

PUBLIC DISCLOSURE

December 12, 2022

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Peoples State Bank
Certificate Number: 17685

2401 North Seth Child Road
Manhattan, Kansas 66503

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

1100 Walnut St, 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.

Peoples State Bank's satisfactory Community Reinvestment Act (CRA) performance under the applicable performance criteria supports the overall rating. The following points summarize the bank's performance.

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and credit needs of the assessment areas.
- A majority of the small business, small farm, and home mortgage loans are within the institution's assessment areas.
- The geographic distribution of small business, small farm, and home mortgage loans reflects reasonable dispersion throughout the assessment areas.
- The distribution of borrowers reflects reasonable penetration among businesses and farms of different sizes and individuals of different income levels.
- The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

DESCRIPTION OF INSTITUTION

Peoples State Bank is a full-service financial institution headquartered in Manhattan, Kansas with ten additional locations throughout Kansas. The bank is wholly owned by Foote Financial Services, LLC, a one-bank holding company. Peoples State Bank received a Satisfactory rating at its previous FDIC Performance Evaluation dated January 30, 2017, based on Interagency Small Institution Examination Procedures. Since the previous evaluation, on July 1, 2017, Peoples State Bank merged with Peoples State Bank, McDonald, Kansas, and Citizens State Bank, Morland, Kansas. The merger resulted in eight additional offices in Colby, Goodland, Hill City, Hoxie, McDonald, Morland, Oakley, and Wakeeney, which are all located in the nonmetropolitan area of Kansas. On July 7, 2021, the bank also acquired Stanley Bank, Overland Park, Kansas, resulting in one new location in Overland Park, Kansas in the Kansas City, Missouri-Kansas Metropolitan Statistical Area (MSA). The bank closed one branch located in a middle-income census tract in Morland, Kansas in January 2020. The closure of this branch does not adversely affect the bank's ability to serve low- and moderate-income individuals.

The bank offers a wide variety of lending products, including home mortgage, agricultural, commercial, construction, and consumer loans. Commercial lending is the bank’s primary business focus. At the prior evaluation, agricultural lending was the bank’s primary business focus. The change in business focus is primarily attributed to the bank’s merger and acquisition activity. Additionally, the bank offers multiple deposit products including checking, savings, and money market accounts, as well as certificates of deposit. Online banking and mobile banking are also available.

The bank’s September 30, 2022 Reports of Condition and Income reflected total assets of \$426 million, total loans of \$326 million, and total deposits of \$357 million. The following table reflects Peoples State Bank’s loan portfolio distribution.

Loan Portfolio Distribution as of 9/30/2022		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	30,256	9.3
Secured by Farmland	66,223	20.3
Secured by 1-4 Family Residential Properties	51,819	15.9
Secured by Multi-family (5 or more) Residential Properties	1,585	0.5
Secured by Non-farm Non-Residential Properties	45,223	13.9
Total Real Estate Loans	195,106	59.9
Commercial and Industrial Loans	94,309	28.9
Agricultural Production and Other Loans to Farmers	32,286	9.9
Consumer	3,627	1.1
Other Loans	698	0.2
Total Loans	326,026	100.0
<i>Source: Reports of Condition and Income.</i>		

Examiners did not identify any financial, legal, or other impediments affecting the institution ability to meet the credit needs of the assessment areas.

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. Peoples State Bank designated the following three assessment areas: the Manhattan Assessment Area, which includes all of Clay, Geary, Marshall, Pottawatomie, Riley, and Washington counties; the Nonmetropolitan Kansas Assessment Area, which includes all of Cheyenne, Gove, Graham, Logan, Rawlins, Sheridan, Sherman, Thomas, and Trego counties; and the Kansas City Assessment Area, which includes all of Johnson and Miami counties. The Nonmetropolitan Kansas and Kansas City Assessment Areas are new since the previous evaluation. For more information about each assessment area, refer to individual descriptions of each area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated January 30, 2017, to the current evaluation dated December 12, 2022. Examiners used the Interagency Small Institution Examination Procedures to evaluate the bank’s performance. These procedures focus on the bank’s performance under the Lending Test as outlined in the Small Bank Performance Criteria Appendix.

