

# **PUBLIC DISCLOSURE**

December 2, 2024

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Johnson State Bank  
Certificate Number: 15237

106 North Main Street  
Johnson, Kansas 67855

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.

## TABLE OF CONTENTS

INSTITUTION RATING .....	1
DESCRIPTION OF INSTITUTION .....	1
DESCRIPTION OF ASSESSMENT AREA.....	2
SCOPE OF EVALUATION.....	4
CONCLUSIONS ON PERFORMANCE CRITERIA.....	5
DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW .....	7
APPENDICES .....	8
SMALL BANK PERFORMANCE CRITERIA.....	8
GLOSSARY.....	9

## 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 Community Reinvestment Act (CRA) performance under all applicable criteria supports the overall rating. The following points summarize this performance.

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and the credit needs of the assessment area.
- A majority of the reviewed loans are in the institution's assessment area.
- The distribution of borrowers reflects reasonable penetration among farms and businesses of different revenue sizes.
- The geographic distribution of loans was not analyzed since there are no low- or moderate-income census tracts in the assessment area.
- The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not impact the rating.

## DESCRIPTION OF INSTITUTION

Johnson State Bank is a full-service institution located in southwestern Kansas. The bank is wholly owned by Johnson State Bancshares, Inc., a one-bank holding company. The bank received a Satisfactory rating at its prior FDIC Performance Evaluation dated November 26, 2018, based on Interagency Small Institution Examination Procedures.

The institution operates a main office in Johnson, Kansas, and a branch office in Ulysses, Kansas. The main office is in a middle-income census tract in Stanton County, and the Ulysses branch is in an upper-income census tract in adjoining Grant County. The bank has not opened or closed any branches, and no merger or acquisition activities have occurred since the previous evaluation.

Johnson State Bank offers agricultural, commercial, home mortgage, and consumer loans. The bank also originated loans under the Small Business Administration's Paycheck Protection Program, which was established in 2020 to provide relief to small businesses during the Coronavirus Disease 2019 (COVID-19) pandemic. Home mortgage loans are primarily retained in the loan portfolio, although the bank also has a mortgage referral arrangement for long-term, fixed rate loans and government guaranteed loans. The bank provides a variety of deposit services

including checking, savings, and certificates of deposit. Alternative banking services include internet banking, mobile banking, electronic bill pay, and two bank-owned ATMs.

According to the September 30, 2024 Reports of Condition and Income, the institution reported total assets of \$91.8 million, total loans of \$33.4 million, and total deposits of \$76.2 million. The following table illustrates the loan portfolio composition based on dollar volume. This information illustrates the bank’s primary focus is agricultural lending.

<b>Loan Portfolio Distribution as of 9/30/2024</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	55	0.2
Secured by Farmland	12,182	36.5
Secured by 1-4 Family Residential Properties	4,370	13.1
Secured by Non-farm Non-Residential Properties	8,156	24.4
<b>Total Real Estate Loans</b>	<b>24,763</b>	<b>74.2</b>
Commercial and Industrial Loans	4,053	12.1
Agricultural Production and Other Loans to Farmers	2,372	7.1
Consumer	1,106	3.3
Other Loans	1,101	3.3
Less: Unearned Income	-	-
<b>Total Loans</b>	<b>33,395</b>	<b>100.0</b>
<i>Source: Reports of Condition and Income</i>		

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

## **DESCRIPTION OF ASSESSMENT AREA**

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. Johnson State Bank designated one assessment area comprised of Stanton and Grant counties. The two counties are adjacent nonmetropolitan counties in Kansas. The assessment area has not changed since the previous evaluation. The following sections discuss demographic and economic information for the bank’s assessment area.

