

# **PUBLIC DISCLOSURE**

March 20, 2023

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The Gorham State Bank  
Certificate Number: 17114

129 Market Street  
Gorham, Kansas 67640

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 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 the assessment area's credit needs.
- A majority of small farm and small business loans originated were located in the assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects reasonable penetration among farms and businesses of different revenue sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect rating.

## DESCRIPTION OF INSTITUTION

The Gorham State Bank (GSB) is a full-service community bank headquartered in Gorham, which operates in north central Kansas. The institution received a Satisfactory rating under the Interagency Small Institution Examination Procedures at its previous FDIC Performance Evaluation dated February 7, 2017.

GSB continues to operate two full-service offices located in Gorham and Victoria, which is in the largely rural areas of Ellis and Russell counties in Kansas. No merger or acquisition activities occurred, and there have been no branch openings or closings since the previous evaluation.

The bank's lending products include agricultural, commercial, home mortgage, and consumer loans. Agricultural lending continues to be the primary lending focus. The bank continues to offer in-house residential real estate loans, and secondary market conventional home loan referrals. The institution also provides a variety of deposit services including checking, savings, money market accounts, certificates of deposit, and individual retirement accounts. Alternative banking services include internet, electronic bill pay, and one cash dispensing ATM located in Victoria, Kansas.

According to the December 31, 2022 Reports of Condition and Income (Call Report), the bank reported total assets of \$43.9 million, total deposits of \$39.3 million, and total loans of \$20.8 million. The following table illustrates the noted loan portfolio.

<b>Loan Portfolio Distribution as of 12/31/2022</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	10	0.1
Secured by Farmland	7,538	36.2
Secured by 1-4 Family Residential Properties	2,691	12.9
Secured by Multi-family (5 or more) Residential Properties	127	0.6
Secured by Non-farm Non-Residential Properties	1,066	5.1
<b>Total Real Estate Loans</b>	<b>11,432</b>	<b>54.9</b>
Commercial and Industrial Loans	2,997	14.4
Agricultural Production and Other Loans to Farmers	4,621	22.2
Consumer	1,739	8.3
Obligations of State and Political Subdivisions in the U.S.	0	0.0
Other Loans	16	0.1
Lease Financing Receivables (net of unearned income)	27	0.1
Less: Unearned Income	0	0.0
<b>Total Loans</b>	<b>20,832</b>	<b>100.0</b>
<i>Source: Reports of Condition and Income (Call Report)</i>		

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

## **DESCRIPTION OF ASSESSMENT AREA**

GSB continues to designate the eastern half of Ellis County and all of Russell County as its sole assessment area. This area is categorized as nonmetropolitan and consists largely of rural countryside and farmland.

### **Economic and Demographic Data**

Based on 2020 US Census Data, the assessment area is comprised of nine census tracts including two moderate-, two middle-, and five upper-income census tracts. This is a change from the 2010 US Census Data used during the prior evaluation. Specifically, the designated portion of Ellis County was previously comprised of three middle-income and two upper-income census tracts, and the two census tracts in Russell County were previously middle-income areas. The following table illustrates select demographic characteristics of the entire assessment area.

Demographic Information of the Assessment Area					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	9	-	22.2	22.2	55.6
Population by Geography	32,346	-	20.0	20.7	59.3
Housing Units by Geography	15,699	-	18.5	24.7	56.7
Owner-Occupied Units by Geography	8,622	-	10.1	27.3	62.6
Occupied Rental Units by Geography	4,755	-	32.3	13.7	54.0
Vacant Units by Geography	2,322	-	21.8	37.8	40.4
Businesses by Geography	3,232	-	18.0	21.8	60.1
Farms by Geography	219	-	4.1	42.9	53.0
Family Distribution by Income Level	7,819	17.2	13.4	20.8	48.6
Household Distribution by Income Level	13,377	23.2	15.9	16.7	44.2
Median Family Income Nonmetropolitan KS	\$65,467	Median Housing Value			\$157,588
FFIEC-Estimated Median Family Income for 2022	\$73,400	Median Gross Rent			\$723
		Families Below Poverty Level			8.6%

*Source: 2020 U.S. Census; 2022 D&B Data; FFIEC Estimated Median Family Income; Due to rounding, totals may not equal 100.0%*

According to 2022 D&B data, the services industry represents the largest portion of businesses in the assessment area at 32.9 percent, followed by non-classifiable establishments at 15.7 percent, and retail trade at 12.7 percent. The data also indicates a notable number of these operations are relatively small, with 89.9 percent of the businesses having nine or fewer employees, and 86.0 percent operating from one location.