Examiners conducted full-scope reviews for the Manhattan and Nonmetropolitan Kansas Assessment Areas due to the number of loans, deposits, and branches in each area. Examiners excluded the Kansas City Assessment Area from the current evaluation because there is not a full calendar year of lending data available. When determining conclusions, examiners placed equal weight on the Manhattan and Nonmetropolitan Kansas Assessment Areas. The following table shows the loans, deposits, and branches by assessment area.

Assessment Area Breakdown of Loans, Deposits, and Branches						
Assessment Area	Loans		Deposits		Branches	
	\$(000s)	%	\$(000s)	%	#	%
Manhattan	121,161	39.4	61,272	18.2	3	27.3
Nonmetropolitan Kansas	102,308	33.3	145,534	43.2	7	63.6
Kansas City	83,694	27.3	129,761	38.6	1	9.1
Total	307,163	100.0	336,567	100.0	11	100.0

Source: Bank Data; FDIC Summary of Deposits (06/30/2022).

Activities Reviewed

Examiners determined that the bank’s primary credit products include commercial, agricultural, and residential loans. Since the previous evaluation, the bank’s commercial lending as a percentage of the loan portfolio increased, and agricultural lending as a percentage of the loan portfolio decreased. Based on the bank’s business focus and loan portfolio composition, examiners placed more weight on the commercial lending performance in the Manhattan Assessment Area, and placed more weight on the agricultural lending performance in the Nonmetropolitan Kansas Assessment Area.

Bank records indicate that its 2021 lending performance is representative of the entire review period. As such, examiners analyzed and presented the bank’s 2021 small business and small farm lending performance. In 2021, the universe of small business loans originated or renewed included 199 loans totaling \$14.1 million, and the universe of small farm loans originated or renewed included 120 loans totaling \$11.2 million. The 2021 D&B data provided a standard of comparison for the bank’s small business and small farm lending performance.

The evaluation considered all home mortgage loans reported on the bank’s 2020 and 2021 Home Mortgage Disclosure Act (HMDA) loan application registers. The bank reported 193 loans totaling \$24.0 million in 2020, and 159 loans totaling \$20.4 million in 2021. While HMDA data for 2020 and 2021 was reviewed and is included in the Assessment Area Concentration analyses, examiners presented only 2020 data because it is the most recent year in which aggregate lending data is available. Unless noted, the review of 2021 HMDA data did not identify any trends that are different from 2020 or that would materially affect conclusions. The 2015 American Community

Survey (ACS) data and 2020 HMDA aggregate data provided a standard of comparison for the bank’s home mortgage lending performance.

For the Lending Test, examiners reviewed the entire universe of loans to evaluate the Assessment Area Concentration criterion. To evaluate the Geographic Distribution criterion, examiners evaluated all small business, small farm, and home mortgage loans made inside of the assessment areas. Finally, examiners reviewed all home mortgage loans and samples of small farm and small business loans originated inside the assessment areas to evaluate the Borrower Profile criterion. The small farm loan sample included 70 loans totaling \$5.3 million, and the small business loan sample included 85 loans totaling \$4.2 million.

When conducting the Assessment Area Concentration analysis, examiners placed equal weight on the number and dollar volume of loans. When conducting the Borrower Profile and Geographic Distribution analyses, examiners placed greater weight on the number of loans, as it a better indicator of the number of businesses, farms, and individuals served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Peoples State Bank demonstrated reasonable performance under the Lending Test. The bank’s overall Loan-to-Deposit Ratio, Assessment Area Concentration, Geographic Distribution, and Borrower Profile performance supports this conclusion.

