automated teller machines.

According to the December 31, 2019, Reports of Condition and Income, the institution reported total assets of \$40 million. The largest categories of loans by dollar volume include commercial loans (39 percent), home mortgage loans (23 percent), and agricultural loans (12 percent). The following table shows the distribution for each loan category by dollar volume.

Loan Portfolio Distribution as of December 31, 2019		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	5,264	22.2
Secured by Farmland	1,690	7.1
Secured by 1-4 Family Residential Properties	5,301	22.4
Secured by Multi-family (5 or more) Residential Properties	26	0.1
Secured by Non-farm Non-Residential Properties	7,195	30.4
Total Real Estate Loans	19,476	82.2
Commercial and Industrial Loans	1,944	8.2
Agricultural Production and Other Loans to Farmers	1,120	4.7
Consumer	859	3.6
Obligations of States and Political Subdivisions in the United States	279	1.3
Other Loans	8	0.0
Less: Unearned Income	0	0.0
Total Loans	23,686	100.0
<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 assessment area credit needs.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment area within which its CRA performance will be evaluated. Kendall State Bank has designated one assessment area within the Topeka, Kansas Metropolitan Statistical Area. The following sections discuss demographic and economic information for the assessment area.

Economic and Demographic Data

The assessment area includes all four census tracts in Jefferson County, which is comprised solely of middle-income census tracts according to the 2015 American Community Survey (ACS). The following table illustrates select demographic characteristics of the assessment area.

Demographic Information of the Assessment Area					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	4	0.0	0.0	100.0	0.0
Population by Geography	18,898	0.0	0.0	100.0	0.0
Housing Units by Geography	8,210	0.0	0.0	100.0	0.0
Owner-Occupied Units by Geography	6,182	0.0	0.0	100.0	0.0
Occupied Rental Units by Geography	1,360	0.0	0.0	100.0	0.0
Vacant Units by Geography	668	0.0	0.0	100.0	0.0
Businesses by Geography	883	0.0	0.0	100.0	0.0
Farms by Geography	121	0.0	0.0	100.0	0.0
Family Distribution by Income Level	5,405	14.1	18.2	25.9	41.8
Household Distribution by Income Level	7,542	16.9	14.3	22.9	45.9
Median Family Income Topeka, KS MSA	\$64,984	Median Housing Value			\$127,802
Families Below Poverty Level	5.7%	Median Gross Rent			\$728
<i>Source: 2015 ACS Census; 2019 D&B Data.</i>					

Service industries represent the largest portion of businesses at 37 percent; followed by agriculture, forestry, & fishing (12 percent); and construction (10 percent). In addition, 72 percent of area businesses have four or fewer employees, and 87 percent operate from a single location. Data obtained from the U.S. Bureau of Labor Statistics for March 2020 indicates that the unemployment rate for Jefferson County and the State of Kansas is 3 percent.

Competition

The bank operates in a moderately competitive market for financial services. According to the FDIC Deposit Market Share data as of June 30, 2019, five financial institutions operate 21 branches within Jefferson County. Of these institutions, Kendall State Bank ranked fourth with 16 percent of the deposit market share.

Community Contacts

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying credit needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit opportunities are available. Examiners conducted an interview with a representative from a government agency familiar with the assessment area. The contact stated that economic conditions in the area are stable. Nearly all of the businesses within Jefferson County are considered essential and have not been adversely affected by the recent economic downturn. The contact did not mention any specific opportunities for financial institution involvement, but did mention that the area would benefit from newer affordable rental units. Overall, the community contact indicated that financial institutions are meeting the credit needs of the area.

Credit Needs

Based on information provided by the community contact, bank management, and demographic and economic data, examiners determined that the credit needs within the assessment area include small business, agricultural, and home mortgage loans.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated June 16, 2014, to the current evaluation, dated May 4, 2020. Examiners used the Interagency Small Institution Examination Procedures to evaluate the bank's CRA performance. These procedures include the Lending Test. This evaluation does not include any lending activity performed by affiliates.