**Competition**

Competition in the market for financial services is notable. According to June 30, 2022 FDIC Deposit Market Share data, there are 15 banks operating 21 offices in the assessment area. Of these institutions, GSB ranked 11<sup>th</sup> with a 2.5 percent deposit market share.

There is also competition for small farm and small business loans among banks, credit unions, and non-depository lenders in the assessment area. The 2021 aggregate CRA data, the most recent data available, reflects 15 lenders originated or purchased 257 small farm loans, and 45 lenders originated or purchased 749 small business loans. The bank is not required to collect or report CRA small business data and is not included in the previous numbers, but the data is presented to evidence local demand.

Further, there is a high level of competition for home mortgage loans among banks, credit unions, and non-depository mortgage lenders in the assessment area. The 2021 aggregate Home Mortgage Disclosure Act (HMDA) data, the most recent data available, reflects 96 lenders originated or purchased 635 home mortgage loans. The bank is not required to report HMDA data and is not included in the previous numbers, but the data is presented to evidence local demand.

### **Community Contact**

As a 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 identifies what credit opportunities are available.

Examiners reviewed information from one recent community contact in the business community who focused primarily on one county in the assessment area. The community member indicated the area economy has experienced some changes. The contact stated that land and housing prices have increased, and the area is currently experiencing a severe drought, which is causing farmers to rely heavily on crop insurance. In addition, there has been an increase in the number of small businesses in the area. The contact indicated that the primary credit needs are agricultural, commercial, and home mortgage loans. The contact stated the need for the aforementioned loan categories have increased due to the combined pressure of increases in the land and housing prices, increases in interest rates, and the severe drought affecting the area.

### **Credit Needs**

Examiners identify the credit needs of the assessment area based on information from the community contact, bank management, and demographic and economic data. Based on this information, examiners determined small farm, small business, and home mortgage loans are all notable credit needs.

## **SCOPE OF EVALUATION**

### **General Information**

This evaluation covers the period from the previous evaluation dated February 7, 2017, to the current evaluation dated March 20, 2023. Examiners conducted this CRA evaluation using Interagency Small Institution Examination Procedures.

### **Activities Reviewed**

Examiners determined that the bank's major product lines include small farm and small business loans. This conclusion considered the bank's business strategy, review of bank records of the number and dollar volume of loans originated during the evaluation period, and the loan portfolio composition. Small farm lending received the greatest weight in determining the overall conclusions. As previously stated, small farm lending continues to be a primary focus, followed by commercial and home mortgage lending. Although the loan portfolio includes a notable percentage of home mortgage loans, examiners did not review home mortgage lending as the universe of loans was too limited to yield meaningful results or provide material support for conclusions.

Bank management stated the bank's 2022 lending patterns are generally representative of its overall lending patterns since the prior evaluation. Therefore, examiners focused on small farm and small business loans originated, purchased, or renewed in 2022. The bank data showed a total of 81 small farm loans totaling \$4.3 million, and 64 small business loans totaling \$2.1 million.

For the Lending Test, examiners reviewed the universe of loans for the Assessment Area Concentration analysis. For the Geographic Distribution analysis, examiners reviewed all small

farm and small business loans made in the assessment area. For the Borrower Profile analysis, examiners reviewed a random sample of small farm and small business loans made in the assessment area. The sample included 36 small farm loans totaling \$1.5 million, and 30 small business loans totaling \$867 thousand.

The 2022 D&B data provided a standard of comparison for the bank’s small farm and small business lending performance. For the Geographic Distribution and Borrower Profile criteria, examiners emphasized performance by number of loans because it is a better indicator of the number of farms and businesses served.

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

### **LENDING TEST**

GSB demonstrated reasonable performance under the Lending Test. This conclusion is supported by the bank’s reasonable performance in all evaluated criteria.

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

The LTD ratio is reasonable given the institution’s size, financial condition, and assessment area credit needs. The bank’s performance was evaluated based on the average net LTD ratio since the prior evaluation (24 quarters). The bank’s average net LTD ratio is comparable to other similarly situated banks, which were selected based on their asset size, geographic location, and lending focus. The following table details the comparison.