Loan-to-Deposit Ratio

Peoples State Bank’s average net LTD ratio is reasonable given the institution’s size, financial condition, and the assessment areas’ credit needs. Peoples State Bank’s net LTD ratio, calculated from Reports of Condition and Income data, averaged 85.8 percent over the past 23 quarters from March 31, 2017, to September 30, 2022. During this period, the institution’s net LTD ratio ranged from 69.0 percent to 95.3 percent. Examiners compared the bank’s average net LTD ratio to two similarly situated institutions, which were selected based on their asset size, geographic location, and lending focus. As shown in the following table, the bank’s ratio is comparable to other institutions’ net LTD ratio.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 9/30/2022 \$(000s)	Average Net Loan-to-Deposit Ratio (%)
Peoples State Bank, Manhattan, Kansas	426,149	85.8
Bank of the Flint Hills, Wamego, Kansas	409,959	94.0
The Farmers State Bank of Westmoreland, Westmoreland, Kansas	227,707	74.6
<i>Source: Reports of Condition and Income 3/31/2017 through 9/30/2022</i>		

Assessment Area Concentration

Peoples State Bank made a majority of its small business, small farm, and home mortgage loans within its assessment areas by number and dollar volume. The following table presents a breakdown of lending inside and outside the assessment areas.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Business	158	79.4	41	20.6	199	10,077	71.3	4,056	28.7	14,133
Small Farm	91	75.8	29	24.2	120	8,198	73.2	3,009	26.8	11,207
Home Mortgage										
2020	158	81.9	35	18.1	193	20,709	86.1	3,335	13.9	24,044
2021	135	84.9	24	15.1	159	16,265	81.2	3,776	18.8	20,041
Subtotal	293	83.2	59	16.8	352	36,974	83.9	7,111	16.1	44,085
Total	542	80.8	129	19.2	671	55,249	79.6	14,176	20.4	69,425

Source: Bank Data

Geographic Distribution

Overall, the geographic distribution of loans reflects reasonable dispersion throughout the assessment areas. Examiners focused primarily on the percentage of loans in moderate-income census tracts located in the assessment areas. Peoples State Bank’s reasonable performance within the Manhattan Assessment Area supports this conclusion. The Manhattan Assessment Area does not include any low-income census tracts, and the Nonmetropolitan Kansas Assessment Area does not contain any low- or moderate-income census tracts.

Borrower Profile

Overall, the distribution of borrowers reflects reasonable penetration among businesses and farms of different sizes and individuals of different income levels. Examiners focused on the percentage of small business and small farm loans to operations with revenues of \$1 million or less, as well as the percentage of home mortgage loans to low- and moderate-income borrowers. Peoples State Bank’s performance within both assessment areas is consistent with this conclusion.

Response to Complaints

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

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.

MANHATTAN ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE MANHATTAN ASSESSMENT AREA

The Manhattan Assessment Area contains the entirety of Riley, Pottawatomie, and Geary counties in the Manhattan, Kansas MSA, and the entirety of the following three adjacent counties in the nonmetropolitan area of Kansas: Clay, Marshall, and Washington. The assessment area includes the main office and one branch in Manhattan, Kansas, and one branch in Leonardville, Kansas, which are all located in the Manhattan, Kansas MSA.

Economic and Demographic Data

According to 2015 ACS data, the Manhattan Assessment Area contains 26 census tracts including eight moderate-income tracts, ten middle-income tracts, six upper-income tracts, and two tracts that have not been assigned an income classification. The following table provides select demographic information about the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	26	0.0	30.8	38.5	23.1	7.7
Population by Geography	134,434	0.0	26.5	41.1	30.4	2.0
Housing Units by Geography	53,484	0.0	24.5	44.1	30.5	1.0
Owner-Occupied Units by Geography	22,887	0.0	14.8	45.4	39.5	0.3
Occupied Rental Units by Geography	24,495	0.0	31.3	43.9	23.1	1.6
Vacant Units by Geography	6,102	0.0	33.4	39.6	26.2	0.8
Businesses by Geography	7,809	0.0	24.2	40.0	35.3	0.6
Farms by Geography	497	0.0	15.7	40.8	43.5	0.0
Family Distribution by Income Level	28,857	19.5	21.6	20.9	38.0	0.0
Household Distribution by Income Level	47,382	21.8	17.7	20.0	40.5	0.0
Median Family Income - Manhattan, KS MSA		\$61,327	Median Housing Value			\$150,534
Families Below Poverty Level		7.9%	Median Gross Rent			\$912
<i>Source: 2015 ACS; 2021 D&B Data. 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>						

