

PUBLIC DISCLOSURE

August 7, 2023

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Haviland State Bank
Certificate Number: 17403

209 N Main St
Haviland, Kansas 67059

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

DESCRIPTION OF INSTITUTION

The Haviland State Bank is a full-service community bank headquartered in Haviland, Kansas, with a single branch office in Mullinville. The bank continues to be owned by Haviland Bancshares, Inc., a one-bank holding company. No merger or acquisition activities have occurred, and there have been no branch openings or closings since the previous evaluation. The institution received a Satisfactory rating at the prior Performance Evaluation conducted by the Federal Deposit Insurance Corporation on August 28, 2017.

The bank's lending products include agricultural, commercial, and consumer loans, with a heavy focus on agricultural lending. Although commercial lending is not a major product line, the bank was an active originator of loans under the Small Business Administration (SBA)'s paycheck protection program (PPP), which was established in 2020 to provide relief to small businesses during the Coronavirus Disease 2019 (COVID-19) pandemic. The bank originated over 80 PPP loans for nearly \$2.3 million.

The bank provides a variety of deposit services including checking, savings, and certificates of deposit. Alternative banking services include online banking and electronic bill pay.

According to the March 31, 2023, Call Report, the institution reported total assets of \$44.7 million, total deposits of \$36.7 million, and total loans of \$22.0 million. The overall composition of the loan portfolio remained generally consistent throughout the entire evaluation period. The following table illustrates the heavy emphasis on agricultural lending, which represents 78.4 percent of the loan portfolio.

Loan Portfolio Distribution as of 03/31/2023		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	20	0.1
Secured by Farmland	8,636	39.3
Secured by 1-4 Family Residential Properties	166	0.8
Secured by Multifamily (5 or more) Residential Properties	0	0.0
Secured by Nonfarm Nonresidential Properties	402	1.8
Total Real Estate Loans	9,224	42.0
Commercial and Industrial Loans	3,528	16.1
Agricultural Production and Other Loans to Farmers	8,593	39.1
Consumer Loans	627	2.9
Obligations of State and Political Subdivisions in the U.S.	0	0.0
Other Loans	2	<0.1
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	21,974	100.0
<i>Source: Reports of Condition and Income</i>		
<i>*Due to rounding, totals may not equal 100.0%</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

The Haviland State Bank’s designated assessment area encompasses the following six nonmetropolitan counties in southwestern Kansas: Barber, Comanche, Edwards, Ford, Kiowa, and Pratt. Previously, the assessment area included only one of the two census tracts in Edwards County and only rural portions of Ford County; however, in 2020, bank management elected to include Edwards and Ford counties in their entirety.

Economic and Demographic Data

The bank’s assessment area consists of 18 census tracts, including 1 moderate-income, 13 middle-income, and 4 upper-income census tracts. As a result of the 2020 U.S. Census, several tracts in Pratt County and one tract in Ford County changed from middle- to upper-income. In addition, the bank’s revised assessment area now includes a single moderate-income tract, located in the southern portion of Dodge City in Ford County. 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 #	NA* % of #
Geographies (Census Tracts)	18	0.0	5.6	72.2	22.2	0.0
Population by Geography	54,728	0.0	8.3	69.7	22.0	0.0
Housing Units by Geography	23,390	0.0	5.6	71.1	23.3	0.0
Owner-Occupied Units by Geography	13,291	0.0	4.4	69.6	26.0	0.0
Occupied Rental Units by Geography	6,688	0.0	9.2	71.8	19.0	0.0
Vacant Units by Geography	3,411	0.0	3.5	75.4	21.1	0.0
Businesses by Geography	4,032	0.0	9.3	66.1	24.6	0.0
Farms by Geography	597	0.0	1.5	65.8	32.7	0.0
Family Distribution by Income Level	13,223	18.3	18.8	23.6	39.2	0.0
Household Distribution by Income Level	19,979	18.3	18.4	19.8	43.5	0.0
Median Family Income Non-MSAs - KS		\$65,467	Median Housing Value			\$109,499
			Median Gross Rent			\$727
			Families Below Poverty Level			7.8%
<i>Source: 2020 U.S. Census and 2022 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

According to 2022 D&B data, the services industry represents the largest portion of businesses in the assessment area at 31.3 percent, followed by agriculture, forestry, and fishing at 12.9 percent, and retail trade at 12.5 percent. Area unemployment levels temporarily increased beginning March 2020 due to the government-mandated business closures to limit the spread of COVID-19. However, rates declined again shortly thereafter and have returned to pre-pandemic levels.

Competition

The bank faces moderate competition for financial services. According to June 30, 2022, FDIC Deposit Market Share data, there are 21 institutions operating 31 branches in the assessment area. Of these institutions, The Haviland State Bank ranked 18th with 2.2 percent of the deposit market share. Competition is strongest in the areas surrounding Kiowa County, particularly in Ford County. In Kiowa County alone, the bank faces competition from only four institutions operating five branches, and The Haviland State Bank ranked second with 30.0 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 and community development needs. This information helps determine whether local financial institutions are responsive to these needs. It also identifies what credit and community development opportunities are available.