<b>Loan-to-Deposit (LTD) Ratio Comparison</b>		
<b>Bank</b>	<b>Total Assets as of 12/31/2022 (\$000s)</b>	<b>Average Net LTD Ratio (%)</b>
<b>The Gorham State Bank, Gorham, Kansas</b>	<b>43,857</b>	<b>65.8</b>
Farmers National Bank, Phillipsburg, Kansas	167,884	79.2
The State Exchange Bank, Mankato, Kansas	46,899	48.9
<i>Source: Reports of Condition and Income 3/31/2017 - 12/31/2022</i>		

#### **Assessment Area Concentration**

Overall, a majority of the small farm and small business loans, by number and dollar volume, are within the assessment area. Although a majority of the small farm loans, by dollar volume, were extended to borrowers outside of the assessment area, five small farm loans totaling \$1.2 million contributed to this majority of lending. Refer to the following table for details.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollars Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Farm	53	65.4	28	34.6	81	2,061	47.8	2,251	52.2	4,312
Small Business	47	73.4	17	26.6	64	1,638	78.1	458	21.9	2,096
<b>Total</b>	<b>100</b>	<b>69.0</b>	<b>45</b>	<b>31.0</b>	<b>145</b>	<b>3,699</b>	<b>57.7</b>	<b>2,709</b>	<b>42.3</b>	<b>6,408</b>

Source: 2022 Bank Data

### **Geographic Distribution**

Overall, the geographic distribution of loans reflects a reasonable dispersion throughout the assessment area. Examiners focused on the percentage of loans in the moderate-income census tracts in the assessment area. Although the small business lending performance is poor, the bank’s reasonable small farm lending performance is the primary driver for this conclusion.

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

The geographic distribution of small farm lending reflects reasonable dispersion. The following table indicates the bank did not originate any small farm loans in the moderate-income tracts. However, demographic data indicates 4.1 percent of farming operations, which represents only nine farms, are located in the moderate-income census tracts. The bank has limited opportunities to lend to small farms in these moderate-income tracts; therefore, the performance is reasonable.

Geographic Distribution of Small Farm Loans					
Tract Income Level	% of Farms	#	%	\$(000s)	%
Moderate	4.1	-	-	-	-
Middle	42.9	31	58.5	1,119	54.3
Upper	53.0	22	41.5	942	45.7
<b>Totals</b>	<b>100.0</b>	<b>53</b>	<b>100.0</b>	<b>2,061</b>	<b>100.0</b>

Source: 2022 D&B Data, 2022 Bank Data

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

The geographic distribution of small business loans reflects poor dispersion. The following table shows that the bank did not extend any small business loans in the moderate-income census tracts, which lags demographic data regarding the percentage of businesses located in the assessment area’s moderate-income census tracts.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate	18.0	-	-	-	-
Middle	21.8	39	83.0	1,167	71.2
Upper	60.1	8	17.0	471	28.8
<b>Total</b>	<b>100.0</b>	<b>47</b>	<b>100.0</b>	<b>1,638</b>	<b>100.0</b>

Source: 2022 D&B Data, 2022 Bank Data. Due to rounding, totals may not equal 100.0%

**Borrower Profile**

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes. Examiners focused on the percentage of loans to farms and businesses with gross annual revenues of \$1 million or less. The bank’s reasonable small farm and small business lending performance supports this conclusion.

***Small Farm Loans***

The borrower distribution of small farm loans reflects reasonable penetration among farms with revenues of \$1 million or less. The following table indicates the bank’s performance is comparable to demographic data in this revenue category.

<b>Distribution of Small Farm 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	99.1	35	97.2	1,414	95.3
> \$1,000,000	0.9	1	2.8	70	4.7
<b>Total</b>	<b>100.0</b>	<b>36</b>	<b>100.0</b>	<b>1,484</b>	<b>100.0</b>

*Source: 2022 D&B Data, 2022 Bank Data*

***Small Business Loans***

The borrower distribution of small business loans reflects reasonable penetration among businesses with revenues of \$1 million or less. The following table indicates the bank’s performance is comparable to demographic data in this revenue category.

<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	81.2	24	80.0	779	89.9
> \$1,000,000	4.6	6	20.0	88	10.1
Revenue Not Available	14.2	-	-	-	-
<b>Total</b>	<b>100.0</b>	<b>30</b>	<b>100.0</b>	<b>867</b>	<b>100.0</b>

*Source: 2022 D&B Data, 2022 Bank Data*

**Response to Complaints**

The institution has not received any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the 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 geographic distribution of the bank's loans;
- 4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

## GLOSSARY

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

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

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

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

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

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

**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.