The Federal Financial Institutions Examination Council (FFIEC)-updated median family income levels for the Manhattan, Kansas MSA and nonmetropolitan area of Kansas are presented in the following table.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Manhattan, KS MSA Median Family Income				
2020 (\$68,000)	<\$34,000	\$34,000 to <\$54,400	\$54,400 to <\$81,600	≥\$81,600
2021 (\$69,500)	<\$34,750	\$34,750 to <\$55,600	\$55,600 to <\$83,400	≥\$83,400
Nonmetropolitan Kansas Median Family Income				
2020 (\$64,200)	<\$32,100	\$32,100 to <\$51,360	\$51,360 to <\$77,040	≥\$77,040
2021 (\$64,800)	<\$32,400	\$32,400 to <\$51,840	\$51,840 to <\$77,760	≥\$77,760
<i>Source: FFIEC</i>				

Competition

Peoples State Bank operates in an environment with high levels of competition. According to the June 30, 2021, FDIC Deposit Market Share data, 16 financial institutions operate 41 locations in the assessment area. Peoples State Bank ranked fifth with 7.8 percent of the deposit market share.

Additionally, the competition for home mortgage loans is high among banks, credit unions, and non-depository lenders within the assessment area. Aggregate HMDA data for 2020 reveals 257 lenders originated or purchased 7,798 home mortgage loans within the assessment area. Peoples State Bank ranked 32nd with 1.1 percent of the market share. Aggregate CRA data reveals 61 lenders originated 1,672 small business loans and 18 lenders originated 133 small farm loans within the assessment area. Although Peoples State Bank was not required to report CRA loan data in 2020, this information provides insight regarding the competition the bank faces in the assessment area.

Credit Needs

Considering information from bank management and demographic and economic data, examiners determined that the credit needs of the assessment area are primarily commercial and home mortgage loans.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE MANHATTAN ASSESSMENT AREA

LENDING TEST

Peoples State Bank demonstrated satisfactory performance under the Lending Test in the Manhattan Assessment Area. The bank's Geographic Distribution and Borrower Profile performance supports this conclusion.

Geographic Distribution

Overall, the geographic distribution of loans reflects reasonable dispersion throughout the Manhattan Assessment Area. Although the bank's small business lending performance was poor, the bank's reasonable small farm and home mortgage lending performance supports the overall conclusion.

Small Business Loans

The geographic distribution of small business loans reflects poor dispersion throughout the Manhattan Assessment Area. Examiners noted that the bank’s offices are a considerable distance away from the location of the moderate-income tracts; however, as illustrated in the following table, the bank’s level of lending to businesses within moderate-income tracts is significantly below demographic data, which reflects poor lending performance.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate	24.2	2	3.1	731	20.7
Middle	40.0	31	47.7	1,636	46.4
Upper	35.3	32	49.2	1,161	32.9
Not Available	0.6	0	0.0	0	0.0
Totals	100.0	65	100.0	3,528	100.0

Source: 2021 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%

Small Farm Loans

The geographic distribution of small farm loans reflects reasonable dispersion throughout the assessment area. As illustrated in the following table, the bank’s performance slightly exceeds demographic data in moderate-income census tracts.

Geographic Distribution of Small Farm Loans					
Tract Income Level	% of Farms	#	%	\$(000s)	%
Moderate	15.7	5	20.0	1,122	56.0
Middle	40.8	6	24.0	358	17.9
Upper	43.5	14	56.0	524	26.1
Totals	100.0	25	100.0	2,004	100.0

Source: 2021 D&B Data, Bank Data.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the Manhattan Assessment Area. As illustrated in the following table, the bank’s performance exceeds aggregate and demographic data in moderate-income census tracts.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Moderate	14.8	12.5	15	19.7	1,702	15.1
Middle	45.4	37.3	34	44.7	4,205	37.4
Upper	39.5	49.8	27	35.5	5,349	47.5
Not Available	0.3	0.4	0	0.0	0	0.0
Totals	100.0	100.0	76	100.0	11,256	100.0

Source: 2015 ACS, Bank Data, 2020 HMDA Aggregate Data. Due to rounding, totals may not equal 100.0%

Borrower Profile

Overall, the distribution of borrowers reflects reasonable penetration among small businesses and small farms of different sizes and individuals of different income levels. The bank's excellent small farm lending performance and reasonable small business and home mortgage lending performance supports this conclusion.