Activities Reviewed

Examiners determined that the bank's major product lines include small business, small farm, 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. In 2019, the bank originated or renewed 40 small business loans totaling \$3.0 million, 21 small farm loans totaling \$1.6 million, and 11 home mortgage loans totaling \$2.2 million.

Bank records indicated that the lending focus remained consistent throughout the evaluation period. Examiners reviewed all small business and small farm loans originated or renewed in 2019. D&B data for 2019 provided a standard of comparison for the small business and small farm loans. Examiners also reviewed all 2019 home mortgage loans for the Assessment Area Concentration criterion; however, there were too few loans inside the assessment area to perform a meaningful analysis for the Borrower Profile criterion. Based on the bank's business focus and loan portfolio composition, more weight was placed on small business lending performance when arriving at overall conclusions.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Kendall State Bank demonstrated reasonable performance under the Lending Test.

Loan-to-Deposit Ratio

Kendall State Bank's net loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's loan-to-deposit ratio averaged 70.2 percent over the past 23 calendar quarters from June 30, 2014, to December 31, 2019. The ratio ranged from a low of 60.4 percent as of September 30, 2015, to a high of 77.7 percent, as of June 30, 2014. The bank's net loan-to-deposit ratio remained generally stable throughout the evaluation period.

Given the bank's asset size, geographic location, and loan product focus, no similarly-situated financial institutions could be identified for comparison purposes. Similarly-situated financial institutions are institutions located in or near the bank's assessment area that are comparable to the bank based on asset size, market served, and loan portfolio composition.

Assessment Area Concentration

Overall, the bank made a majority of its loans, by number, within the assessment area. As illustrated in the following table, a majority of loans, by dollar volume, were originated outside the

assessment area. However, examiners focused on performance by number of loans, as it is a better reflection of the number of businesses, farms, and individuals served. Further, two of the small business loans outside of the assessment area totaled \$1.3 million, which substantially increased the total dollar volume outside the assessment area.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$(000s)	%	\$(000s)	%	
Small Business	26	65.0	14	35.0	40	978	32.8	2,008	67.2	2,986
Home Mortgage	5	45.5	6	54.5	11	833	37.9	1,364	62.1	2,197
Small Farm	20	95.2	1	4.8	21	1,539	96.5	55	3.5	1,594
Total	51	70.8	21	29.2	72	3,350	49.4	3,427	50.6	6,777
<i>Source: Bank Data</i>										

Geographic Distribution

The assessment area consists entirely of middle-income geographies; therefore, review of the geographic distribution criterion would not result in meaningful conclusions and was not evaluated.

Borrower Profile

Overall, the distribution of borrowers reflects reasonable penetration among businesses and farms of different revenue sizes. As only five home mortgage loans were extended inside of the assessment area, a review of home mortgage loans would not result in meaningful conclusions. Examiners focused on the percentage by number of loans to businesses and farms with gross annual revenues of \$1 million or less.

Small Business Loans

The distribution of borrowers reflects excellent penetration among businesses with gross annual revenues of \$1 million or less. The bank’s performance exceeds the percent of businesses in this revenue category.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	79.7	24	92.3	873	89.3
>1,000,000	5.1	2	7.7	105	10.7
Revenue Not Available	15.2	0	0.0	0	0.0
Total	100.0	26	100.0	978	100.0
<i>Source: 2019 D&B Data; Bank Data</i>					

Small Farm Loans

The distribution of borrowers reflects reasonable penetration among farms with gross annual revenues of \$1 million or less. The bank’s performance is consistent with the percent of farms in this revenue category.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	98.3	19	95.0	1,239	80.5
>1,000,000	0.8	1	5.0	300	19.5
Revenue Not Available	0.9	0	0.0	0	0.0
Totals	100.0	20	100.0	1,539	100.0
<i>Source: 2019 D&B Data; Bank Data</i>					

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.

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.

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.