### **Economic and Demographic Data**

The assessment area contains three census tracts. The sole census tract in Stanton County is a middle-income census tract, and both census tracts in Grant County are upper-income census tracts. The following table illustrates select demographic information for the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	3	0.0	0.0	33.3	66.7	0.0
Population by Geography	9,436	0.0	0.0	22.1	77.9	0.0
Housing Units by Geography	4,055	0.0	0.0	27.0	73.0	0.0
Owner-Occupied Units by Geography	2,404	0.0	0.0	27.2	72.8	0.0
Occupied Rental Units by Geography	1,007	0.0	0.0	19.6	80.4	0.0
Vacant Units by Geography	644	0.0	0.0	37.9	62.1	0.0
Businesses by Geography	827	0.0	0.0	23.9	76.1	0.0
Farms by Geography	206	0.0	0.0	50.5	49.5	0.0
Family Distribution by Income Level	2,100	19.4	13.9	19.4	47.3	0.0
Household Distribution by Income Level	3,411	21.3	13.8	17.6	47.3	0.0
Median Family Income Non-MSA - KS	\$65,467		Median Housing Value			\$115,489
Families Below Poverty Level	7.0%		Median Gross Rent			\$589
<i>Source: 2020 U.S. Census and 2023 D&amp;B Data</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

According to 2023 D&B data, service industries represent the largest portion of businesses at 25.8 percent; followed by agriculture, forestry, and fishing (19.9 percent); and non-classifiable establishments (11.5 percent). In addition, 89.5 percent of the businesses have 9 or fewer employees, and 83.6 percent operate from a single location.

### **Competition**

Johnson State Bank has direct competition from other financial institutions with branches in Johnson and Ulysses, Kansas. The competition for agricultural loans is particularly strong, and bank management noted that competition comes from institutions in other nearby larger communities such as Hugoton, Liberal, and Garden City, Kansas. In addition, competition for agricultural loans comes from government-sponsored enterprises such as the Farm Credit Administration and Production Credit Associations.

According to the June 30, 2024 FDIC Deposit Market Share report, there are three financial institutions operating full-service branches in Johnson State Bank’s assessment area. Of these institutions, Johnson State Bank is ranked third with a 19.0 percent deposit market share.

### **Community Contact**

To help gain insight into the area economy, demographic trends, business environment, and credit needs within the local community, examiners interview members of the local community. This section includes observations made by a representative of an agricultural organization who was interviewed in conjunction with this evaluation.

The community contact indicated that agriculture is the leading economic driver in the area, and agricultural lending is the predominant credit need. The contact stated that area farmers are facing challenges from low commodity prices and increasing operational expenses. Further, the contact indicated that the most recent years have been difficult for agricultural producers due to drought and low crop production. According to the contact, farms range from 80 to 5,500 acres, although farm sizes in the area are growing overall as smaller farmers sell out to larger operators.

The contact stated that the business economy has shown mixed performance, with some newer businesses struggling and closing, while existing businesses are stable. The contact indicated that the residential real estate market has remained stable, with minimal new development of residential properties in the area. The contact stated that small business and home mortgage loans are not primary credit needs in the area.

The community contact believes area banks are meeting the financing needs of small farms and agriculture producers. Additionally, the contact specifically noted that the subject bank was increasing the volume of smaller dollar loans to farmers and producers to help them through the recent challenging economic cycle.

### **Credit Needs**

Based on information from economic and demographic data, the community contact, and bank management, examiners identified small farm loans as the primary credit need in the assessment area. The demand for small farm loans is also illustrated by the large percentage of farm operations with gross annual revenues of \$1 million or less.

## **SCOPE OF EVALUATION**

### **General Information**

This evaluation covers the period from the prior evaluation dated November 26, 2018, to the current evaluation dated December 2, 2024. Examiners used Interagency Small Institution Examination Procedures to evaluate the bank's CRA performance.

### **Activities Reviewed**

Examiners reviewed small farm and small business loans to evaluate the bank's performance for this performance evaluation. Examiners selected the loan products reviewed based on the bank's business strategy and loan volume during the evaluation period. Small farm lending received more weight when drawing overall conclusions based on the bank's agricultural lending activity and strategic focus. The home mortgage loan category was not reviewed since the bank's mortgage lending activity is limited. Further, a significant percentage of home mortgage loans were originated to business entities; therefore, these loans would not provide meaningful conclusions in the Borrower Profile criterion analysis.

For the small farm and small business loan review, examiners focused on 2023 lending activity as bank management confirmed the lending patterns for that year would be reasonably representative of the bank's lending throughout the evaluation period for both loan products. Bank records show

the institution originated or purchased 59 small farm loans totaling \$12.5 million, and 41 small business loans totaling \$5.8 million in 2023.