Small Business Loans

The distribution of borrowers reflects reasonable penetration among businesses with revenues of \$1 million or less. As shown in the following table, the bank's record of lending to businesses with revenues of \$1 million or less is comparable to demographic data in this revenue category.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	80.1	32	76.2	979	49.7
>\$1,000,000	4.8	8	19.0	954	48.4
Revenue Not Available	15.1	2	4.8	38	1.9
Total	100.0	42	100.0	1,971	100.0

Source: 2021 D&B Data, Bank Data.

Small Farm Loans

The distribution of borrowers reflects excellent penetration among farms with revenues of \$1 million or less. The bank originated all 25 of its small farm loans, totaling \$2.0 million, to farms with revenues of \$1 million or less. The bank's performance exceeds the demographic data, which shows that 95.8 percent of farms are in this revenue category.

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 shows the bank's lending performance to low-income borrowers exceeds aggregate data but lags demographic data. However, it is important to consider that 7.9 percent of low-income families generate income below the poverty level. These families likely face significant difficulties in qualifying for traditional home mortgage loans. For moderate-income borrowers, the bank's performance lags both aggregate and demographic data. However, although not presented, the number and dollar volume of home loans increased to low- and moderate-income borrowers in 2021, reflecting positive trends. Specifically, in 2021, the bank originated seven loans totaling \$927,000 to low-income individuals, and 10 loans totaling \$1.3 million to moderate-income individuals.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	19.5	2.7	3	3.9	276	2.5
Moderate	21.6	12.5	5	6.6	572	5.1
Middle	20.9	18.1	14	18.4	1,902	16.9
Upper	38.0	36.8	17	22.4	3,545	31.5
Not Available	0.0	29.9	37	48.7	4,961	44.1
Totals	100.0	100.0	76	100.0	11,256	100.0

Source: 2015 ACS, Bank Data, 2020 HMDA Aggregate Data. Due to rounding, totals may not equal 100.0%

NONMETROPOLITAN KANSAS ASSESSMENT AREA – Full-Scope Review

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

The Nonmetropolitan Kansas Assessment Area contains the entirety of Cheyenne, Gove, Graham, Logan, Rawlins, Sheridan, Sherman, Thomas, and Trego counties. The assessment area includes seven branches located in Colby, Goodland, Hill City, Hoxie, McDonald, Oakley, and Wakeeney, Kansas.

Economic and Demographic Data

According to 2015 ACS data, the Nonmetropolitan Kansas Assessment Area includes 20 middle- and 2 upper-income tracts. The following table provides select demographic information about the assessment area.

Demographic Information of the Assessment Area					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	22	0.0	0.0	90.9	9.1
Population by Geography	56,921	0.0	0.0	82.5	17.5
Housing Units by Geography	28,740	0.0	0.0	84.6	15.4
Owner-Occupied Units by Geography	18,274	0.0	0.0	84.0	16.0
Occupied Rental Units by Geography	6,370	0.0	0.0	83.2	16.8
Vacant Units by Geography	4,096	0.0	0.0	89.3	10.7
Businesses by Geography	5,489	0.0	0.0	83.8	16.2
Farms by Geography	1,506	0.0	0.0	85.1	14.9
Family Distribution by Income Level	16,078	16.4	17.0	25.3	41.3
Household Distribution by Income Level	24,644	22.3	16.7	19.1	41.8
Median Family Income - Nonmetropolitan KS	\$57,229	Median Housing Value			\$84,761
Families Below Poverty Level	7.2%	Median Gross Rent			\$552

Source: 2015 ACS, 2021 D&B Data. Due to rounding, totals may not equal 100.0%

The FFIEC-updated median family income levels for the nonmetropolitan area of Kansas are presented in the following table.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2020 (\$64,200)	<\$32,100	\$32,100 to <\$51,360	\$51,360 to <\$77,040	≥\$77,040
2021 (\$64,800)	<\$32,400	\$32,400 to <\$51,840	\$51,840 to <\$77,760	≥\$77,760

Source: FFIEC

Competition

Peoples State Bank operates in an environment with moderate levels of competition. According to the June 30, 2021 FDIC Deposit Market Share data, 16 financial institutions operate 41 locations in the assessment area. Peoples State Bank ranked fifth with 7.8 percent of the deposit market share.