Examiners reviewed an existing community contact conducted with a representative of an agricultural services organization within the assessment area. The contact indicated agriculture is

the primary driver of the local economy. There has been significant stress on the local agricultural economy due to a severe drought in the area that has lasted for approximately two years. This is evidenced by the recent wheat harvest as early signs indicated it would be of poor quality and volume. Wheat prices are remaining stable to this point. Cattle producers have also been affected by the drought, but they seem to be rebounding quicker and cattle prices are strong. The contact also stated that area housing is tight with limited availability of homes to purchase. However, there are ample employment opportunities available for those seeking a job.

The contact indicated the primary credit need in the area is agricultural lending, and local banks are providing adequate financing, enabling farmers and ranchers to continue their operations even through the recent drought conditions.

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 agricultural lending continues to be the primary credit need.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the previous evaluation dated August 28, 2017, to the current evaluation dated August 7, 2023, and does not include any lending activity performed by an affiliate. Examiners conducted this CRA evaluation using the Interagency Small Institution Examination Procedures.

Activities Reviewed

Examiners reviewed small farm loans to evaluate the bank's performance. This product was selected based on the bank's business strategy and the number and dollar volume of loans originated during the evaluation period. Although commercial loans represent 17.9 percent of the bank's loan portfolio, small business lending was not evaluated since the actual number of originations per year remains low and it is not considered a major product line. While commercial activity temporarily increased in 2021 due to participation in the PPP loan program, this activity is not considered reflective of the entire review period. For all other years during the review period, the bank originated or renewed ten or fewer small business loans annually. Examiners also did not review the bank's home mortgage performance, as residential lending represents less than 1.0 percent of the bank's loan portfolio and is not considered a major product line.

Examiners focused on all small farm loans originated or renewed in 2022. Bank management confirmed the loan activity for 2022 is reasonably representative of overall lending patterns throughout the evaluation period. Bank records show a loan universe of 70 small farm loans totaling \$9.5 million. Examiners reviewed the universe of loans for the Assessment Area Concentration analysis. Of these loans, 53 small farm loans totaling \$7.2 million were located in the assessment area and were further analyzed for the Geographic Distribution and Borrower Profile analyses. The 2022 D&B data provided a standard of comparison for the bank's performance. Although both the number and dollar volume of loans are included in the tables throughout this

evaluation, examiners emphasized performance by number of loans because it is a better indicator of the number of farms served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

The Haviland State Bank demonstrates satisfactory performance under the Lending Test. The bank’s performance under all four evaluated criteria supports this conclusion.

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 since the prior evaluation (23 quarters). While the bank’s LTD ratio has experienced a declining trend over recent years, the average net LTD ratio exceeds other similarly-situated banks, which were selected based on their asset size, geographic location, and lending focus. The following table details the comparison.

Loan-to-Deposit (LTD) Ratio Comparison		
Bank	Total Assets as of 03/31/2023 (\$000s)	Average Net LTD Ratio (%)
The Haviland State Bank, Haviland, KS	44,689	75.6
The Farmers State Bank of Bucklin, Bucklin, KS	58,597	48.3
Peoples Bank, Coldwater, KS	52,773	58.0
The First National Bank of Spearville, Spearville, KS	52,516	59.7
<i>Source: Reports of Condition and Income 09/30/2017 – 03/31/2023</i>		

Assessment Area Concentration

The bank originated a majority of small farm loans inside the assessment area, both by number and dollar volume. The following table presents a breakdown of lending inside and outside the assessment area.

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 Farm	53	75.7	17	24.3	70	7,152	75.0	2,380	25.0	9,532
<i>Source: Bank Data Due to rounding, totals may not equal 100.0%</i>										

Geographic Distribution

The geographic distribution of small farm loans reflects reasonable dispersion throughout the assessment area. Although the bank did not originate any loans in the assessment area’s sole moderate-income census tract, this tract is located in the southern portion of Dodge City where there is limited opportunity for agricultural lending.

Geographic Distribution of Small Farm Loans					
Tract Income Level	% of Farms	#	%	\$(000s)	%
Moderate	1.5	0	0.0	0	0.0
Middle	65.8	46	86.8	6,020	84.2
Upper	32.7	7	13.2	1,132	15.8
Not Available	0.0	0	0.0	0	0.0
Totals	100.0	53	100.0	7,152	100.0
<i>Source: 2022 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%</i>					

Borrower Profile

The borrower distribution of small farm loans reflects a reasonable penetration among farms of different revenue sizes. The following table illustrates that the bank’s performance slightly lags yet remains comparable to demographic data.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	95.6	48	90.6	6,207	86.8
>\$1,000,000	3.0	5	9.4	945	13.2
Revenue Not Available	1.3	0	0.0	0	0.0
Total	100.0	53	100.0	7,152	100.0
<i>Source: 2022 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%</i>					

Response to Complaints

The bank did not receive 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 inconsistent with helping to meet community credit needs.

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.