For the Lending Test, examiners analyzed all small farm and small business loans in 2023 to evaluate the Assessment Area Concentration criterion. All small farm and small business loans inside the assessment area were further reviewed to evaluate the Borrower Profile criterion. Examiners used 2023 D&B data as the standard of comparison for the bank’s small farm and small business lending performance. Although both the number and dollar volume of loans are shown throughout this evaluation, examiners emphasize 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**

Johnson State Bank demonstrated satisfactory performance under the Lending Test. Performance in all evaluated criteria supports this conclusion.

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

The loan-to-deposit ratio is reasonable given the institution’s size, financial condition, and the credit needs of the assessment area. The bank’s loan volume has been relatively stable throughout the evaluation period, although a small decrease was noted during the COVID-19 pandemic due to declining loan demand in the area per bank management. Additionally, the deposit volume rose moderately during the pandemic, resulting in the bank reporting lower loan-to-deposit ratios during that time period. The bank’s performance for this criterion was evaluated based on the average of the 24 quarterly net loan-to-deposit ratios since the previous evaluation. The bank’s average net loan-to-deposit ratio is the lowest but still comparable to most of the similarly situated institutions’ ratios during the same period. Examiners selected the similarly situated institutions based on their asset size, geographic location, and product mix. See the following table for details.

<b>Loan-to-Deposit Ratio Comparison</b>		
<b>Bank</b>	<b>Total Assets as of 9/30/2024 (\$000s)</b>	<b>Average Net Loan-to-Deposit Ratio (%)</b>
<b>Johnson State Bank, Johnson, Kansas</b>	<b>91,767</b>	<b>40.9</b>
Integrity Bank, Fowler, Kansas	80,323	44.4
The First National Bank in Cimarron, Cimarron, Kansas	138,729	46.7
The Community Bank, Liberal, Kansas	162,366	58.9

*Source: Reports of Condition and Income 12/31/2018 – 9/30/2024*

#### **Assessment Area Concentration**

As shown in the following table, a majority of the small farm and small business loans reviewed were located inside 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	48	81.4	11	18.6	59	10,125	81.0	2,372	19.0	12,497
Small Business	36	87.8	5	12.2	41	4,467	76.5	1,373	23.5	5,840
<b>Total</b>	<b>84</b>	<b>84.0</b>	<b>16</b>	<b>16.0</b>	<b>100</b>	<b>14,592</b>	<b>79.6</b>	<b>3,745</b>	<b>20.4</b>	<b>18,337</b>

*Source: Bank Data*

### **Borrower Profile**

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

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

The distribution of loans to farms of different revenue sizes is reasonable. As illustrated in the following table, the bank’s percentage of lending to small farms with revenues of \$1 million or less lags the demographic data for this revenue category. Therefore, examiners considered the lending performance for three comparable institutions operating within the bank’s assessment area. The percentage of lending to small farms with revenues of \$1 million or less ranged from 45.0 to 80.0 percent for the comparable banks. Since Johnson State Bank’s percentage of lending to small farms with revenues of \$1 million or less is within the range of the comparable banks, the performance is considered reasonable.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	95.2	32	66.7	5,397	53.3
>\$1,000,000	1.9	16	33.3	4,728	46.7
Revenue Not Available	2.9	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>48</b>	<b>100.0</b>	<b>10,125</b>	<b>100.0</b>

*Source: 2023 D&B Data, Bank Data*

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

The distribution of loans to businesses of different revenue sizes is reasonable. As illustrated in the following table, the bank’s percentage of lending to small businesses with revenues of \$1 million or less is comparable to the demographic data for 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	76.3	30	83.3	3,060	68.5
>\$1,000,000	5.7	6	16.7	1,407	31.5
Revenue Not Available	18.0	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>36</b>	<b>100.0</b>	<b>4,467</b>	<b>100.0</b>

*Source: 2023 D&B Data, Bank Data*

**Geographic Distribution**

The assessment area does not include any low- or moderate-income census tracts, so a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.

**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**

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.

## 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.