Additionally, the competition for home mortgage loans is moderate among banks, credit unions, and non-depository lenders within the assessment area. Aggregate HMDA data for 2020 reveals 156 lenders originated or purchased 1,375 home mortgage loans within the assessment area. Peoples State Bank ranked second with 6.1 percent of the market share. Aggregate CRA data reveals 52 lenders originated 711 small business loans, and 20 lenders originated 683 small farm loans within the assessment area. Although Peoples State Bank was not required to report CRA loan data in 2020, this information provides insight regarding the competition the bank faces in the assessment area.

Community Contact

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

Examiners reviewed information from a recent contact within the government that is familiar with local economic conditions. This contact indicated that the area economy is driven by agriculture and manufacturing. The economy has been stable; however, there is some uncertainty based on the instability of the markets and crop prices. The contact noted that federal government payments have recently helped many local farmers, and farmers are operating on more cash and less debt than in recent history. The contact indicated that credit needs in the area are agricultural, home mortgage, and consumer loans. The contact is unaware of any unmet credit needs.

Credit Needs

Considering information from bank management, the community contact, and demographic and economic data, examiners determined that agricultural loans are the primary credit need of the Nonmetropolitan Kansas Assessment Area.

CONCLUSIONS ON PERFORMANCE CRITERIA IN NONMETROPOLITAN KANSAS ASSESSMENT AREA

LENDING TEST

Peoples State Bank demonstrated satisfactory performance under the Lending Test in the Nonmetropolitan Kansas Assessment Area. The bank’s Borrower Profile performance supports this conclusion.

Geographic Distribution

The Nonmetropolitan Kansas 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, examiners did not evaluate this criterion.

Borrower Profile

Overall, the distribution of borrowers reflects reasonable penetration among small farms and small businesses of different sizes and individuals of different income levels. The bank’s reasonable small farm and small business lending performance and excellent home mortgage lending performance supports this conclusion.

Small Farm Loans

The distribution of borrowers reflects reasonable penetration among farms with revenues of \$1 million or less. As shown in the following table, the bank’s record of lending to farms with revenues of \$1 million or less is comparable to demographic data in this revenue category.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	97.3	42	93.3	3,214	97.5
>\$1,000,000	1.7	1	2.2	45	1.4
Revenue Not Available	1.0	2	4.4	36	1.1
Total	100.0	45	100.0	3,295	100.0
<i>Source: 2021 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%</i>					

Small Business Loans

The distribution of borrowers reflects reasonable penetration among businesses with revenues of \$1 million or less. As shown in the following table, the bank’s record of lending to businesses with revenues of \$1 million or less is comparable to demographic data in this revenue category.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	76.8	32	74.4	1,354	61.9
>\$1,000,000	4.5	3	7.0	396	18.1
Revenue Not Available	18.7	8	18.6	437	20.0
Total	100.0	43	100.0	2,187	100.0
<i>Source: 2021 D&B Data, Bank Data.</i>					

Home Mortgage Loans

The distribution of borrowers reflects excellent penetration among individuals of different income levels, including low- and moderate-income borrowers. As shown in the following table, the bank's record of lending to low-income borrowers significantly exceeds aggregate data, and the bank's record of lending to moderate-income borrowers is comparable to aggregate data.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	16.4	6.2	14	17.3	652	7.2
Moderate	17.0	21.7	16	19.8	976	10.7
Middle	25.3	19.2	12	14.8	1,336	14.7
Upper	41.3	30.4	6	7.4	3,764	41.4
Not Available	0.0	22.4	33	40.7	2,365	26.0
Total	100.0	100.0	81	100.0	9,093	100.0
<i>Source: 2015 ACS, Bank Data, 2020 HMDA Aggregate Data. 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 geographic distribution of the bank's loans;
- 4) The institution'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).

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 institution 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.