

PUBLIC DISCLOSURE

February 4, 2025

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First State Bank of Healy
Certificate Number: 17661

4004 West Highway 4
Healy, Kansas 67850

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.....	3
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 the applicable criteria supports the overall rating. The following points summarize the bank's performance.

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- A majority of the small farm and small business loans reviewed are located inside the assessment area.
- The geographic distribution of loans was not evaluated since the assessment area does not contain any low- or moderate-income census tracts.
- 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 the rating.

DESCRIPTION OF INSTITUTION

The First State Bank of Healy (FSBH) is a full-service financial institution headquartered in Healy, Kansas, which is in the northwestern portion of Lane County and centrally located in western Kansas. The bank continues to operate solely from its main office in Healy. The institution has not opened or closed any offices, and has not been involved in any mergers or acquisitions since the previous FDIC CRA evaluation. The institution received a Satisfactory rating at its previous FDIC CRA performance evaluation dated January 24, 2019, based on Interagency Small Institution Examination Procedures.

Since the prior evaluation, West 4 Bancshares, Inc., Healy, Kansas, was created to serve as a one-bank holding company for FSBH. The bank continues to be affiliated with several other institutions through common ownership. These institutions include The First State Bank of Ransom (Ransom, Kansas) as well as the following three banks owned by Security Bancshares, Inc., Scott City, Kansas: Security State Bank (Scott City, Kansas), Farmers & Merchants Bank of Colby (Colby, Kansas), and The Farmers State Bank of Oakley (Oakley, Kansas).

FSBH offers agricultural, commercial, residential, and consumer loans as well as a small dollar loan program. Agricultural lending continues to be the bank's primary business focus. The bank was

also active in originating 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 pandemic. In addition, the bank has made loans to help meet essential community needs in distressed¹ and underserved² nonmetropolitan middle-income geographies within its assessment area. The bank’s deposit products include checking and savings accounts, money market accounts, as well as certificates of deposit. Alternative banking services include online banking, bill pay, mobile banking, and local ATMs.

According to the September 30, 2024 Reports of Condition and Income, the bank reported total assets of \$116.0 million, total deposits of \$89.2 million, and total loans of \$72.0 million. The following table shows the distribution for each loan category by dollar volume.

Loan Portfolio Distribution as of September 30, 2024		
Loan Category	\$(000s)	%
Construction and Land Development	–	–
Secured by Farmland	26,884	37.3
1-4 Family Residential	792	1.1
Multi-family (5 or more) Residential	–	–
Commercial Real Estate	11,921	16.6
Total Real Estate Loans	39,597	55.0
Commercial and Industrial	12,224	17.0
Agricultural	19,054	26.5
Consumer	408	0.5
Other	724	1.0
Less: Unearned Income	–	–
Total Loans	72,007	100.0
<i>Source: Reports of Condition and Income</i>		

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

¹ Distressed Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

² Underserved Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area’s population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

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. FSBH continues to designate all of Gove, Lane, and Scott counties as its sole assessment area. The following shows demographic and economic information from the 2020 U.S. Census and 2024 D&B data for the assessment area.

Economic and Demographic Data

The assessment area covers a large expanse of rural countryside and farmland, and it consists of three middle-income census tracts. The following table provides demographic information on the bank’s assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	3	–	–	100.0	–	–
Population by Geography	9,443	–	–	100.0	–	–
Housing Units by Geography	4,592	–	–	100.0	–	–
Owner-Occupied Units by Geography	2,709	–	–	100.0	–	–
Occupied Rental Units by Geography	1,350	–	–	100.0	–	–
Vacant Units by Geography	533	–	–	100.0	–	–
Businesses by Geography	1,214	–	–	100.0	–	–
Farms by Geography	351	–	–	100.0	–	–
Family Distribution by Income Level	2,595	15.8	21.6	18.8	43.7	–
Household Distribution by Income Level	4,059	23.5	17.6	14.5	44.4	–
Median Family Income Non-MSA KS		\$65,183	Median Housing Value			\$110,891
Families Below Poverty Level		8.6%	Median Gross Rent			\$625
<i>Source: 2020 U.S. Census and 2024 D&B Data. Due to rounding, totals may not equal 100.0%</i>						

The 2024 D&B data indicates that service industries represent the largest portion of businesses in the assessment area at 23.4 percent; followed by agriculture, forestry, and fishing at 22.4 percent; and non-classifiable establishments at 17.8 percent. This data also indicates that a notable number of area businesses are relatively small, with 93.2 percent of businesses having nine or fewer employees, and 88.4 percent of businesses operating from a single location.

Since the previous evaluation, both Gove and Lane counties have been designated each year as distressed and underserved nonmetropolitan middle-income geographies.

Competition

Competition for financial services is limited. According to June 30, 2024 FDIC Deposit Market Share data, there were eight financial institutions operating ten locations in the assessment area. FSBH ranked third holding 10.4 percent of the deposit market share. In addition to the banks reflected in the FDIC Deposit Market Share report, FSBH also faces competition from other lenders, such as government agencies and credit unions.

Community Contact

As part of the evaluation process, examiners contact third parties in the assessment area to help gain insight into the area's economy, demographic trends, and business environment. This information helps determine whether local financial institutions are responsive to these needs. It also identifies what credit opportunities are available.

For this evaluation, examiners conducted an interview with a person knowledgeable of the economic conditions in the assessment area. The contact indicated the area's economy is currently good, but it is heavily reliant on agricultural conditions. The contact also noted that local area businesses are struggling to survive due to the population levels decreasing year-over-year. The contact stressed that farmers are dependent on loans from local institutions in order to maintain operations, and the financial institutions in the area have been responsive to these needs. Overall, financial institutions have been responsive to the area's credit needs.

Credit Needs

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that small farm and small business loans represent the primary credit needs of the assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated January 24, 2019, to the current evaluation dated February 4, 2025. 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 overall lending performance. Examiners selected the loan products based on the bank's business strategy, portfolio composition, and the number and dollar volume of loans originated or purchased during the evaluation period. Home mortgage loans are not considered a major focus for the bank, and therefore, such loans were not reviewed in this evaluation. Since agricultural loans comprise the majority of the bank's loan portfolio, small farm loans received the most weight when drawing overall conclusions.

For the small farm and small business lending, examiners focused on 2024 lending activity, as bank management indicated the lending patterns in that year were reasonably representative of its overall lending patterns since the prior evaluation. According to 2024 bank records, FSBH originated or renewed 147 small farm loans totaling \$19.0 million, and 47 small business loans totaling \$5.8 million.

For the Lending Test, examiners reviewed the entire universe of loans to evaluate the Assessment Area Concentration criterion. For the Borrower Profile criterion, examiners reviewed all small farm and small business loans inside the assessment area. The 2024 D&B data provided a standard of comparison for the bank's small farm and small business lending performance under the Borrower

Profile criterion. Although this evaluation presents both the number and dollar volume of loans, examiners emphasized performance by number of loans as it is a better indicator of the number of farms and businesses served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

FSBH demonstrates satisfactory performance under the Lending Test. The bank’s overall Loan-to-Deposit Ratio, Assessment Area Concentration, and Borrower Profile performance supports this conclusion.

Loan-to-Deposit Ratio

FSBH’s average net loan-to-deposit ratio is reasonable given the institution’s size, financial condition, and assessment area credit needs. The bank’s performance for this criterion was evaluated based on the average of the 23 quarterly net loan-to-deposit ratios since the prior evaluation. The resulting average net loan-to-deposit ratio of 72.4 percent is the highest but still comparable to the similarly situated institutions. The ratio fluctuated throughout the review period, ranging from a low of 63.5 percent on December 31, 2020, to a high of 83.1 percent on June 30, 2019. Examiners selected similarly situated institutions based on their asset size, geographic location, and portfolio composition. See the following table for details.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 9/30/2024 (\$000s)	Average Net Loan-to- Deposit Ratio (%)
The First State Bank of Healy, Healy, Kansas	116,038	72.4
The First National Bank of Dighton, Dighton, Kansas	79,773	62.4
The First National Bank of Scott City, Scott City, Kansas	157,646	64.8
<i>Source: Reports of Condition and Income 3/31/2019 to 9/30/2024</i>		

Assessment Area Concentration

Overall, the bank originated a majority of small farm and small business loans inside the assessment area. Bank management indicated the large dollar volume of small business loans outside of the assessment area was partially attributed to a loan officer bringing business customers to FSBH from his previous bank employer in neighboring Ness County. Additionally, there were several loans originated to a borrower who originally resided in the assessment area and has since moved but retained the business connection with FSBH. 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	95	64.6	52	35.4	147	10,958	57.7	8,046	42.3	19,004
Small Business	25	53.2	22	46.8	47	2,031	35.3	3,723	64.7	5,754
Total	120	61.9	74	38.1	194	12,989	52.5	11,769	47.5	24,758
<i>Source: Bank Data</i>										

Geographic Distribution

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

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 in both loan categories supports this conclusion. Examiners focused on the percentage of small farm and small business loans to operations with gross annual revenues of \$1 million or less.

Small Farm Loans

The distribution of borrowers reflects reasonable penetration among farms of different sizes. The bank’s percentage of small farm loans to farmers with revenues of \$1 million or less was lower than the percentage of assessment area farms in that revenue category. However, according to the 2022 Agricultural Census, 46.3 percent of the farmers in the assessment area are hobby farmers, meaning farming is not their primary profession. Additionally, 47.4 percent of farms in the area reported no interest expense; therefore, there is a sizeable percentage of farms that appear to have little or no need for credit. Considering these factors, the bank’s performance is reasonable.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
≤\$1,000,000	95.2	74	77.9	6,750	61.6
>\$1,000,000	3.1	21	22.1	4,208	38.4
Revenue Not Available	1.7	0	0	0	0
Total	100.0	95	100.0	10,958	100.0
<i>Source: 2024 D&B Data, Bank Data.</i>					

Small Business Loans

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

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
≤\$1,000,000	81.1	20	80.0	986	48.5
>\$1,000,000	4.2	3	12.0	895	44.1
Revenue Not Available	14.7	2	8.0	150	7.4
Total	100.0	25	100.0	2,031	100.0
<i>Source: 2024 D&B Data, Bank Data.</i>					

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.